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## Auditor of State Bulletin

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**Date Issued:** August 30, 2007

**TO:** School District Treasurers  
Educational Service Center Treasurers  
JVSD Treasurers  
Community School Finance Officers  
Community School Sponsors  
Independent Public Accountants

**FROM:** Mary Taylor, CPA  
Ohio Auditor of State

**SUBJECT:** Unauditable Community Schools

This section is still law, even though its not codified in ORC.

### Overview

Recently enacted House Bill 119, the State's biennial budget bill, includes a provision that affects those community schools declared unauditable by the Auditor of State's Office (AOS) or by a contracted Independent Public Accountant (IPA) firm pursuant to Section 117.41 of the Ohio Revised Code. Section 269.60.60 of the biennial budget bill also places certain requirements and restrictions on sponsors of unauditable community schools. The purpose of this Bulletin is to inform you of the new provision, describe how the AOS intends on fulfilling its role under the new provision, and provide guidance to community schools on how to avoid an unauditable declaration.

### Unauditable Offices

Ohio Revised Code Section 117.41 enables the AOS or contracted IPA firm to declare a public office to be "unauditable" (i.e., unable to be audited) when its accounts, records, files, or reports have been improperly maintained and, as such, the documentation is insufficient to perform the audit. If the AOS determines that the records are insufficient, the AOS sends a letter to the public office that formally declares it to be unauditable.<sup>1</sup> The letter outlines the procedures the public office must follow to bring its records into an auditable condition, and generally includes a list of missing or insufficient records. If the public office fails to make reasonable efforts and continuing progress to bring its records into an auditable condition within 90 days after being declared unauditable, the AOS shall request the Attorney General's Office to commence legal action pursuant to Section 117.42 of the Ohio Revised Code to compel the public office to bring its accounts, records, files, or reports into an auditable condition.

### Unauditable Community Schools

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<sup>1</sup> In practice, when an IPA firm has been contracted to complete an audit and believes the public office should be declared unauditable, the firm informs the AOS of the situation. Once notified, the AOS evaluates the condition of the records and makes the determination whether the public office is auditable.

When a community school is declared unauditible, Section 269.60.60 of the biennial budget bill requires the AOS to provide written notification of the unauditible declaration to the community school, the school's sponsor, and the Ohio Department of Education (ODE). The AOS shall also post the notification on its website.

Upon being notified that a community school has been declared unauditible, the sponsor is not permitted to contract with any additional community schools per Section 3314.03 of the Revised Code until the AOS or contracted IPA firm has completed a financial audit of that community school. Additionally, within 45 days of being notified, the school's sponsor must provide a written response to the AOS and include the following information:

- An overview of the process the sponsor will use to review and understand the circumstances that led to the school's unauditible condition;
- A plan for providing the AOS with the documentation necessary to complete an audit of the community school and for ensuring that all financial documents are available in the future; and
- The actions the sponsor will take to ensure the plan described above is implemented.

If the community school fails to make reasonable efforts and continuing progress to bring its records into an auditable condition within 90 days after being declared unauditible, the AOS shall request legal action pursuant to Section 117.42 of the Ohio Revised Code to compel the school to bring its accounts, records, files, or reports into an auditable condition. The AOS must also notify the ODE of the school's failure. Conversely, if the AOS or contracted IPA firm is able to complete the audit, the AOS must notify the ODE that the audit has been completed.

Upon notification that the community school failed to make reasonable efforts and continuing progress to bring its records into an auditable condition, the ODE shall immediately cease all payments to the school under Chapter 3314 of the Revised Code and any other provision of law. Upon subsequent notification that the AOS or contracted IPA firm was able to complete the audit, the ODE shall release all funds that were withheld from the school. Please note that the community school is considered unauditible until the audit report is publicly released.

### **Use of Professional Judgment**

As we have done in the past with all public offices subject to audit, the AOS will use due professional care and sound judgment in determining whether a community school can be audited and whether an unauditible community school has made reasonable efforts and continuing progress to bring its records into an auditable condition. Exercising due professional care is based upon auditors following generally accepted government auditing standards and using sound judgment to ensure and maintain competence, integrity, objectivity, and independence in planning, conducting and reporting their work. Because each unauditible declaration traditionally has its own unique set of circumstances, the AOS will handle each declaration on a case-by-case basis and use professional judgment as each set of circumstances dictates. IPA firms should contact their respective AOS regional office when they believe an entity's records are insufficient for audit and should be declared unauditible. AOS regional management will evaluate the condition of the school's records and draft the unauditible declaration if the school's records are insufficient for audit. Each unauditible declaration will be reviewed and approved by the AOS Chief Deputy Auditor before issuance. Determinations of

*reasonable efforts* and *continuing progress* will also be made on a case-by-case basis; however, community schools should understand these efforts must be measurably substantial to allow the audit to move forward.

Reporting requirements now described in Bulletin 2015-07.

### **Avoiding an Unauditable Declaration**

To help avoid being declared unauditable, the AOS recommends community schools file complete annual financial reports pursuant to Generally Accepted Accounting Principles (GAAP) with the AOS within 150 days after the close of the fiscal year, pursuant to Section 117.38 of the Ohio Revised Code. Although the AOS will not declare an entity to be unauditable solely because it failed to file within the statutorily established timeframe, this does provide cause for the AOS to expedite the review of the entity's records. (Please refer to bulletins ~~2001-012 and 2006-02~~ for more information on filing requirements.) Additionally, having the requisite records and other documentation on hand when the auditors arrive to perform the audit greatly facilitates the entire audit process. As such, to help avoid an unauditable declaration, the following information is typically needed for an audit of a community school:

- An accurate/complete reconciliation of the school's bank and investment accounts to the school's book balance including supporting documentation (e.g., listing of outstanding checks, listing of deposits in transit, support for other adjustments, etc.);
- Approved minutes for all Board meetings held during the fiscal year;
- Ledgers with all fiscal year activity posted;
- Supporting documentation (e.g., receipt detail, expense detail, payroll records, leases, capital assets, contracts with employees and service providers, etc.); and
- Financial statements including notes and management's discussion and analysis.

Please note that this list is not meant to include every item or record necessary for an audit. Rather, the list includes those major items/records that the AOS believes will significantly reduce the school's probability of being declared unauditable. Because each audit client has its own unique set of circumstances, the AOS cannot provide a definitive list of items/records. Nevertheless, the AOS strongly recommends that community schools have these items/records available when the auditors arrive to perform the audit.

### **Effective Date**

Community schools declared unauditable for the fiscal year ended June 30, 2007 and in subsequent years will be subject to the requirements and provisions contained in Section 269.60.60 of the biennial budget bill.

### **Questions and Comments**

If you have any accounting or auditing related questions regarding the information presented in this Bulletin, please contact the AOS Accounting and Auditing Support Group at (800) 282-0370.