

IMPLEMENTATION GUIDE FOR LEGAL COMPLIANCE AUDITING IN OHIO

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Introduction

The Auditor of State has audited public offices' compliance with legal requirements since 1902. Audits of Ohio public offices have been subject to Ohio Rev. Code Chapter 117, or its predecessor, since that time. Ohio Rev. Code § 117.11 (A) states in part that when auditing Ohio public offices:

. . . [i]nquiry shall be made into . . . whether the laws, rules, ordinances, and orders pertaining to the office have been observed, and whether the requirements and rules of the auditor of state have been complied with.

Although a literal interpretation of Ohio Rev. Code § 117.11 (A) would require testing *all* applicable legal requirements during an audit, the Auditor of State has determined that it is appropriate to limit the compliance requirements subject to audit to (1) the requirements included in the Ohio Compliance Supplement (OCS), plus (2) other direct and indirect compliance requirements *not* included in this Supplement, but required by AU-C 250 (discussed below).

AU-C 250 *Consideration of Laws and Regulations in an Audit of Financial Statements* clarifies the auditor's responsibility regarding OCS tests:

“**.02** . . . The provisions of some laws or regulations have a *direct* effect on the financial statements in that they *determine the reported amounts and [required] disclosures* in an entity's financial statements. . .”

Conversely:

“**.A13** Many laws and regulations relating principally to the operating aspects of the entity do not *directly* affect the financial statements (their financial statement effect is **indirect**) and are *not captured by the entity's information systems relevant to financial reporting*. Their *indirect effect* may result from the need to disclose a contingent liability because of the allegation or determination of identified or suspected noncompliance.”

- Based on the above (and AU-C 250.A9 – .A11), “**direct** and material compliance” refers *only* to laws a government's information system (which includes its accounting system) must “capture” to *determine financial statement amounts and required disclosures*¹. Therefore, we have classified a law as *direct* in this OCS if noncompliance has the potential to materially misstate the financial statements. Chapter 1 of this compliance supplement includes “direct” laws.
 - As one example, GAAP requires governments to present budgetary comparisons as basic statements or as RSI.
 - GAAP also requires these presentations to follow the government's legal budget basis.
 - In Ohio, a “5705 government's” information system must capture information using the accounting basis Ohio Rev. Code Chapter 5705 (via GASB Cod. 2400)

¹ Few Ohio GAAP governments' have “formal” systems to compile most balance sheet assets or liabilities. Therefore, GAAP governments' “information systems” include trial balances, other spreadsheets or any other material used to compile GAAP amounts or disclosures.

prescribes to compile budget and actual amounts and budget variances GAAP requires.

- Ohio Rev. Code Chapter 5705 generally prescribes a cash + encumbrance accounting basis, which a compiler must understand and follow to satisfy GAAP.

AU-C 250.06 b requires more limited audit responsibilities for *indirect* laws, such as those:

- i. fundamental to the operating aspects of the “business” (i.e. a government’s operations),
- ii. fundamental to an entity's ability to continue its business, or
- iii. necessary for the entity to avoid material penalties

Chapter 2 includes “indirect” laws. Chapter 2 also includes laws that statutes mandate auditors to test during an audit.

In addition to the “direct,” “indirect,” and “mandated compliance tests” discussed above the Auditor of State has identified laws of significant public interest due to stewardship considerations. Citizens and public officials want and need to know whether governments are handling their funds properly and complying with laws and regulations. Public officials entrusted with public resources are responsible for complying with those laws and regulations. Chapter 3 includes tests for these “stewardship” laws.

However, the categorization of a requirement in Chapter 2 or 3, or even its omission from this Supplement does not lessen a government’s responsibility for compliance and for instituting controls it believes are necessary to assure compliance with any laws and regulations that apply to the government.

Note: The Auditor of State intends to select a few audits randomly each year, to test requirements listed in the OCS Optional Procedures Manual (OPM). However, auditors should evaluate the requirements in the OPM for possible testing in the current audit based upon both quantitative and qualitative materiality factors.

The *OCS* provides auditors with Ohio laws and regulations (and some laws and regulations from other sources) the Auditor of State has identified as potentially significant in an Ohio local government audit. As such, it is designed to help auditors fulfill their responsibility. However, the *OCS* is ***not*** a comprehensive list of “direct” or “indirect” compliance requirements for all governments.

In addition to the laws and regulations the *OCS* includes, auditors must also consider other compliance requirements applying to the government, such as charters, ordinances, resolutions, contracts, grant agreements, debt covenants and leases. If any of these requirements could directly and materially affect the determination of financial statement amounts, the auditor should design tests for them. Regarding laws and regulations the *OCS* does not include, auditing standards recognize management’s year-round involvement with operations should provide them with knowledge of these requirements. It is therefore reasonable to expect management to identify and convey these requirements to their auditor. The AICPA’s Audit and Accounting Guide, *State and Local Governments*, 4.11 states:

In accordance with paragraph .03 of AU-C section 250, it is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements. That responsibility encompasses identifying applicable compliance requirements and establishing internal controls designed to provide reasonable assurance that the entity complies with them.²

To the extent a public office does not fall within the classes of public offices the *OCS* includes, and also in part to (1) corroborate the completeness of the compliance requirements management identifies, and (2) to identify their potential material effect, 4.21 of the AICPA's Audit and Accounting Guide *State and Local Governments* suggests:

The auditor may consider performing the following procedures to assess management's identification of compliance requirements that could materially affect financial statement amounts and disclosures:

- Consider knowledge about compliance requirements obtained during prior-period audits.
- Interview the entity's chief financial officer, legal counsel, internal auditor, or grant administrators about compliance requirements.
- Identify sources of revenue, review any related agreements (for example, loan, grant, and contribution agreements), and ask about legal provisions and enabling legislation that relate to using and accounting for the revenue.
- Obtain and review federal and state publications pertaining to compliance requirements, such as Department of the Treasury and Internal Revenue Service regulations (concerning the calculation and reporting of arbitrage rebates and refunds and employment taxes), the Uniform Guidance cost principles and administrative requirements, as applicable to the award, and the *OMB Compliance Supplement*, the *Catalog of Federal Domestic Assistance*,³ and similar state program publications (concerning grants and appropriations).
- Obtain and review sections of the state constitution, statutes, and regulations that pertain to the entity, in particular the sections that concern financial reporting, investment, debt, taxation, budget, appropriation, and procurement matters.
- Review the minutes of meetings of the entity's governing board for the enactment of relevant laws and regulations and information about relevant contracts and grant agreements.
- Ask federal, state, or local auditors or other appropriate audit oversight organizations about applicable compliance requirements, including statutes and uniform reporting requirements.
- Ask the audit, finance, or program administrators of other entities from which the entity receives grants, contributions, and appropriations about the restrictions, limitations, terms, and conditions under which the amounts were provided.

² 2011 GAGAS Appendix I, A1.08(b) has a similar requirement.

(The internal controls *State and Local Governments* guide 4.11 mentions are legal *compliance* controls. Some (**but not all**) compliance controls also help control the direct determination of financial statement amounts. Therefore the discussion of an auditor's responsibility to document and assess controls directly and materially affecting financial statement amounts does include only controls related to determining financial statement amounts. See discussion of **Compliance Risk and Controls** later in this **Implementation Guide**.)

³ Auditors can also use the Federal Award Compliance Control Records (FACCR's) included on the AOS website as a reference.

- Review the discussions of compliance requirements applicable to specific industries, as found in this guide and other relevant AICPA Audit and Accounting Guides.
- Review accounting and auditing materials available from other professional organizations, such as state societies of certified public accountants and governmental associations.

To obtain information about possible violations of compliance requirements, the auditor should consider making inquiries of management, legal counsel, internal auditors, grant administrators, and other appropriate sources; and testing transactions for adherence with compliance requirements.

Direct and Material Laws and Regulations

In addition to the discussion above from AU-C 250, the AICPA Audit and Accounting Guide *State and Local Governments*, sections 4.09 through 4.13, discuss legal requirements which might directly and materially affect determining financial statement amounts for a governmental entity. Material noncompliance (having a direct or indirect effect) would often:

- Require adjusting amounts or revising disclosures.
 - Auditors should do the same regarding noncompliance *indirectly* affecting financial statement amounts or disclosures, if they become aware of it.
 - For example, AU-C 250.06 b.iii describes material penalties as an *indirect effect*, though they may require disclosure or even accrual as a contingent expense
- Require reporting as a material GAGAS noncompliance finding.
- May represent significant / material violations of “finance-related legal and contractual provisions”
 - GASB Cod. 2300.106(h) require “notes to the financial statements should disclose material violations of finance-related legal and contractual provisions” and “actions taken to address significant violations”.
 - Refer also to *State and Local Governments* guide 4.13 for guidance.
 - See table below in this Implementation Guide.

State and Local Governments guide 4.12 lists examples of laws that may directly and materially affect the determination of financial statement amounts and disclosures. When preparing this edition of the OCS we considered the examples in 4.12. Each law in OCS Chapter 1 has potential for a direct effect. Laws with indirect classification per AU-C 250.06 b are included in Chapter 2.

GASB Cod. 2300.106(h) require *financial statement note disclosure* of material violations of “finance-related legal or contractual provisions” *and actions taken to address significant violations*. The GASB Codification does not define *finance-related legal or contractual provisions*. However, the sources below describe the following as being *finance-related legal or contractual provisions*:

Finance-Related Legal or Contractual Provisions	Source
a. The accounting system must include all funds and procedures required by law or regulation to help assure restrictions on expenditures are met.	NCGAS 1, par. 8 Cod. 1200.106
b. 1. Any excesses of expenditures over appropriations in the general or major special revenue funds included in RSI budgetary schedules. (Disclose in footnotes to RSI if presented as RSI.) 2. Disclose significant excesses of expenditure over appropriations for other funds.	GASB Statement No. 37, par. 19, Cod. 2200.207, 2400. 103 <u>2015-1 GASB Comprehensive Implementation Guide 7.93.1 GASB Cod. 2400.702-18</u>
c. Violations of debt covenants or contracts.	Cod. 2300.903, Illustrations 4 and 6
d. Significant violations during the period of legal or contractual provisions for deposits and investments	GASB Cod. I50.135
e. <i>Governmental Accounting, Auditing and Financial Reporting</i> (GAAFR) suggests the following constitute “finance-related legal and contractual requirements:” a. Budgetary b. Grant requirements c. Bond contracts (e.g. covenants) d. Laws and regulations of a higher government	2012 GAAFR, pg. 347
f. Deficit fund balances	Cod. 2300.903 Illustration 5

As described later in this *Implementation Guide*, the auditor’s responsibility for “direct compliance requirements” exceeds her or his responsibility for “indirect compliance requirements.” Some of the disclosures listed in the table above relate to indirect compliance requirements. Auditors should certainly request auditees to include these disclosures if evidence suggests they apply. However, *in our judgment*, these disclosure requirements do not require an auditor to *test* compliance requirements with *indirect* financial statement effects using the nature or extent required of *direct* compliance requirements.

Compliance Risk and Controls

Important: AU-C 315.33 requires documenting the five internal control components related to external financial reporting. As described previously, OCS Chapter 1 requirements may **directly** affect the determination of financial statement amounts.

- For example, some controls a government establishes over budgetary reporting can help assure compliance with Ohio Rev. Code Chapter 5705 (compliance controls) **and** with GAAP or other applicable financial reporting frameworks (financial reporting controls). “5705 compliance controls” that also help detect or prevent misstatements in budgetary financial presentations therefore fall under AU-C 315.33(b) documentation and evaluation requirements.
 - AU-C 315.33 financial control documentation and evaluation requirements do not apply to controls related solely to helping detect or prevent noncompliance.
 - Conversely, AU-C 315.33 documentation and evaluation requirements do apply to direct compliance requirements. For example, preparing budgetary presentations complying with Ohio Rev. Code Chapter 5705 requires **completeness** controls over appropriation amendments, and also requires controls to prevent recording appropriation amendments adopted after the fiscal year end.
 - Because AOS’s position is that appropriation amendments adopted after the fiscal year end fail the **existence** assertion.

Compliance requirements in OCS Chapter 2 and OCS Chapter 3 do not fall within the scope of AU-C 315.33 control documentation and evaluation requirements. There is no requirement to document compliance controls for these compliance requirements.

- Auditors may elect to document and test the operating effectiveness of **compliance** controls related to **any** step in the OCS, if they believe it reduces the necessary extent of substantive testing.
 - Assuming audit tests support these controls’ operating effectiveness.
 - We neither encourage nor discourage a controls’ reliance approach. Auditors should use professional judgment to determine an effective and efficient approach.

Factors to consider in relying on compliance controls are similar to the judgments we use for any financial statement account. **For example**, a compliance controls approach is often more efficient and effective if the volume of transactions subject to the compliance requirement is large. Conversely:

- Relying on investment purchasing controls is normally inefficient for small entities with few investment purchases / sales during the year.
 - They might not need / have formal controls anyway – the CFO’s use of an up-to-date Ohio Rev. Code 135.13-.14 listing of allowable investments may be a sufficient basis for a “control”.
- Relying on controls over the legality of interfund transfers may be inappropriate because the complexity of the transfer requirements is not easily subject to a “routine” set of controls.
 - That is, even if the entity has controls to help assure interfund transfers are legal, the complexity of the statutes usually still requires auditors to “re-perform” the control, which is also a substantive test / evaluation of the transfer’s legality.
 - We believe relatively complex controls (such as non-routine transfer authorizations) require reperformance, as AU-C 330.A28 infers.

- However, we only require our staff to reperform a small number of control operations when sampling.
- For example, if a sampling table required testing 25 control operations, we would test all 25 for evidence the control was applied, but might only reperform 2 or 3 of the complex control operations.
 - Auditor of State staff should follow the control reperformance guidance in our Audit Manual.
- In conclusion regarding this example, and assuming transfers were material to opinion unit(s):
 - If there were a large number of transfers for similar purposes, controls reliance with limited reperformance of judging their legality might be efficient.
 - However, a large number of transfers for various purposes would suggest more tests of determining their legality (a substantive reperformance). This would tend to render controls reliance as inefficient.

In assessing the compliance control environment, the auditor might consider:

- Management's attitudes toward compliance with laws and regulations;
- Legal actions brought against the government, and/or its elected and appointed officials, especially regarding the compliance areas subject to potential controls reliance; and
- Involvement of the governing authority and management in the control structure to assure compliance.

Exhibit 3 to the OCS lists control environment areas for assessment and related points of focus. Auditors should complete the Supplement as part of each audit. AOS staff should document these control environment factors in the AOS's Assessment of Control Environment (ACE). As described above, auditors need only complete sections of this ACE related to laws and regulations directly and materially affecting the determination of financial statement amounts. We have labeled the points of focus in the ACE with direct financial statement effects. Auditors must complete other points of focus only if they intend to rely on compliance controls with indirect financial statement effects.

If control procedures exist to reduce sufficiently the risk that direct and material noncompliance could occur and not be detected on a timely basis, the auditor may test the operating effectiveness of those controls and *significantly reduce substantive testing* of those compliance items. However, auditing standards always require some level of substantive evidence for direct and indirect compliance requirements. To use a controls reliance approach (an assessment that control risk is less than 100%), the auditor must:

1. Identify controls relevant to preventing or detecting material or significant non-compliance with the identified laws and regulations;
 - a. Also document the *basis* for these controls. (The *basis* is documentation supporting the proper operation of the control, such as a signed authorization form.)

2. Test controls to obtain sufficient evidence of the controls' operating effectiveness throughout the audit period;
 - a. Including limited reperformance of complex controls.
3. Document the control tests and results;
4. Unlike Single Audit compliance tests, the Auditor of State permits relying on evidence from prior audits' tests of compliance controls' operating effectiveness (i.e. "rotating controls") similar to the guidance in AU-C 330.14(b) and AU-C 330.A40 -- .42. When controls are effective, rotating can enhance efficiency;
5. However, when rotating controls, auditors must carefully consider the guidance in AU-C 330.14(b) and 330.A40 -- .42 (such as a. --- c. below). Since some level of substantive evidence is required, rotating control tests without any substantive tests is insufficient;

When relying on prior audit control tests, auditors should:

- a. Obtain evidence about changes to controls since the prior tests.
 - b. Obtain evidence that controls were still implemented during the current audit period.
 - c. Test operating effectiveness at least every third year (not every third two-year audit).
6. While the auditor's assessment of inherent and control risk *may* reduce the required nature and/or extent of substantive compliance testing, *some* substantive evidence or testing is necessary for compliance requirements directly and materially affecting the determination of financial statement amounts (similar to AU-C 330.18 and 330.A45 --- .50).

Organization of the OCS

Nature of Compliance Requirement	Responsibility / Extent of Testing
Chapter 1	
<p>Compliance requirements directly and often materially affecting the determination of financial statement amounts.</p>	<p>AU-C 250.13: “The auditor should obtain sufficient appropriate audit evidence regarding material amounts and disclosures in the financial statements that are determined by the provisions of those laws and regulations. . . .”</p> <p>AOS Comments:</p> <ul style="list-style-type: none"> • While these requirements impose the highest responsibility on the auditor, we are not opining on them (unlike major Federal program compliance, upon which we <i>do</i> opine). • For example, while the extent of testing requires judgment, it would typically be less than the AICPA’s <i>Government Auditing Standards and Single Audit</i> guide Chapter 13 require opining on major Federal program compliance. <ul style="list-style-type: none"> ○ In other words, similar to any other misstatement, the auditor bases the extent (and nature) of tests on the assessed risk of “a noncompliance misstatement” in relation to the opinion unit(s) taken as a whole. ○ For example, if two laws directly affect the valuation of two asset accounts equaling 50% and 10% of an opinion unit’s total assets, the auditor requires more evidence to support the asset constituting 50% of total assets. ○ Of course, this example assumes risks are otherwise equal, which often is not the case.
Chapter 2	
<p>Compliance requirements with indirect but potentially material financial statement effects</p>	<p>AOS Comments:</p> <ul style="list-style-type: none"> • AU-C 250.14 requires only (1) inquiry and (2) examination of correspondence with “regulators”. • Per AU-C 250.08: “. . . remain alert to the possibility that other audit procedures applied for the purpose of forming an opinion on financial statements may bring instances of identified or suspected noncompliance with laws and regulations to the auditor’s attention.” <ul style="list-style-type: none"> ○ Therefore, procedures designed to obtain evidence about financial statement assertions might also yield evidence of noncompliance the auditor may need to report per GAGAS 4.25(a). ○ Some suggested steps in Chapter 2 for indirect noncompliance slightly exceed the “inquiring of management” and “inspecting correspondence” AU-C 250.14 requires. However, these additional steps always build on tests normally required to support a

	<p>financial statement opinion.</p> <ul style="list-style-type: none"> ▪ For example, an auditor needs sufficient evidence of the types of investments to support the investment footnote. We believe it is reasonable to request an auditor to use this information to determine whether investments were allowable under Ohio Rev. Code Chapter 135.
<p>Audit tests mandated by law.</p>	<ul style="list-style-type: none"> • The OCS includes procedures to help auditors obtain sufficient, appropriate evidence to assess compliance with these laws. • Though we do not require opinions on compliance, we have required separate reports for some compliance, such as agreed-upon procedures for anti-bullying policies and landfill certifications. <ul style="list-style-type: none"> ○ Because legislation does not require opinions on compliance, for efficiency, we sometimes include violations in the GAGAS report, though we judge materiality for the requirement, not vs. opinion unit amounts.
<p>Chapter 3</p>	
<p>Stewardship requirements⁴</p>	<ul style="list-style-type: none"> • Inquiry and limited examination of documents, as described for each test. • Many steps allow rotation / performing every other audit. <ul style="list-style-type: none"> ○ Except, if auditors judge a requirement to directly and materially affect financial statement amounts or disclosures, they should meet the requirements for Chapter 1 above.

⁴ Based on the auditee’s transactions and operations, an auditor may judge some chapter 3 requirements to directly or indirectly (and materially) affect the determination of financial statement amounts. In these instances, auditors should follow guidance for direct or indirect requirements.

Home Rule Powers

Definition

Villages and cities are municipal corporations. They are defined and regulated in Article XVIII of the Ohio Constitution and in Ohio Rev. Code Title 7.

Classification

Municipal corporations with a population of less than 5,000 are villages. The village may be incorporated by the procedures set forth in Ohio Rev. Code Chapter 707, requiring a petition to the county commissioners (Ohio Rev. Code § 703.01 and Chapter 707).

Plans of Government

Article XVIII of the Ohio Constitution provides for the formation of municipal corporations. Section 3 confers upon the municipal corporations all powers of local self-government and Section 7 authorizes the municipal corporations to adopt charters setting up their own plans of government. Those municipalities which do not have charters may adopt one of the plans of government set forth by the legislature in Ohio Rev. Code Chapter 705 or may operate under the general provisions of Ohio Rev. Code Title 7.

Home Rule

“Home Rule” is a term used to describe those powers granted to municipal corporations under Article XVIII, Section 3 of the Ohio Constitution, which provides, “municipalities shall have authority to exercise all powers of local self-government and to adopt and enforce within their limits such local police, sanitary, and other similar regulations as are not in conflict with general laws”. These powers were granted in an effort to provide more local control over certain governmental activities, but not to allow complete independence from State government. Because this grant of power derives from the Ohio Constitution, it is superior to laws enacted by the legislature, except where a constitutional limitation allows the legislature to regulate municipalities.

Charter vs. Non-Charter

All municipal corporations have Home Rule powers, but the extent of these powers differ depending upon whether a charter has been adopted. By adopting a charter, the municipal corporation may set up a system of government which differs from the statutory plans. It may provide for the officers and procedures for all governmental functions. Non-charter municipal corporations must comply with all State laws concerning matters of procedural local self-government. Matters of substantive local self-government are not controlled by State laws, regardless of whether or not the municipal corporation has adopted a charter.

Local Self-Government Powers vs. Police Regulations

As previously mentioned, charter governments are basically free from regulation by the legislature in matters of local self-government, but the exercise of police powers cannot conflict with general laws enacted by the legislature.

Local Self-Government Powers

Procedural Local Self-Government Powers are powers which concern the organization of municipal government as well as the procedures under which the municipal corporation must function. Charter governments may deviate from State laws regulating matters of procedural local self-government only by adopting a charter. Examples of these powers are as follows:

1. Structure of government - This pertains to the officers and their functions. Without a charter, municipalities and villages must comply with State laws regulating them;
2. Competitive bidding requirements - State laws determine when competitive bidding is necessary and what procedures must be followed. Only charter governments may set up their own bidding requirements;
3. Initiative and referendum;
4. Appointment and duties of police officers;
5. Election procedures; and
6. Annexation proceedings.

Substantive Local Self-Government Powers

Substantive Local Self-Government Powers are powers which concern the decision making authority of the municipal corporation as well as regulate the conduct of individuals within the municipal corporation. With a few constitutional exceptions, these powers cannot be superseded by State laws. Examples of these powers are as follows:

1. Power to contract - The State cannot, by law, restrict the government's general power to contract;
2. Taxation - There are explicit constitutional limitations provided in Article XVIII, Section 13 and Article XIII, Section 6 of the Ohio Constitution, as it is necessary to provide for coordination of State and local taxation. Otherwise, State laws cannot restrict the government's power to tax;
3. Assessments - This power is limited by Article XIII, Section 6 of the Ohio Constitution;
4. Incurring debt - Laws may be passed by the General Assembly limiting this power; (Article XVIII, Section 13 of the Ohio Constitution);
5. Power to purchase, appropriate, or dispose of property - The decision to purchase, appropriate, or dispose of property is a power of substantive local self-government. However, the procedures used to purchase, appropriate, or dispose of property are matters of procedural local self-government and are regulated by State laws, unless the municipal corporation has adopted a charter;
6. Compensation of employees and officers - This area is purely a matter of substantive local self-government. Statutes regulating many matters of compensation can be overridden by local ordinance;
7. Power to establish, locate, and vacate streets; and
8. Power to restrict the weight of vehicles using the charter government's streets.

Police Regulations

Police regulations are laws enacted to protect the health, safety, and welfare of persons and property. They are aimed at matters of private conduct rather than matters of government. Unlike matters of local self-government, police regulations can never conflict with general laws.

Public Utilities

The power to operate public utilities has a separate and distinct source from the general home rule powers of Article XVIII, Section 3. Article XVIII, Sections 4 and 5 of the Ohio Constitution state that municipal corporations may provide public utility service for their residents directly or by contracting with others within specified limits.

Compliance Testing

Auditors must consider whether municipal governments have home rule powers enacted under the statutes above. If so, auditors will need to tailor compliance testing accordingly to reflect the applicable home rules and powers afforded those governments. Auditors should review charter legislation, resolutions, and ordinances for charter municipal corporations and tailor their testing procedures accordingly.

Township Home Rule

Township home rule powers do not come from the Ohio Constitution. Rather, there are statutes (Ohio Rev. Code Chapter 504) that permit townships to take action to become a “limited home rule” township. This is a statutory power and not a constitutional power like the home rule for municipalities. Nevertheless, similar compliance testing considerations to those above may apply to Townships that have adopted limited home rule government powers.

Reporting

2011 *Government Auditing Standards (GAGAS)* describes the auditor's compliance reporting obligations:

4.25 When performing a GAGAS financial audit, and auditors conclude, based on sufficient, appropriate evidence, that any of the following either has occurred or is likely to have occurred, they should include in their report on internal control and compliance the relevant information about:

- a. fraud and noncompliance with provisions of laws or regulations that have a material effect on the financial statements or other financial data significant to the audit objectives ***and any other instances warranting the attention of those charged with governance***;
- b. noncompliance with provisions of contracts or grant agreements that has a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives; or
- c. abuse that is material, either quantitatively or qualitatively.

4.26 When auditors detect instances of noncompliance with provisions of contracts or grant agreements or abuse that have an effect on the financial statements or other financial data significant to the audit objectives that are less than material but warrant the attention of those charged with governance, they should communicate those findings in writing to audited entity officials. When auditors detect any instances of fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse that do not warrant the attention of those charged with governance, the auditors' determination of whether and how to communicate such instances to audited entity officials is a matter of professional judgment.

Reporting Immaterial Violations

GAGAS 4.26 requires auditors to communicate immaterial violations warranting management's attention in writing (such as via a management letter). Auditors may choose whether and how to communicate *inconsequential* violations. (Determining *inconsequential* requires auditor judgment. Absent qualitative considerations, it may equate to *trivial*, as described in footnote 8.)

Examples

The auditor should refer to the AICPA's *Government Auditing Standards and Single Audits* guide, for reporting examples. (AOS staff can access these examples in the Audit Briefcase.)

Noncompliance Reporting Examples

Noncompliance	Example Evaluation	Reporting
<p>The auditee records premiums received with a debt issuance in a capital project fund.</p>	<p>Ohio law requires recording premiums in a debt service fund (Ohio Rev. Code § 133.32). Therefore, resources and total assets in the capital project fund are overstated, and understated by similar amounts in the debt service fund. If these funds are in different opinion units, a misstatement occurred.</p> <p>If the two funds are in the same opinion unit (such as RFI), no misstatement occurred, so there is no direct effect. However, the matter is important enough to warrant attention by those charged with governance.</p> <p>The auditor would propose an audit adjustment to correct the balances in the two funds.</p>	<p>Report a finding in the GAGAS report.</p> <p>Also, as described in AOS Bulletin 2014-001, for bonds and notes issued on and after July 1, 2014, AOS will issue findings for adjustment.</p> <p>See the <i>Findings for Adjustment</i> section later in this Guide.</p>
<p>Total fund “X” budget expenditures exceed appropriations.</p>	<p>If the budgetary statement or budgetary RSI for the fund reports the negative variance (such as would occur for a major special revenue fund), no misstatement occurred. However, even for funds <i>not</i> included in budget presentations,⁵ significant over-expenditure of appropriation could endanger the program’s sustainability, so the noncompliance warrants management’s attention.</p>	<p>Report a finding in the GAGAS report.</p>
<p>The government purchased a speculative hedging instrument.</p>	<p>If classified and disclosed properly, no misstatement occurred. However, because it is unauthorized in the Ohio Revised Code, and we assume it poses unnecessary risk of loss to the government, it warrants the attention of those charged with governance.</p>	<p>Report a finding in the GAGAS report.</p>
<p>Internet- or computer-based community school contracts with a nonpublic school for instructional facility space.</p>	<p>Violations require ODE to withhold foundation payments for any students using nonpublic school facilities. This is more in the nature of an indirect <i>penalty</i> per AU-C 250.06(b)(iii) than a direct effect, but we should report it because it could lead to the closing of the community school and therefore requires attention of those charged with governance.</p>	<p>Report a finding in the GAGAS report.</p>

⁵ Assume the fund is not the general or major special revenue fund for a GAAP government:

- Therefore there is no budget presentation for it.
- Accordingly, the auditor would not have designed budget tests for this fund.
- However, if the auditor becomes aware of the over expenditure via other procedures, it is subject to reporting as noncompliance in the GAGAS report.

Audit Findings

An audit *finding* is a conclusion of fact an auditor *finds* as part of the audit process. Findings of legal noncompliance in Ohio fall into three categories⁶:

- Noncompliance citations,
- Findings for abuse,
- Findings for adjustment, and
- Findings for recovery.

Noncompliance Citations

Noncompliance citations should cite the appropriate legal authority (i.e. the *criteria* 2011 GAGAS 4.11 requires in written noncompliance findings). Legal authorities auditors can cite include the Federal and State constitutions, the United States Code and rules, the Ohio Revised Code, Ohio Administrative Code, and local ordinances, Federal and State court decisions, Federal and State regulations, and opinions of the Ohio Ethics Commission. Auditors may refer to opinions of the Attorney General, AOS Technical Bulletins, and other advisory materials within the text of a finding as additional guidance, but AG opinions, AOS Technical Bulletins, and advisory materials are not legally binding *criteria*.⁷

For example, AOS Bulletin 2002-004 states the AOS' position that local governments should record and budget Ohio Public Works Commission infrastructure project (Issue II money) receipts and disbursements even when the local government does not directly receive or disburse this money. When a government fails to record or budget this money, the citation would be to the sections within Ohio Rev. Code Chapter 5705 requiring budgeting and recording this money, not AOS Bulletin 2002-004. However, it is desirable for the finding to describe the bulletin as an informational resource, and suggest the local government officials to review and follow the accounting and budgeting guidance from AOS Bulletin 2002-004.

Also, as described in *Government Auditing Standards*, auditors should report material noncompliance with provisions of contracts or grant agreements.

Exhibit 1 to the *OCS* sets forth guidelines for the appropriate form for citing legal authority.

2011 GAGAS defines the elements of a finding to include:

⁶ *Questioned costs* normally apply only when opining on compliance under AU-C 935, such as Single Audits of Federal programs. This discussion does not pertain directly to questioned costs.

⁷ Ohio Rev. Code § 117.20(C) states that the Auditor of State may prepare and disseminate to public offices and other interested parties advisory bulletins, directives and instructions relating to accounting and financial reporting systems, budgeting procedures, fiscal controls and constructions by the Auditor of constitutional and statutory provisions, court decisions and opinions of the Attorney General. These bulletins, directives and instructions are of an advisory nature.

4.11 Criteria: The laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria provide a context for evaluating evidence and understanding the findings.

4.12 Condition: Condition is a situation that exists. The condition is determined and documented during the audit.

4.13 Cause: The cause identifies the reason or explanation for the condition or the factor or factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria), which may also serve as a basis for recommendations for corrective actions. Common factors include poorly designed policies, procedures, or criteria; inconsistent, incomplete, or incorrect implementation; or factors beyond the control of program management. Auditors may assess whether the evidence provides a reasonable and convincing argument for why the stated cause is the key factor or factors contributing to the difference between the condition and the criteria.

4.14 Effect or potential effect: The effect is a clear, logical link to establish the impact or potential impact of the difference between the situation that exists (condition) and the required or desired state (criteria). The effect or potential effect identifies the outcomes or consequences of the condition. When the audit objectives include identifying the actual or potential consequences of a condition that varies (either positively or negatively) from the criteria identified in the audit, "effect" is a measure of those consequences. Effect or potential effect may be used to demonstrate the need for corrective action in response to identified problems or relevant risks.

4.28 If auditors sufficiently develop the elements of a finding, they may provide recommendations for corrective action.

Auditee Responses to Findings

GAGAS 4.33 – 4.39 establish requirements for obtaining and reporting the auditee’s responses to findings. GAGAS 4.33 states, “. . . auditors should obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations, as well as any planned corrective actions.” GAGAS 4.35 states, “When auditors receive written comments from the responsible officials, they should include in their report a copy of the officials’ written comments, or a summary of the comments received.”

Therefore, if an auditee responds to a finding, we should include their response in the applicable report (i.e., GAGAS or Single Audit report).

If an auditee responds verbally to a finding (for example, at the post audit conference), we should ask if they wish to include their response in the report.

We should recognize that the tone of these responses will vary. Some officials will prepare thoughtful responses, perhaps even acknowledging responsibility for the error. Conversely, other officials will feel we have been unfair, that we do not understand the *criteria* (e.g., laws) we are citing or draft a response impugning our abilities or motives. Regardless, we should carefully consider these responses. If there is significant disagreement regarding a finding, we should attempt to resolve the

disagreement, if practical. For example, if there is disagreement regarding a grant requirement, we might contact the grantor and obtain the grantor's interpretation of the requirement.

GAGAS 4.38 states that when the audited entity's comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, or when planned corrective actions do not adequately address the auditors' recommendations, the auditors should evaluate the validity of the comments. If the auditors disagree with the comments, they should explain in the report their reasons for disagreement. However, we should always attempt to resolve disagreements before issuing the final report. If we can resolve the differences, the report should not include the client's original response. (We can include an updated response.) The report would not refer to a disagreement, because the disagreement no longer exists.

If we cannot agree with the client, we should summarize the client's substantive reasons for disagreeing and our reasons, per GAGAS 4.38. Responses indicating significant disagreement require review by the Center for Audit Excellence. (This review requirement does not apply to IPA audits.)

Important: In some instances, we should include most of the text of the client's response, if the issue is complex or if there is substantial disagreement. However, we discourage including the complete text of lengthy client responses in our reports. For brevity, we prefer a summary within the body of the finding in question, indicating their general agreement or disagreement and planned corrective action. Deciding whether to summarize versus including the complete text requires auditor judgment. When we summarize the response, we must allow the client to read the draft finding, our summary of their response, and our rebuttal to their response if we disagree with it. We should include their signature on a draft of the finding in the audit documentation indicating they have read the final draft, including their response (and our rebuttal, if there is one).

Findings for Abuse

GAGAS 4.07 defines abuse as deficient or improper behavior compared with behavior that a prudent person would consider a reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate.

Standards do not require auditors to detect abuse in financial audits. Therefore, it is not necessary for auditors to add audit procedures solely to detect abuse. However, if auditors become aware of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives, auditors should apply procedures designed to ascertain the potential effect on the financial statements or other financial data significant to the audit objectives.

Abuse in Federal Programs

2 C.F.R. 200.516(a) states the auditor **must** report the following as audit findings in a schedule of findings and questioned costs: (1) Significant deficiencies and material weaknesses in internal control over major programs **and significant instances of abuse relating to major programs**. The auditor's determination of whether a deficiency in internal control is a significant deficiency or material weakness for the purpose of reporting an audit finding is in relation to a type of compliance requirement for a major program identified in the Compliance Supplement.

AOS Policies for Reporting Findings of Abuse

- The auditor should draft the proposed finding and send it, along with all factual information pertinent to the proposed finding, to the Legal Division and Center for Audit Excellence for review.
- Once the finding for abuse has been approved by both the Legal Division and the Center for Audit Excellence, it must be sent to the Chief Deputy Auditor, or designee, for final approval.
- Once final approval is given by the Chief Deputy Auditor, or designee, the auditor should immediately prepare and send a Notice of Proposed Finding for Abuse (available in the Audit Employee Briefcase) to the Legal Division for review and approval.

The person(s) against whom the finding is contemplated is given five business days to respond. The notice should be sent sufficiently in advance of any post-audit or exit conference so that he or she has time to respond and so that the Auditor of State's office has time to withdraw or modify the finding before that conference, if necessary.

Responses within the time allowed, with something other than a general denial of responsibility, should be evaluated by the Chief Auditor.

- If merited, the response should be submitted to the Legal Division and Center for Audit Excellence for consideration.
- If a decision is made to delete the proposed abuse finding from the draft report, the person(s) against whom the finding was proposed and the Chief Deputy Auditor should be notified.
- If the finding is retained, the individual(s) should be notified of the opportunity to attend the exit conference or schedule a separate meeting to discuss the finding.

Issuing Findings of Abuse Before and/or After the Audit Period

The regional Chief Auditor should consult with the Chief Deputy Auditor, or designee, prior to testing outside of the audit period to pursue a finding for abuse.

GAGAS Appendix I, A.08 lists examples of *abuse*. A sample letter follows:

SAMPLE NOTICE OF PROPOSED FINDING FOR ABUSE

[Date]

[Name of Contact]

[Name of Entity]

[Street Address]

[City, State Zip]

To [Name]:

The Comptroller General of the United States' *Government Auditing Standards*, commonly referred to as *Generally Accepted Government Auditing Standards (GAGAS)* provides that "abuse" involves behavior that is deficient or improper when compared with behavior that a prudent person would

consider a reasonable and necessary business practice given the facts and circumstances. “Abuse” also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate.

The Auditor of the State of Ohio has conducted an audit of [Name of Entity], [County Name] County, for the period _____ through _____. As a result and as part of that audit, it is proposed to issue a Finding for Abuse. A Finding for Abuse constitutes a determination by the Auditor of State that an entity subject to audit or an official or employee of such an entity has either engaged in behavior that is deficient or improper when compared with behavior that a prudent person would consider a reasonable and necessary business practice under the existent facts and circumstances, or the official or employee has misused his or her authority or position for his or her personal financial interest or those of an immediate or close family member or business associate. A Finding for Abuse does not constitute an accusation of criminal misconduct, and need not involve unethical actions, a Finding for Recovery, or a Finding for Adjustment.

The Auditor of State proposes to make this Finding for Abuse on the basis of the following factual situation, and as set forth below:

As is noted above, this letter constitutes a notice of a Proposed Finding for Abuse, and it is provided to advise you of this proposal, and to afford you the opportunity to respond to or to rebut these assertions. You may respond in writing to this Notice within five (5) business days after the date set forth above. The five (5) business day response period may be extended for reasonable necessity by action of the Auditor of State, the Chief Deputy Auditor, the Chief Auditor of the applicable region, or the Legal Division of the Auditor’s Office. Any response, along with any documents or material which you wish to submit in support of your rebuttal, should be directed to _____.

Any submissions will be considered by the Auditor’s Office as part of its determination of the propriety of rendering a Final Finding for Abuse in the form set forth above or some modification of the same. If you have questions as to this Notice or its meaning, you may contact _____ at _____.

Sincerely,

Dave Yost
Auditor of State

[Chief Name]
Chief Auditor, [Region name] Region

IPA Policies for Reporting Findings of Abuse

Independent Public Accountants (IPAs) must also provide written notification of potential abuse that provides the person(s) against whom the finding is contemplated an opportunity to rebut the allegations.

- The notice must include language of the abuse finding from the report and must be factually specific and detailed enough to allow the person(s) to understand the allegations made against them.
- Notice should be sent sufficiently in advance of any post-audit or exit conference so he or she has time to respond.
- IPAs are responsible for determining their own process for evaluating responses and reporting abuse.
- IPAs must notify the Regional Office when a potential abuse issue is identified and then again, whether or not the abuse comment will be issued in the audit report.

Findings for Adjustment

Audit procedure results may determine an audited entity has posted receipts to a fund having no authority to receive them, or has disbursed amounts not authorized from one fund but permissible from another.

In these instances, it may be appropriate to make a *finding for adjustment*, that is, a reallocation of receipts or disbursements to the proper funds. Whether the auditor recommends an adjustment, and the manner in which the auditor reports it depends on: (1) the nature of the adjustment, i.e., whether it is material, trivial⁸, or immaterial; (2) whether the auditee agrees with the adjustment; and (3) whether the misallocation of funds also constitutes a violation of law warranting a noncompliance citation.

Potential *adjustments* fall into one of the following categories:

- 1 Material (at the opinion level) adjustments with which the auditee agrees, which have been posted to the accounting records and which are reflected in the audited financial statements;
- 2 Material (at the opinion level) adjustments with which the auditee disagrees and which are not posted to the accounting records or are not reflected in the financial statements (Note: If the client agrees and posts the adjustment to the financial statements but refuses to post the adjustment to the accounting records we will still issue a finding for adjustment to correct the accounting records);
- 3 Immaterial adjustments which are more than trivial. See discussion in the following section.
 - a. This includes adjustments that are immaterial to opinion units, but material to one or more individual funds.

⁸ **Trivial** as described in AU-C 450.A2, explains “trivial” is an amount the auditor designates, below which misstatements need not be accumulated. This amount is set so that any such misstatements, either individually or when aggregated with other such misstatements, would not be material to the financial statements, after the possibility of further undetected misstatements is considered.

Note: Auditors base materiality on opinion units when forming their opinion.

However, when assessing whether a finding for adjustment is a material noncompliance finding, auditors should normally consider materiality in relation to individual funds rather than the opinion unit. (Remember, GAGAS 4.25 also requires reporting noncompliance warranting attention by those charged with governance.) Considerations include:

- Judging whether measuring materiality against receipts, disbursements or fund cash balance is the most appropriate.
- Auditors may detect a *finding for adjustment* affecting two funds reported in the same opinion unit. This adjustment would have no effect on the financial statements (and the auditor’s opinion thereon), but may still represent reportable noncompliance if it is material to either of the two funds.

4 Trivial⁸

Treatment of Adjustments in Audit Reports

Adjustments in the **first** category above based on a violation of legal authority will result in a noncompliance citation and possibly a material weakness or significant deficiency in accordance with AU-C 265 in the GAGAS report. The auditor should neither label the noncompliance as a *Finding for Adjustment* nor use a “finding for adjustment statement” (i.e. “In accordance with the foregoing facts, we hereby issue a finding for adjustment . . .”) but the finding should cite the legal criterion and briefly state the client has agreed to and posted adjustments which are also reflected in the financial statements. No modification of the auditor’s financial statement opinion is necessary because the adjustment corrected the material misstatement.

Adjustments in the **second** category and which are based on a violation of legal authority will result both in a noncompliance citation and normally a modified opinion paragraph in the auditor’s financial statement opinion. The noncompliance citation will also include a finding for adjustment statement (i.e. “In accordance with the foregoing facts, we hereby issue a finding for adjustment. . .”).

Adjustments in the **third** category (quantitatively immaterial but more than trivial) should be reported in the management letter if the misallocation of funds also constitutes a violation of law which warrants a noncompliance citation. *However*, auditors should report these adjustments in the GAGAS letter whenever qualitative considerations of materiality (for example, material at the fund level) outweigh the quantitative materiality amounts, or if the auditor deems the matter of sufficient importance that it requires additional “emphasis” by those charged with governance, per GAGAS 4.25.

- If the auditee agrees with the adjustment and has posted it, cite the law violated, but do not use the term *finding for adjustment*; do not include a *finding for adjustment* statement.
- If the auditee disagrees with the adjustment or has not posted it, cite the law violated, label the finding as a *finding for adjustment*, and include a *finding for adjustment* statement.
 - Consistent with unadjusted identified misstatements exceeding trivial, post the adjustment to the Summary of Unadjusted Difference (or similar documentation for IPAs) and carry forward each year to evaluate against the applicable opinion unit.

Trivial noncompliance adjustments will simply be noted in the audit working papers.

Summary of Finding for Adjustment Reporting Treatment

	<i>Material (At the opinion level) adjustments with which the auditee agrees, which have been posted to the accounting records and which are reflected in the audited financial statements:</i>	<i>Material (At the opinion level) adjustments with which the auditee disagrees and which are not posted to the accounting records or are not reflected in the financial statements:</i>	<i>Quantitatively Immaterial adjustments which are more than trivial (including those immaterial to opinion units, but material to one or more individual funds):</i>	<i>Adjustments which are trivial:</i>
GAGAS Report	If based on a violation of legal authority, report a noncompliance citation in the GAGAS report. Do not classify as a <i>finding for adjustment</i> .	If based on a violation of legal authority, report a noncompliance citation in the GAGAS report. AOS staff should include a <i>finding for adjustment</i> statement. (IPAs should not include a finding for adjustment statement.)	If based on a violation of legal authority, report a noncompliance citation in the management letter. However, if the matter is qualitatively material (for example, material at the fund level), or the auditor deems it of increased importance, report a noncompliance citation in the GAGAS report and include a finding for adjustment statement. (IPAs should not include a finding for adjustment statement.)	Not reported in the GAGAS report.
Auditor’s report (opinion) on the financial statements	No modification of the auditor’s opinion.	Adjustments which are based on a violation of legal authority will result in a qualified (or adverse) opinion on the financial statements, if the adjustment misstates opinion units.	Adjustments which are qualitatively material and are based on a violation of legal authority may result in a qualified (or adverse) opinion on the financial statements. This requires judgment.	No effect.
Management letter	Not applicable	Not applicable	If the misallocation of funds also constitutes a violation of law which warrants a noncompliance citation, a citation	Not reported in the management letter. Document in the working papers only.

	<i>Material (At the opinion level) adjustments with which the auditee agrees, which have been posted to the accounting records and which are reflected in the audited financial statements:</i>	<i>Material (At the opinion level) adjustments with which the auditee disagrees and which are not posted to the accounting records or are not reflected in the financial statements:</i>	<i>Quantitatively Immaterial adjustments which are more than trivial (including those immaterial to opinion units, but material to one or more individual funds):</i>	<i>Adjustments which are trivial:</i>
			will be reflected in the management letter if the matter is quantitatively and qualitatively immaterial. AOS staff should include a <i>finding for adjustment</i> statement if the auditee does not agree to or post the adjustment. (IPAs should not include a finding for adjustment statement. Reporting the noncompliance citation alone is sufficient.)	

Financial Statement Opinion Modified Paragraph Example

Basis for Qualified Opinion

During 20XX, Any Local School District expended \$584,000 from the Bond Retirement Fund to pay employees’ salaries. Ohio Rev. Code § 5705.10 restricts the use of the Bond Retirement Fund to debt retirement. Had this amount been properly expended from the General Fund, the effect would have been to decrease disbursements of the Bond Retirement Fund by \$584,000 and increase the fund cash balance to \$631,675 and to increase disbursements of the General Fund by \$584,000 and decrease the fund cash balance to a deficit of \$347,000 as of and for the year ended December 31, 20XX.

Qualified Opinion

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements referred to above present fairly . . .

When the table above suggests an opinion modification use language similar to this example (in this case, assume the effect was material to the general and bond retirement fund and that both are major funds). The result will be either a qualified (“except for”) or adverse opinion. A government can avoid a qualified or adverse opinion only if they adjust their accounting records. Auditors should document evidence that the agreed-to adjustments have been properly posted to the auditee’s

accounting records. A mere commitment by the public office to adjust is insufficient. That is, the auditee has not agreed to the adjustment until she or he has posted it to the accounting system and auditors must obtain evidence the adjustment was made to the government's financial statements and accounting records.

Finally, AU-C 450.11(b) requires auditors to consider the effect of uncorrected prior audit adjustments on the current audit. Therefore, auditors should consider whether uncorrected prior findings for adjustment affect the current audit's financial statements.

Findings for Adjustment Procedures for Independent Public Accountants (IPA)

IPAs should follow the preceding guidance regarding *Findings for Adjustment* with the following modifications.

IPAs should report a noncompliance finding in their GAGAS report for the required matters listed above. However, IPAs should not label these as *findings for adjustment* and should not include the "finding for adjustment statement" (i.e. "In accordance with the foregoing facts, we hereby issue a finding for adjustment . . .").⁹ When the IPA believes a finding for adjustment condition exists and the client does not agree with and does not make the adjustment, the following procedures apply:

- As soon as the IPA has evidence of a Finding for Adjustment, the IPA should contact the regional chief auditor.
- The IPA should provide the regional chief auditor with all relevant factual information, including supporting documentation for the Finding.
 - For example, it is not sufficient to send AOS a testing spreadsheet alone. IPA's need to also submit copies of the relevant client records that support the IPA's testing spreadsheet.
- The regional chief auditor should notify the Chief of Quality Assurance that a finding for adjustment may be issued via ipareport@ohioauditor.gov. The Center for Audit Excellence will put a hold on the report until the finding is approved.
- The regional Chief Auditor or designee will prepare a preliminary Finding, along with any supportive documentation, and submit it to the AOS Legal Division and also the Center for Audit Excellence via the IPA specialty in Spiceworks for consultation.
- The Legal Division and the Center for Audit Excellence will review the proposed Finding and may ask the chief auditor or the IPA for additional information.
- After the Legal Division and the Center for Audit Excellence have approved the Finding, the regional chief auditor or designee will send the proposed Finding for Adjustment to all applicable parties.
- The applicable parties are normally given five days to respond. If they respond, the regional chief auditor should evaluate the response and decide whether the Finding should be withdrawn or modified.

⁹ This is to comply with Ohio Rev. Code § 117.12 which states, "IPAs have no authority to make formal findings of illegality, malfeasance, or gross neglect under this division or section 117.23 of the Revised Code."

- The regional chief auditor must send a copy of AOS Legal Division's approved finding to the Chief of Quality Assurance or designee, through ipareport@ohioauditor.gov, for inclusion with the Acceptance Letter. The Auditor of State will describe material, unadjusted Findings for Adjustment in the Acceptance Letter we include in the front of each report. The Chief of Quality Assurance, or designee, certifies the report with the Clerk of the Bureau.

Findings for Recovery

Ohio Rev. Code § 117.28 authorizes the Auditor of State to report a *finding for recovery* in audit reports when legal action may be appropriate to recover public money or property. It is the policy of the Auditor of State to only issue a finding for recovery in whole dollars. Therefore, all finding for recovery amounts will be rounded down to the nearest whole dollar.

Ohio Rev. Code § 117.01(C) defines *public money* as "any money received, collected by, or due a public official under color of office, as well as any money collected by any individual on behalf of a public office or as a purported representative or agent of a public office."

Under Ohio Rev. Code § 9.24(H)(3) and § 117.28, a finding for recovery may exist when:

- Public money has been illegally expended;
- Public money that has been collected has not been accounted for;
- Public money that is due has not been collected; or when
- Public property has been converted or misappropriated.

Each of these is discussed below.

1. Illegal Expenditure

A finding for recovery for an illegal expenditure may be made only where the auditor (after consultation and advice from the Legal Division) has concluded that the public office does not possess the legal authority for the expenditure in question. This generally may occur where the government either has no statutory authority (or the government exceeded the authority statute provides) for the expenditure or there is no *proper public purpose* for the expenditure. When an illegal expenditure relates to a theft of cash, auditors should normally use the Public Property Converted or Misappropriated category for a Finding for Recovery.

Governmental units other than charter municipal corporations generally possess only the authority expressly granted by statute or necessarily implied to carry out an express statutory function. Thus, a governmental entity such as a school district or township may act only where a statutory grant of authority exists and, if any doubt that the authority exists, it must be resolved against the expenditure of public monies. If the basis for a finding for recovery is that the governing body exceeded its statutory authority, a citation to a court decision containing a general description of the limited authority of the governmental unit is sufficient.

Proper Public Purpose

Governmental entities, without regard to their specific nature, may not expend public monies unless they are for a proper (i.e. valid) public purpose.

State ex rel. McClure v. Hagerman, 155 Ohio St. 320, provides that governmental expenditures should serve a public purpose. In McClure, the Ohio Supreme Court offered the following guidelines to determine a public purpose:

1. Whether the expenditure is for or promotes the public health, safety, morals or general welfare;
2. Whether the primary objective is to promote a public purpose, although it may incidentally advance a private interest;
3. If there has been a prospective legislative determination of a proper public purpose.

See AOS Bulletins 2014-002, 2014-003, 2004-002, and 2003-005 for further guidance regarding *proper public purpose*.

The courts will not substitute their judgment for that of the authorities unless the latter's exercise of judgment or discretion is shown to have been unquestionably abused.

In general, if the principal benefit is for the public, an expenditure is not invalid merely because a private party derives an incidental benefit. A public officer's determination that a contemplated expenditure serves a valid public purpose is generally not subject to question unless this determination is "palpably and manifestly arbitrary and incorrect." (Except for limited exceptions made for agricultural societies and other public offices purchasing alcohol only for resale, disbursing public money for alcohol will result in a finding for recovery, per AOS Bulletins 2014-002 and 2014-003¹⁰.)

Before the discretionary determination of the governing body that a given expenditure serves a public purpose may be overruled, the auditor must consult with the Legal Division and cite a specific prohibition against the class of expenditure in question or must have facts to support a conclusion that the local determination was "palpably and manifestly arbitrary and incorrect."

While auditing expenditures, the auditor should scan or perform other analytical procedures looking for unusual or nonrecurring items and determine the reasonableness of designations of public purpose. Any questionable items can be discussed with the appropriate regional chief auditor, who should consult with the Legal Division. In some instances, where a public office has incurred late fees, penalties, and/or interest charges for withheld taxes or pension contributions not remitted because of a public officer's *gross negligence* by failing to properly remit, the amount of penalties, etc. may be determined to not serve a proper public purpose and may result in a finding for recovery. Some factors to be considered in determining whether to issue a finding for recovery include: total amount, length of time withheld amounts are not remitted, and repetition. The actual withheld amounts not yet remitted may result in a referral to the appropriate agency, but will not result in a finding for recovery.

¹⁰ Note the prohibition on spending Federal money for alcohol described in the Federal government's Uniform Guidance (2 C.F.R. 200.423) are more stringent than the state and local laws summarized in AOS Bulletins 2014-002 and 2014-003.

2. Collected but Unaccounted For

A finding for recovery for public money collected but unaccounted for, should be made where the auditor, after consultation with and advice from the Legal Division, concludes that public money, as defined in Ohio Rev. Code § 117.01, has been received by the public office, but cannot be adequately accounted for by authorized disbursements of public moneys.

A mere unidentified shortage of public moneys is a sufficient basis for a finding for recovery, as public officials are *strictly liable*¹¹ without fault to account for public funds entrusted to their care.

However, the Auditor of State's office recognizes that even the most honest employees make errors in recording cash. Therefore, the Auditor of State will not issue FFRs for insignificant cash shortages a cashier reports to management as part of their reconciliation process, if the government's management monitors overages and shortages and suitably follows up on patterns of shortages. Conversely, we may report shortages as FFRs if a government's controls are not in place or are inadequate.

3. Due but Not Collected

Public money that is due a public office but which has not yet been collected may also be subject to a finding for recovery. Money may become due the public office by operation of statute, by contract, or by court order. The decision as to whether a particular obligation is sufficiently overdue to justify the issuance of a finding for recovery requires judgment based upon the facts of an individual audit. Auditors should consult with and seek advice from the Legal Division and the Center for Audit Excellence prior to pursuing/working on the finding for recovery. In general, amounts are to be considered overdue and a proper subject for a finding for recovery if they have been outstanding in excess of one year and are not the subject of either a statutory collection process or ongoing collection efforts by the client.

Findings for recovery for public money due but not collected are normally identified in the audit of the public office to which the moneys are due. In some circumstances, however, the information necessary to identify the obligation is available only in the records of the obligor. Where such circumstances exist, a finding for recovery may be issued in the audit report of the obligor and in favor of the obligee. For example, if a village is not collecting statutory fees for remittance to the State, a finding for recovery for the amounts in question may be issued against the village and in favor of the State in the village's audit report.

The citation justifying the findings for recovery for public money due but not collected should include not only statutes or regulations, but also the document evidencing the underlying obligation.

4. Public Property Converted or Misappropriated

A finding for recovery for public property converted or misappropriated should be issued only if the auditor has substantial evidence that a theft has occurred. This would include theft of cash or other property. Also the auditor must be able to identify the individual responsible for the loss. Before any finding for recovery of this type can be issued, it is essential that the advice of legal counsel be obtained. If such circumstances arise during an audit, consult the AOS Legal Division and prepare a

¹¹ See the discussion of *strict liability* later in this Implementation Guide.

Noteworthy Memorandum that includes referral to the AOS Public Integrity Assurance Team for further investigation.

In most instances, the auditor can only demonstrate that certain property was acquired by the client, and at the time of the audit it cannot be located. Under such circumstances, a finding for recovery may not be appropriate. Audit staff should consult with the AOS Legal Division if a noncompliance citation may be issued instead, citing Ohio Rev. Code § 117.28, stating the relevant facts, and indicating that the property may have been converted or misappropriated.

Note: Generally, no contract (including an acquisition subject to Ohio Revised Code competitive bidding requirements) may be awarded to a person or entity against whom a finding for recovery has been made if this finding is unresolved (per Ohio Rev. Code § 9.24(A)). Ohio Rev. Code § 9.24(D) requires the Auditor of State to maintain a database, accessible to the public, listing persons against whom an unresolved finding for recovery has been issued, and the amount of the money identified in the unresolved finding for recovery. The Auditor of State currently has this database operational and updates the database periodically in accordance with Ohio Rev. Code § 9.24(D). AOS Bulletins 2003-009 and 2004-006 provide further guidance regarding this law.

Issuing Findings for Recovery Before and/or After the Audit Period

Audit reports and opinion letters issued by the Auditor of State are often seen as “closing the books” on a particular audit period. As with litigation, public policy demands finality of judgment in audit work.

In addition, governments typically operate on current revenue, and a finding for recovery for a long-past audit period may impact current needs and operations. If past audit periods may be re-opened, the dead hand of the past will be on the steering wheel of the present.

Finally, drawing the line becomes difficult. If a newly discovered inaccuracy from two years ago is sufficient to re-open the financial statements and the audit, why not three years? For that matter, what if we discover a problem with disbursements, say, during the Civil War? Public policy favors finality of judgment.

Of course, a rule closing the books for good risks a moral hazard: do we reward deliberate wrong-doers who are able to pass their first audit?

Accordingly, findings for recovery will generally not be issued for past audit periods absent a finding of fraud, deception or concealment, or other deliberate wrong-doing. The following factors should be considered in making such a determination:

- Suspected or known fraud
- Significant fraud risk factors that are associated with the current finding for recovery
- The magnitude of the finding for recovery
- Judgment as to whether the finding for recovery was an error or deliberate

- Appropriate client requests – careful consideration needs to be given on the type of request, the timing of the request, the purpose of the request, and the documentation given to substantiate the request
- If requested by the AOS Public Integrity Assurance Team to review issues that arise outside the audit period
- The governing authority’s involvement in the circumstances surrounding the issue, and its ability to correct the issue on its own
- The impact of information that has come to the auditor’s attention involving transactions subsequent to the audit period on the entity’s financial condition and whether prudence dictates review of the transactions prior to the next audit.

Since there are numerous variables affecting this determination that will be unique to each finding for recovery, the regional Chief Auditor should consult with the Chief Deputy Auditor or designee *prior to testing outside of the audit period* to pursue a finding for recovery.

Additional Policies for Findings for Recovery for Auditor of State Audits

All potential Findings for Recovery, regardless of the amount, are required to be reviewed by the AOS Legal Division and the Center for Audit Excellence. Auditors should also refer to the Additional Considerations section on page 36.

- If the auditor preliminarily determines to issue a finding for recovery, the auditor should draft the proposed finding and send it, along with all factual information, including supporting documentation pertinent to the proposed finding and contact information for the statutory legal counsel¹², to the Legal Division for review.
 - The Legal Division reviews the proposed finding in the Legal Consultation program folder of the applicable TeamMate project.
 - The Legal Division will approve the Proposed Finding as is, approve with modifications, disapprove, or request more information be submitted by the auditor to evaluate the proposed finding.
- Once approved by the Chief Legal Counsel in the Legal Division or designee, the auditor should send draft GAGAS findings to the Center for Audit Excellence.
 - The Center reviews the proposed finding in the CFAE Consultation program folder of the applicable TeamMate project.
 - The Center for Audit Excellence will also approve the finding’s conformance with GAGAS reporting requirements.

¹² Statutory legal counsel may not be who you would expect, so confirm with your entity. In the event statute does not designate legal counsel, the prosecuting attorney’s contact information should be included. If the auditee hires outside legal counsel for representation, the correspondence is still sent to its statutory legal counsel.

- If the Legal Division and the Center for Audit Excellence approve the proposed finding, the auditor should immediately prepare and send a *Notice of Proposed Finding for Recovery* to the Legal Division for review (a sample is provided on page 34).
 - This notice provides the person against whom the finding is contemplated an opportunity to rebut the allegations. The notice must include the language of the finding for recovery from the report and must be factually specific and detailed enough to allow the persons to understand the allegations made against them.
 - The notice also must state that the individual has five business days in which to respond in writing to the proposed finding. That five-day period may be extended in rare circumstances, but only upon approval of the Auditor of State, the Chief Deputy Auditor, the chief auditor (or equivalent), or the Legal Division.
- After the Legal Division has approved the *Notice of Proposed Findings* letters, except for special audits conducted by the Public Integrity Assurance Team (PIAT), the auditor should send the *Notice of Proposed Findings* to each individual named in the Finding for Recovery and the bonding company(ies). Notice should be sent via certified mail to the individual sufficiently in advance of any post-audit or exit conference so that he or she has time to respond and so that the Auditor of State's Office has time to withdraw or modify the finding before that conference, if necessary.
 - In the case of a special audit conducted by PIAT, it may be necessary to delay notice to individuals about proposed findings until law enforcement or prosecuting officials approve release of this information.
- If the person against whom the finding is contemplated responds within the time allowed with something other than a general denial of responsibility, the auditor should evaluate the response.
 - If the auditor believes the response has merit, the auditor shall submit it to the Legal Division for consideration.
 - If after the evaluation, the decision is made to delete the proposed finding from the draft report, the person should be notified of that decision.
 - If the decision is made to retain the finding, the individual should be notified of the opportunity to attend the exit conference or to schedule a separate meeting to discuss the finding.
- Pursuant to Ohio Rev. Code § 117.30, the Attorney General appears as legal counsel on behalf of the state and local government entities to pursue, collect and institute legal action to recovery unpaid findings for recovery issued by the Auditor of State when recovery efforts are either waived or declined by the entity's statutory legal counsel.
- Findings for recovery are collectible within six years of the audit report's release.

Post-Audit Conference Procedures

After the individual's response to the notice is evaluated and a decision is made to delete it, retain or modify the finding, the post-audit conference may be held. Under Ohio Rev. Code § 121.22(D),

conferences between auditors and the audited public office are an exception to the “Ohio Open Meetings Act” requiring meetings of public officials to be in public. In addition, under Ohio Rev. Code § 117.26, reports this Office prepares are not public records until certified copies of the reports are served upon certain officials of the public office. To comply with those two confidentiality provisions, this Office has traditionally held that the auditors conducting the post-audit conference have some discretion as to who may attend it. For example, auditors would have discretion not to conduct a post-audit conference if one of the public officials present invited the media to the conference.

If the person against whom the finding is contemplated is a public official or employee who would normally attend a post-audit conference (for example, the public office’s chief financial officer, the chief executive officer, or the governing board or commission), the proposed finding may be discussed during the conference. If the person is an official or employee who would not ordinarily be present at a post-audit conference or the person is not an official or an employee of the public body, a separate meeting may be scheduled to discuss the proposed finding. In either situation, the person against whom the finding is contemplated may have legal counsel present. If so, the auditor may request that a lawyer from the Legal Division attend as well. In this meeting, the person against whom the finding is contemplated and/or his legal counsel may inspect (but not copy) the audit documentation related to the finding at issue.

The letter scheduling the post-audit conference should state the public body will have five business days after the conclusion of the conference to respond to the draft report presented. This period may also be extended upon approval of the Auditor of State, the Chief Deputy Auditor, the chief auditor (or equivalent), or the Auditor of State’s Legal Division. If the public body’s response after the post-audit conference contains any information questioning the validity or the amount of the proposed finding for recovery, the auditor, in consultation with the Legal Division, shall evaluate the response and determine whether the finding should be maintained, deleted, or modified.

Notice of Finding for Recovery

When the Clerk of the Bureau certifies an audit report for release, unless the finding has been repaid or resolved, the regional office shall send separate copies of the approved *Notice of Finding*¹³ (a sample is provided below) to each individual named in the Finding for Recovery¹³ and the bonding company(ies). In addition, the Legal Division shall send a copy of the *Letter on Findings for Recovery* to the entity’s statutory legal counsel or the County Prosecuting Attorney if the entity does not have statutory legal counsel. The Legal Division will also notify the Ohio Attorney General, wherein associated work papers (in their original format) will be provided. The statutory legal counsel will have one hundred and twenty days to notify the Attorney General whether he or she intends to take action to collect or not to collect subject to Ohio Rev. Code § 117.28.

An example of the *Notice of Finding* and the *Notice of Proposed Finding* follow. Note they are the same, except the title and the language changes to reflect whether the Finding for Recovery is proposed or issued.

¹³ IPAs follow different procedures. See the *Finding for Recovery Procedures for Independent Public Accountants (IPA)* discussion later in the Implementation Guide.

Sample NOTICE OF **(PROPOSED)**¹⁴ FINDING

DATE

To: NAME
STREET ADDRESS
CITY, Etc.

The Auditor of State **[is auditing]** [has audited] [ENTITY NAME], [NAME] County for the period January 1, 201X through December 31, 201X +1.

Ohio Rev. Code § 117.28 requires the Auditor of State to issue a finding for recovery when “an audit report sets forth that any public money collected has been illegally expended, or that any public money collected has not been accounted for, or that any public money due has not been collected, or that any public property has been converted or misappropriated...”

A “Finding for Recovery” **[may be]** **[has been]** issued against you. Issuance of a Finding for Recovery constitutes a preliminary determination by the Auditor of State, in accordance with Ohio Rev. Code § 117.28, that you may be liable to a public office for **SELECT ONLY THE APPLICABLE CATEGORIES>>>** public monies illegally expended; collected but unaccounted for; due but not collected; for public property which has been converted or misappropriated. It does not constitute a final determination that such legal liability exists and is not an accusation of criminal misconduct. The **[proposed]** Finding for Recovery **would / will** be issued against you in the amount of \$XXX, and in favor of _____.¹⁵

We are **proposing / issuing** this Finding for Recovery for the following reason:

The Township Trustees approved NAME’s salary at \$XX.XX beginning [DATE] (\$XX.XX [PREVIOUS SALARY AND EFFECTIVE DATE]). Overtime pay at time and a half would be \$XX.XX for 201X (\$XX.XX for hours worked during the first pay of 201X at the 201X-1 rate). For the payroll checks issued 1/13/1X, 1/28/1X, 2/11/1X, 2/25/1X, 3/10/1X, 3/25/1X, and 5/27/1X Mr. NAME was paid \$XX.XX for overtime wages. Review of time sheets and payroll records indicated XX hours of overtime worked in 201X (XX hours in 201X-1). As a result, an overpayment of \$XX.XX occurred.

¹⁴ This example is both for proposed and approved findings for recovery. The **bold** red font language applies to **proposed** notices of findings. However, do not use red font in the letter you issue!

¹⁵ Primarily liable parties should be included in this paragraph as responsible parties. If payment is not received by the parties responsible, those secondarily liable are included in subsequent paragraph.

<u>Description</u>		<u>Rate</u>		<u>Total</u>
XX hours of overtime	x	\$X.XX per hour	=	\$XX.XX
XX hours of overtime	x	\$X.XX per hour	=	XX.XX
				<hr/> \$XX.XX
XX total hours of overtime paid	x	\$X.XX per hour	=	\$XX.XX
Overpayment				<hr/> \$ X,XXX

In accordance with the foregoing facts and pursuant to Ohio Rev. Code § 117.28, a Finding for Recovery for public monies illegally expended **may be / is** hereby issued against NAME in the amount of \$XXX.XX, and in favor of NAME OF GOVERNMENT NAME OF Fund, in the amount of \$XXX.XX.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which an illegal expenditure is discovered, is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.*, 120 Ohio St. 47 (1929); 1980 Op. Att’y Gen. No. 80-074; Ohio Rev. Code § 9.39; *State ex rel. Village of Linndale v. Masten*, 18 Ohio St.3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen.

[ENTITY TYPE] Officers signed the warrants resulting in improper payments. [GOVERNING AUTHORITY] NAME, NAME, NAME, and Fiscal Officer NAME, and their bonding company, NAME, will be jointly and severally liable in the amount of \$XXX and in favor of the NAME OF FUND from NAME.

[If a Finding for Recovery were to be issued, the] [The] Auditor of State shall, pursuant to Ohio Rev. Code § 117.28, forward a copy of the audit report containing this Finding For Recovery to the statutorily designated legal counsel for the public office, who then may institute legal proceedings to collect the amount due the public office. In addition, pursuant to Ohio Rev. Code § 117.30, a copy of the audit report will be certified to the Attorney General of the State of Ohio.

If the statutory legal counsel does not collect the amount due or pursue legal proceedings within one hundred and twenty days of receiving a certified copy of the audit report, the Ohio Attorney General may bring legal action to collect. In the event the Ohio Attorney General pursues collection, collection costs, statutory interest and fees may be assessed and added to the total amount of the finding in accordance with Ohio Rev. Code § 131.02. The Ohio Attorney General may assign the matter for collection and may hire special counsel to collect the debt as authorized by Ohio Rev. Code § 109.08.

DELETE THIS PARAGRAPH FROM NOTICES SENT TO BONDING COMPANIES>> In addition, pursuant to Ohio Rev. Code § 9.24, a person against whom an unresolved finding for recovery has been issued by the Auditor of State is precluded from receiving, from a state agency or political subdivision, a contract for goods, services, or construction, paid for in whole or in part with state funds. (This preclusion does not apply to employment contracts.)

This “Notice of Proposed Finding for Recovery” has been prepared to permit you to submit any relevant information to this office for consideration. Please submit such information, as well as any questions concerning this Proposed Finding for Recovery, within five business days of receiving this Notice, to the Auditor of State at the following address:

**GOOD GUY, CPA
Senior Audit Manager
AOS OFFICE ADDRESS**

If you wish to review the working papers on which the Proposed Finding is based, please contact me immediately to schedule an appointment. Reviewing the working papers, however, will not result in an extension of the time in which to respond.

Sincerely,

Dave Yost
Auditor of State

Additional Considerations

- Where a proposed finding for recovery has been paid in whole prior to the completion of the audit, the audit report finding should disclose the repayment as a “Finding for Recovery Repaid Under Audit.”
 - If repaid under audit, the finding is still written, and includes information regarding when the payment was received and how much was repaid.
- “Resolved” findings include (for example) those already repaid or for which a repayment plan has been approved. See Ohio Rev. Code § 9.24(B) for a complete list of resolved findings.
- Repayment plans require the entity and the party responsible for repayment (e.g. the entity, an employee or vendor) to draft an agreement/contract. The contract between the entity and the responsible party will be reviewed by the assigned regional AOS attorney who will then forward to the Attorney General for approval. [Ohio Rev. Code § 9.24(B)(2)] (See Attorney General approved agreement example at http://ohioauditor.gov/AG_Settlement-PaymentPlan.doc. Use of this example would allow the finding to be considered resolved.)

Upon approval by the Attorney General, the agreement will be returned to the assigned financial auditor for execution by the entity and the contracted individual. The executed original will be maintained in the audit workpapers and a copy will be saved in the finding folder on the AOS W:\ drive.

The agreement will be reviewed in the following period’s audit to verify the prior audit finding has been repaid or if the contractual terms of the repayment agreement are being met if the term of the agreement exceeds the audit period. If the terms of the agreement have not been met, the AOS auditor is to immediately contact the regional attorney, who will then bring the matter to the attention of the Attorney General. IPA auditors should email the regional chief auditor.

- Findings which have only been partially repaid and no payment plan has been approved are not considered ‘resolved’.
- If a Finding for Recovery is resolved prior to sending the *Notice of Proposed Finding*, do not send the letter.
- If the Finding for Recovery is resolved after the *Notice of Proposed Finding* is issued and prior to the release of the audit report, do not send a *Notice of Finding*.

- If the Finding for Recovery is resolved, the *Letter on Findings for Recovery* (addressed to the public office legal counsel) is not sent.
- Findings for recovery reported in the 20XX *Schedule of Findings* should be appropriately updated if resolved prior to report issuance.
 - Findings for recovery still unpaid or unresolved in the 20XX+1 audit period should be summarized on the *Schedule of Prior Audit Findings*.
 - If the Finding for Recovery remains unresolved in 20XX+2, it does not need to be included in the 20XX+2 audit period's *Schedule of Prior Audit Findings* unless there is a material financial statement impact related to 20XX+2.
- Where the amount of the finding for recovery may change prior to the release of the audit report, the auditor should date the amount. Example: "As of December 31, 20XX, this amount is \$X,XXX." In these instances, the method of calculating the amount should be stated in the audit report so that the amount can be calculated on the day of repayment.
- The Auditor of State does not generally issue Findings for Recovery where the amount in question aggregates¹⁶ \$500 or less. However, auditors should consult on all potential findings for recovery, regardless of the amount, with the AOS Legal Division and the Center for Audit Excellence (prior to pursuing) because in some cases, findings for recovery will be issued for amounts less than \$500. (Example: Theft in office, or disbursing public money for alcohol will always result in a finding for recovery per AOS Bulletin 2003-005, except as updated by AOS Bulletins 2014-002 and 003 and 2013 Op. Attorney Gen. No. 2013-023 which state that a county agricultural society may use moneys provided by the state, county, or "other sources" to acquire alcoholic beverages and a liquor permit to sell the beverages at an event that is open to the public and conducted on the society's or county's fairgrounds and retain the revenue derived from the sales, provided (1) the society's constitution and bylaws permit the expenditure; (2) the moneys to be expended are not required to be used for other purposes; and (3) the expenditure is reasonable. Therefore, expenditures for alcohol among agricultural societies meeting these conditions are allowable.) All findings for recovery are to be reported in the GAGAS report due to their significance. Potential findings for recovery that are not deemed findings for recovery during the consultation process due to falling below the amount threshold, will be reported in the Management Letter as non-compliance citations (not findings for recovery).
- Findings for Recovery are subject to specific documentation requirements. Any and all supporting documentation relied upon in issuing a finding for recovery is now required to be scanned and maintained. The following are examples of different types of documentation and instruction on how to properly document/maintain such information:
 - Bonds and Insurance Policies:
 - Where a finding for recovery is issued against an individual and that individual is bonded, include a copy of such bond.

¹⁶ For example, if five employees were all overpaid (for the same cycle-payroll for example) and they were each overpaid by \$100, then we would issue a finding for recovery because the payroll cycle had an aggregate of \$500 in findings for recovery (5 X \$100).

- Placing the bond in the permanent file is not sufficient. It must also be included in the finding for recovery documentation for each specific finding for recovery that names the bonded individual.
- Include any bond or insurance policy in existence. Although we will not name an insurance company that has issued a dishonesty policy, such policy may be helpful in the collection process.
- Administrative/Executive Policies:
 - When issuing a finding based on policy, ensure you copy that policy and include it in the supporting finding for recovery documentation.
 - Placing the policy in the permanent file is not sufficient.
- Summary:
 - Summaries are not admissible in court unless each and every document that makes up the summary is available for inspection. Any document used to compile a summary should be scanned and placed in the finding for recovery documentation.
- Minutes:
 - Minutes are utilized in the issuance of a finding for recovery to demonstrate when or if a specific act has (or has not) taken place. Those minutes are later utilized in litigation to demonstrate the same point.
 - When demonstrating an act occurred, it is sufficient to provide the minutes that reflect the act, along with pertinent resolutions.
 - When demonstrating an act did NOT occur, it is necessary to provide minutes for a time period to show action was not taken during that time. The time period will vary, depending on the circumstances surrounding the finding for recovery. AOS Auditors should consult your regional legal counsel for guidance in determining what time period is appropriate. IPA's auditors should email the regional chief auditor.
- Correspondence:
 - Include any and all correspondence and certified mail return receipt cards to the subject of the finding, including notice of proposed and finding letters to subjects and the notice of finding letter to the entity's statutory legal counsel. Additionally, include any rebuttal or response correspondence to the aforementioned letters.

This list of examples is not exhaustive. If there is other evidence the auditor has identified to corroborate the finding for recovery, please include any relevant evidentiary documents.

- If a government identifies a finding for recovery *before* the auditors do and the entity or individual repays the money before the audit report is issued, the auditor should not report the matter as a Finding for Recovery. If the amount is unpaid or only partially repaid, a Finding for Recovery is reported for the full amount and the amount that was repaid is listed. However, the auditor should evaluate the issue for other possible matters of audit interest, such as the possibility of fraud or reportable internal control weaknesses. Also, the matter might be a citation for an illegal expenditure of money or other violation of law. Conversely, the entity's identification and resolution of the matter may indicate the internal control structure is properly detecting and correcting errors, in which case the auditor might determine not to report the matter.

- The auditor should determine the amount of a finding for recovery during audit field work. The method used to calculate the amount must be clearly set forth in the working papers. Any partial payment or reimbursement made prior to completing the audit should be noted in the audit report with appropriate credit given when calculating the amount.
- If a finding for recovery is issued because public property has been converted or misappropriated, the amount of the finding should reflect the fair market value of the property at the time that it was discovered to be missing. The basis for determining this amount must be disclosed in the working papers.
- Although ALL AOS audit findings are referred to the AOS Legal Division for review, it is especially important to “red flag” and send findings that involve related party transactions, excess payments beyond the contract amount, grossly excessive contract amounts, and any documentation that appears to be fraudulent to the legal department for further evaluation as soon as they are identified. Additional information may be requested by the legal department for these types of findings for recovery.

Finding for Recovery Procedures for Independent Public Accountants (IPA)

Ohio Rev. Code § 117.12 prohibits IPAs from issuing Findings for Recovery. IPAs should report these matters exceeding \$500 (and any alcohol purchase¹⁷ and other findings for recovery determined by the Auditor of State, regardless of amount) as noncompliance findings, but they should not label them as *finding for recovery* and the finding should not state: “In accordance with the forgoing facts, and pursuant to Ohio Rev. Code § 117.28, a Finding for Recovery for public money collected but not accounted for (or illegally expended, etc.) is hereby issued against . . .”¹⁸

The following procedures apply to IPAs in instances where they determine a finding for recovery may be necessary.

- An IPA should NOT inform anyone other than the Auditor of State of possible Findings for Recovery either orally or in writing.
- As soon as the IPA has an indication there could be any Findings for Recovery, regardless of the amount, the IPA should contact the regional chief auditor.
- The IPA should provide the regional chief auditor with all relevant factual information, including supporting documentation and any repayment information for the Finding.
 1. For example, it is not sufficient to send AOS a testing spreadsheet alone. IPA's need to also submit copies of the relevant client records (including bond information) that support the IPA's testing spreadsheet.
- All potential Findings for Recovery, regardless of the amount, are required to be reviewed by the AOS Legal Division and the Center for Audit Excellence.

¹⁷ Except when all of the requirements in AOS Bulletins 2014-002 and 2014-003 are met regarding the re-sale of alcohol.

¹⁸ This is to comply with Ohio Rev. Code § 117.12 which states, “IPAs have no authority to make formal findings of illegality, malfeasance, or gross neglect under this division or section 117.23 of the Revised Code.”

- The regional chief auditor or designee should notify the Chief of Quality Assurance that a Finding for Recovery may be issued via ipareport@ohioauditor.gov. The Center for Audit Excellence will put a hold on the report until the finding is approved.
- The regional chief auditor or designee will prepare a preliminary Finding, along with any needed supportive documentation, and submit to the AOS Legal Division for approval.
- The Legal Division will approve the potential Finding as is, approve with modifications, disapprove, or request more information be submitted to evaluate the proposed finding.
- Once approved by the Chief Legal Counsel or designee, the regional chief auditor or designee should send the finding to the Center of Audit Excellence via the IPA specialty in Spiceworks for consultation.
- Once approved by the Legal Division and the Center for Audit Excellence, the regional chief auditor or designee will submit the *Notice of Proposed Findings* letters to the Legal Division for approval.
- After the Legal Division has approved the *Notice of Proposed Findings* letters, the regional chief auditor or his/her designee will obtain the limited waiver from the IPA¹⁹ and except for special audits conducted by the Public Integrity Assurance Team (PIAT) send the *Notice of Proposed Finding* to each individual named in the Finding for Recovery and the bonding company(ies).
 - In the case of a special audit conducted by PIAT, it may be necessary to delay notice to individuals about proposed findings until law enforcement or prosecuting officials approve release of this information.
- The applicable parties are normally given five days to respond. If they respond, the regional chief auditor should evaluate the response along with the Legal Division and decide whether to withdraw or modify the Finding.
- The regional chief auditor will send a copy of Legal Division's final approved finding to the Chief of Quality Assurance via ipareport@ohioauditor.gov for inclusion with the Acceptance Letter. The Chief of Quality Assurance, or designee, certifies the report with the Clerk of the Bureau.
- The regional chief auditor or designee will prepare and send the *Notice of Proposed Finding* and *Notice of Finding* letters to applicable parties, and any rebuttal or response correspondence to these letters via certified mail return and maintain receipt cards to/from the applicable party(ies) of the finding.
- The regional chief auditor or designee will send the *Notice of Finding* to each individual named in the Finding for Recovery and the bonding company(ies) upon releasing the report.

¹⁹ NOTE: Ohio Rev. Code § 4701.19 provides that an IPA's audit documentation remains the property of the IPA, even in the possession of the Auditor of State's office, and states that these materials are not public records available for public disclosure. However, we will request a limited waiver of this statutory provision after the AOS Legal Division has approved the proposed finding for recovery. This limited waiver will request the IPA to make audit documentation supporting the proposed finding for recovery available for inspection by the person named in the finding and legal counsel. This waiver will include only documentation directly related to the finding for recovery. Documents subject to the waiver will also become subject to public records disclosure.

- AOS Legal Division will send both the statutory legal counsel letters and the Attorney General letters.

IPAs should refer any matters involving possible criminal activities to the regional chief auditor and to the Chief of the Auditor of State's Public Integrity Assurance Team, who is a law enforcement officer.

In addition, independent public accountants are to make an immediate, written report of all ~~illegal acts or indication of illegal acts~~ non-compliance which may result in findings for recovery of which they become aware to the regional chief auditor.

Example Findings for Recovery

An example *finding for recovery* is included below:

Receipts issued for impounding fees by the County Dog Pound and Dog Warden totaled \$1,234 more than deposits made to the County Auditor. Ohio Rev Code § 9.39 states all "public officials are liable for all public money received or collected by them or by their subordinates under color of office."

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code § 117.28, a Finding for Recovery for public money collected but not accounted for is hereby issued against John Doe, County Dog Warden, and the Ace Insurance Company, his bonding company, jointly and severally, for \$1,234 and in favor of the County Dog and Kennel Fund.

(Note: Per the preceding discussion, IPAs would modify this finding by deleting the second paragraph and instead stating, for example, "We have referred this matter to the Auditor of State for resolution.")

Responsibility for Paying Findings for Recovery: Strict Liability Laws

Public officials are strictly liable to account for public funds entrusted to their care. "Strict liability" means a person may be found liable for the loss even though he or she may not have been personally at fault. Also, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. Mere unidentified shortages of public moneys, or such an illegal expenditure, are sufficient reasons for a Finding for Recovery against such a public official.

Thus, public officials (including fiscal officers) must be aware of their role in approving expenditures and safeguarding amounts collected, and take steps to prevent mistakes, errors or omissions resulting in the loss of public funds. In the context of an AOS audit, both the supervising/approving officer or employee and the fiscal officer may be liable for such losses, and may therefore be included as a party liable for repaying a *finding for recovery*, even if they did not personally account for the transaction. The Auditor of State issued AOS Bulletin 2010-001 clarifying this policy for county officials. However, general concepts included in the Bulletin apply to all public offices.

When a public official (including fiscal officers) is named in a finding for recovery based on the strict liability laws, auditors should modify the wording of the Finding accordingly. An example follows:

Joe's Service Business, Inc. improperly submitted invoices for, and had expenditures paid on its behalf, of \$125,000 in excess of the amounts City's Council authorized.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code § 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Joe's Service Business, Inc. and in favor of the City of Anyplace, in the amount of \$125,000. (←Regardless whether the finding was paid or not, this language must be included.)

Fifteen thousand dollars of the net expenditures of \$125,000 illegally paid to, or on behalf of, Joe's Service Business occurred when Jim Smith was the City Finance Director, and \$110,000 of these net illegal expenditures occurred when Bill Wilson was the City Finance Director.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. Seward v. National Surety Corp., 120 Ohio St. 47 (1929); 1980 Op. Atty. Gen. No. 80-074; Ohio Rev. Code § 9.39; State ex rel. Village of Linndale v. Masten, 18 Ohio St. 3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. See 1980 Op. Atty. Gen. No. 80-074. (←Remove this paragraph if the finding was repaid under audit.)

Jim Smith and Bill Wilson and their bonding company Ace Insurance Corp. will be jointly and severally liable in the amount of \$15,000 and \$110,000, respectively, and in favor of the City of Anyplace. (←Remove this paragraph if the finding was repaid under audit.)

If repaid or partially repaid under audit, include details regarding when and how much was repaid.

Referring Audit Reports

When an audit report includes a noncompliance citation which falls under the jurisdiction of a particular state agency, it often is desirable to refer a copy of the released audit report to the agency. Reports may also be referred to the Attorney General under the authority of Ohio Rev. Code § 117.42, which empowers the Attorney General, at the request of the Auditor of State, to undertake appropriate action to secure compliance with the laws by a public office.

Ohio Rev. Code § 117.27 also requires the Auditor of State to provide a certified copy of the audit report to any officer required by state law, municipal or county charter, or municipal ordinance to act as legal counsel to the officers of the public office. If no officer is required by state law, municipal or county charter, or municipal ordinance to act as legal counsel, a copy shall be filed with the prosecuting attorney of the county within which the fiscal office of the public office is located. Field auditors who prepare reports containing Findings for Recovery should include the appropriate statutory legal counsel and the local prosecutor's office on the recipient spreadsheet submitted to the Clerk of the Bureau.

Referring Findings for Recovery to the Attorney General

Ohio Rev. Code § 117.28 requires the Auditor of State to notify the Attorney General of Findings for Recovery, whether or not repaid before the audit report's release. Letters are automatically sent by the Auditor of State's Legal Division when Findings for Recovery are reported during report submission.

Referrals to the Ethics Commission, Other State Agencies, and the IRSEthics Commission

All potential ethics law violations and supporting documentation (i.e. meeting minutes and payments) are to be submitted to the Auditor of State Legal Division. After review, the Auditor of State Legal Division will make appropriate referrals. The Audit Division should consult with the Legal Division in determining how or if to report this matter.

IRS, Ohio Department of Taxation, School Teachers Retirement System, and OPERS Comments

The Internal Revenue Service²⁰, the Ohio Department of Taxation²⁰, School Teachers Retirement System and the Ohio Public Employees Retirement System have requested that we notify them when AOS issues reports (in the case of the IRS, School Teachers Retirement System and Taxation, also management letters) containing comments or findings pertaining to their respective agencies. The Auditor of State has agreed to these requests. Auditors and the Center for Audit Excellence should send a copy of the released report or management letter, including the number of the finding related to the referral to Referrals@ohioauditor.gov. The Center for Audit Excellence division will notify these agencies via email based upon being informed by either Auditor of State regional auditors or the Center for Audit Excellence division that such reports (or management letters) exist.

Ohio Department of Education

Per Ohio Rev. Code § 3313.30(A), if the Auditor of State or a public accountant, under Ohio Rev. Code § 117.41, declares a school district to be unauditible, the Auditor of State shall provide written notification of that declaration to the district and the department of education. The Auditor of State also shall post the notification on the Auditor of State's web site (https://www.ohioauditor.gov/publications/Unauditible_list.pdf).

Ohio Secretary of State

1. Per Ohio Rev. Code §1724.06 and §1726.12, the Auditor of State must notify the Secretary of State when a community improvement corporation (including economic development corporations and county land reutilization corporations) or development corporation fails to file with the Auditor of State within 90 days of the statutory filing date (i.e. 210 days after the end of the reporting period) or within 90 days of an unauditible declaration by the Auditor of State.

The Auditor of State's Hinkle System manager will receive notification from the System if a corporation fails to file within 90 days of the statutory filing date (i.e. 210 days) and will prepare correspondence from the Chief Deputy Auditor (or designee) to notify the Secretary of State's designated contact of the statutory requirement to cancel each non-compliant corporation's articles of incorporation. This correspondence will also be provided to the applicable regional chief auditor(s).

²⁰ When available, please include the Federal Identification Number (FEIN) when submitting referrals to the AOS referral box. In lieu of this information, provide the client contact and address.

If a corporation is declared unauditible and fails to file within 90 days of the declaration, the regional chief auditor must notify Chief Deputy Auditor (or designee) to notify the Secretary of State's designated contact of the statutory requirement to cancel the corporation's articles of incorporation. A copy of this correspondence will be provided to the applicable regional chief auditor.

2. Per Ohio Rev. Code § 1702.57 "No person shall exercise or attempt to exercise any rights, privileges, immunities, powers, franchises, or authority under the articles of a domestic corporation after such articles have been canceled or after such corporation has been dissolved or after the period of existence of the corporation specified in its articles has expired."

If a community improvement corporation (including an economic development corporations and county land reutilization corporations), created under Per Ohio Rev. Code §1702 and §1724, is cited for noncompliance with Ohio Rev. Code § 1702.57, a notification email will automatically be generated at the time the audit report is issued to the Secretary of State office's designated contact.

Referrals to Other Agencies

When referring an audit report to any other State or Federal agency, the regional audit office will prepare and send the referral. The Regional office will also notify the Auditor of State's Legal Division of the referral prior to sending the referral. The regional office should retain a copy of the cover letter. Currently, there is no requirement to send referral to School Employees Retirement System, and Ohio Police & Fire. We should also not send a referral letter when (1) the audit report already describes the problem and (2) we are certain the person we are sending the letter to is on the audit report distribution list.²¹

²¹ ODE's attorney for the community school division is automatically sent a copy of all community school reports when they are released (whether they contain referrals or not). Therefore, no further referrals to ODE for community schools are necessary.

Appendix A – Budgetary and Certain Related Requirements (Applies to Chapter 1 Section A)

The Ohio Constitution provides certain local governments the power to tax. The budgetary process is a plan to coordinate expenditures and resources. The State Legislature has adopted laws to control expenditures using tax budgets and appropriations.

The Auditor of State believes budgeting, properly used, provides the most important monitoring control a government has. *It is impossible to incur a cash deficit if a government complies with the budgetary law!* Additionally, the budget is an instrument of public policy: a governing board expresses its desires for using a government’s limited resources through its appropriations.

Exhibit 5 includes matrices showing the applicability of this chapter’s requirements to various governmental types.

Legal Level of Budgetary Control

Government Accounting, Auditing, and Financial Reporting defines the “legal level of budgetary control” as “the level at which spending in excess of budgeted amounts would be a violation of law.” In Ohio, the legal level of control is the level at which the local government’s legislative authority passes the appropriation measure.

Ohio Rev. Code § 5705.38(C) requires the following minimum level of budgetary control for “subdivisions” other than schools: “Appropriation measures shall be classified so as to set forth separately the amounts appropriated for each office, department, division, and, within each, the amount appropriated for personal services.”

Ohio Admin. Code 117-6-02 requires schools to appropriate at least at the fund level. Governments may adopt more stringent legal levels of budgetary control if they wish.

Because Ohio Admin. Code 117-2-02(C)(1) permits governments to adopt more stringent legal levels of control than the aforementioned laws require, it is possible for the level to vary from entity to entity, or even from fund to fund within an entity. However, once established by the local government, the legal level of control should be the same throughout the fiscal year. As such, this is the level auditors should use to test compliance.

Governments following generally accepted accounting principles or an Other Comprehensive Basis of Accounting (OCBOA, or “other financial reporting frameworks”) must comply with the following budgetary presentation requirements from GASB Codification 2400.103 -- .105:

.103 Governments may present the budgetary comparison schedule using the same format, terminology, and classifications as the budget document, or using the format, terminology, and classifications in a statement of revenues, expenditures, and changes in fund balances. Regardless of the format used, the schedule should be accompanied by information (either in a separate schedule or in notes to RSI) that reconciles budgetary information to GAAP information, as discussed in this section and in Section 1700. Notes to RSI should disclose the budgetary basis of accounting and excesses of expenditures over appropriations in individual funds presented in the budgetary comparison, as discussed in Section 2300, "Notes to Financial Statements," paragraph .106 [NCGAI 6, ¶5; GASB Statement No. 34, ¶131; GASB Statement No. 37, ¶19]

.104 Where financial statements prepared in conformity with GAAP do not demonstrate finance-related legal and contractual compliance, the governmental unit should present such additional schedules and narrative explanations in the comprehensive annual financial report as may be necessary to report its legal compliance responsibilities and accountabilities. In extreme cases, preparation of a separate legal-basis special report may be necessary. [NCGAS 1, ¶12]

Comprehensive Annual Financial Reports

.105 The comprehensive annual financial report (CAFR) should include budgetary comparison schedules for individual non-major special revenue funds and other governmental funds of the primary government (including its blended component units). [NCGAS 1, ¶139 and ¶155, as amended by GASB Statement No. 14 and GASB Statement No. 34, ¶130]

There is no prescribed minimum for reporting budget-versus-actual information for governments using the Auditor of State's Regulatory cash-basis financial reports. These reports routinely present this information at an aggregated level (i.e. combined fund type) as footnote disclosures. However, auditors should still test legal compliance at the legal level of budgetary control.

Other sources of Guidance: In addition to this OCS Chapter, Section D.IV of the AOS' *Ohio Township Handbook* and Chapter 3 of the AOS' *Village Officer's Handbook* include many questions and answers related to Ohio Rev. Code Chapter 5705 requirements. You can access these publications at www.ohioauditor.gov then click on *Resources* and then *Publications & Manuals/Manuals*.

Also note: Virtually all Ohio Rev. Code Chapter 5705 requirements applicable to *subdivisions* apply to municipalities that have adopted a charter under Article XVIII, § 7 of the Ohio Constitution. (See 5705.01(A) & (B).)

APPENDIX A-1 Transfers and Advances (Applies to Chapter 1 Section A)**Transfers Defined**

Questions sometimes arise about what constitutes a *transfer* per Ohio Rev. Code §§ 5705.14, 5705.15, and 5705.16. Therefore, the AOS has developed this appendix to assist auditors in determining the proper accounting and legal noncompliance reporting treatment for transfers.

This guidance is non-authoritative. It is the AOS's interpretation of Ohio Rev. Code §§ 5705.14, 5705.15, and 5705.16 requirements. Where conflicts arise, AOS will defer to well-reasoned opinions of legal counsel.

Fund accounting segregates legally restricted resources. Therefore, transferring cash restricted for one purpose to a fund with a different restricted purpose potentially permits spending the transfer in violation of its restricted purpose. Ohio Rev. Code §§ 5705.14 - .16 attempt to prevent these violations.

Not all interfund transactions are *transfers*, therefore, not all interfund transactions are subject to Ohio Rev. Code §§ 5705.14 - .16. *Cash transfers* are not defined in the Ohio Rev. Code. Therefore, auditors must rely on common-use definitions.

GASB Cod. 1800.102 defines transfers as “flows of assets (such as *cash* or goods) without equivalent flows of assets in return and without a requirement for repayment.” In other words, a transfer is a nonreciprocal (i.e. ***nonexchange transaction***) from one fund to another. It might be useful to think of transfers as “gifts” from one fund to another.

Some Transactions That Might Not Be Transfers***Intrafund Appropriation Transfers***

Certain transactions do not qualify as transfers as contemplated by Ohio Rev. Code §§ 5705.14 - .16 and GASB Cod. 1800. For example, *intrafund* appropriation “transfers” are not transfers because there is no cash transaction. Intrafund appropriation “transfers” amend spending authority for one appropriation account and increase another account by the same amount, ***within the same fund***.

Interfund services provided and used

“Interfund services provided and used,” as defined in GASB Cod. 1800.102, also do not qualify as transfers. GASB classifies Interfund services provided and used as ***exchange transactions***, related to services “purchased and sold” between funds. Most payments to internal service funds, as described in GASB Cod. C50.130, are examples of interfund services provided and used.

Subdivisions should report these transactions as disbursements in the paying fund (i.e., charge the function, etc. benefiting from the exchange) and receipts in the fund providing the service or asset, etc. Subdivisions should not classify these as *transfers*; rather, they are often *charges for services*. These transactions are also not *transfers* under Ohio Rev. Code §§ 5705.14 - .16 because, ***presumably***, a fund is paying for a service that does not violate its restricted purpose. However, if a payment does violate a restriction, then auditors should cite noncompliance (*subject to Findings for Adjustment as discussed in this OCS Implementation Guide*).

Important: Auditors should also be alert for payments classified as *interfund services provided* or *used* far exceeding a reasonable value of the exchange. Excessive amounts are not payments for services; they are “gifts” (i.e. transfers). For example, the general fund may charge utility funds for billing and other administrative services. If these costs arise, auditors should determine that the charges are reasonable in relation to the salaries and other costs incurred. Also, a subdivision should base an insurance internal service fund charges for services (or *interfund premiums* or other reasonably-descriptive revenue caption) upon an actuarial measurement or other method C50 permits. These charges may include an additional amount for a *reasonable*/prudent cushion. Subdivisions should record any charges *unreasonably* exceeding these amounts as *transfers*, subject to Ohio Rev. Code §§ 5705.14 - .16. Determining *reasonable* in both examples above requires careful judgment. We normally should question only significant, unsupportable amounts.

Interfund Loans/Advances

GASB Cod. 1800.102 classifies “interfund loans” as exchange transactions, because they require repayment in an equal amount. However, auditors should note that a *reasonable* interest charge is permissible. Under GAAP, interfund loans are always fund liabilities, regardless of maturity. Also, AOS regulatory-basis entities should *disclose* interfund payables/receivables, if significant. The Ohio Rev. Code does not provide for interfund loans; therefore, the AOS Bulletin 1997-003 (Chapter 1 Section 1-7), permitting *advances*. OCS Chapter 1 Section 1-7 requires:

- Any advance must be clearly labeled as such, and must be distinguished from a transfer.
- In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash for the same purpose for which the fund receiving the cash was established.
- The debtor fund may repay advances from the creditor fund. That is, the AOS would not deem repaying advances to violate restrictions on use of the debtor’s fund resources.
- When a fund ends the year with negative cash, it is not appropriate to present an advance on the budgetary statement to eliminate the negative cash fund balance.
- An allowable advance should not violate restrictions on resource use.

AOS does not believe advances satisfying these requirements require court approval under Ohio Rev. Code § 5705.16. *However, advances do require a formal resolution by the taxing authority.* On a cash basis, subdivisions should classify the cash payment/repayment as *advances out / in*, not *transfers*.

Under GASB Cod. 1800.102, if repayment is not expected within a reasonable time, the interfund loans should be reduced and the amount that is not expected to be repaid should be reclassified (i.e. reported) as a *transfer* from the fund that made the loan to the fund that received the loan. Therefore, like any other receivable, auditors should consider whether interfund loans are properly valued (i.e. collectible). When reclassified as a *transfer*, the transfer(s) must satisfy all requirements included in Ohio Rev. Code §§ 5705.14 - .16 retroactively (appropriation, board resolution, court approval, etc.).

Note: Subdivisions can also sell securities between funds pursuant to Ohio Rev. Code § 133.29. This is commonly known as “manuscript debt.” These sales and subsequent repayments are not “transfers”. (Refer to Chapter 1 for additional compliance guidance and audit steps applicable to manuscript debt.)

Interfund Reimbursements

GASB Cod. 1800.102 defines “Interfund Reimbursements” as “repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them.” However, under the terms of Ohio Rev. Code § 5705.10, such reimbursements would be illegal transfers (*subject to possible Finding for Adjustment*) **if** the fund initially paying violated restrictions on its resource use.

Also, GASB states that “reimbursements should not be displayed in the financial statements.” This means that subdivisions should not use a **reimbursement** caption in a statement of activities / changes in fund balance, etc. It is generally preferable to **advance** money per AOS Bulletin 1997-003; however, advances may not always be possible. FEMA grants often require reimbursements, so they provide a useful reimbursement example subdivisions sometimes encounter. AOS Bulletin 1998-013 describes other acceptable alternatives to treating these transactions as a **reimbursement** on the face of the financial statements. While this Bulletin is specific to FEMA grants, subdivisions can generally apply the guidance therein to any reimbursement transaction.

Transfers Clarification:

Allocation of Unrestricted Receipts to Restricted Funds

Once a government deposits unrestricted money into a fund with a restriction, it *is* restricted money subject to Ohio Rev. Code §§ 5705.14 - .16. For example, a subdivision may have enacted a resolution allocating unrestricted income taxes to a permanent improvement fund. Once the income tax fund receipts the income taxes collected under this authority, the income tax money is now restricted to permanent improvements.

Audit Adjustments

Audit adjustments, including Findings for Adjustment, adjust fund cash balances. However, even if subdivisions used the “transfers in/out” line-item to post audit adjustments into their financial statements, audit adjustments are *not* transfers subject to Ohio Rev. Code §§ 5705.14 - .16. Audit adjustments are corrections to restore cash to funds **permitted** to spend it. Therefore, audit adjustments should never result in cash being spent contrary to its restricted purpose.

Governing board approval

Ohio Rev. Code § 5705.14 requires a resolution of the taxing authority passed by an affirmative vote of two-thirds of the members (except a simple majority is sufficient for transfers from the general fund). Sometimes, subdivisions fail to obtain the required approval prior to making transfers. Auditors should cite noncompliance for all unapproved transfers; however, there is no need to issue a Finding for Adjustment if the transfer(s) is(are) otherwise allowable under statute. **Meaning, AOS will not require local governments to reverse the effects of unapproved transfers in their financial statements or accounting systems if local governments otherwise possessed statutory authority to make such transfers. For example, we will not require a finding for adjustment for an unapproved transfer from the general fund to the food service fund because Ohio Rev. Code § 5705.16 expressly permits this transfer. However, we would issue a noncompliance citation in this example because Ohio Rev. Code § 5705.14 requires approval by the governing board.**

Ohio Rev. Code §§ 5705.14 - .16 do not provide for retroactive approval of transfers. Therefore, subdivisions cannot retroactively approve transfers after auditors bring them to their attention in an attempt to eliminate the noncompliance citation.

Transfers to Debt Service Funds

Debt issued under the authority of Ohio Rev. Code Chapter 133 must be retired through a governmental Debt Service Fund type. Other types of debt may generally be retired within other fund types. *However, a separate account, special cost center, etc. should be used to separately track the sinking fund requirements.* Typically, it is preferable to retire the debt within the fund type that will be generating the revenues legally obligated to make the debt service payments.

For example, assume sewer fund debt covenant mandates a sewer debt service fund. Assume the covenant mandates periodic transfers from the sewer operating fund to the sewer debt service fund. These transfers are not subject to Ohio Rev. Code §§ 5705.14 - .16 because these transfers *fulfill* rather than *violate* restrictions on using the money. Therefore, auditors should not cite noncompliance for “transfers” to a debt service fund if this is an appropriate use of the money in the fund making the “transfer.” Subdivisions should record these transactions as *transfers* in their financial statements and make the appropriate disclosures described below.

Transfer Disclosure Requirements

GASB Statement No. 38 ¶ 15 (Codification 2300.106 and .127) requires the following disclosures for *transfers*:

- A general description of the principal purposes of interfund transfers.
- The intended purpose and the amount of significant transfers that meet either or both of the following criteria:
 - Do not occur on a routine basis—for example, a transfer to a wastewater enterprise fund for the local match of a federal pollution control grant.
 - Are inconsistent with the activities of the fund making the transfer—for example, a transfer from a sewer operating fund to the debt service fund (*because the subdivision mistakenly believed it was required to establish a separate governmental debt service fund to retire the non-Chapter 133, sewer-related debt*).

APPENDIX A-2 Direct Charges (Applies to Chapter 1 Section A)

DIRECT CHARGES

(i.e. payments not requiring fiscal officer certification / encumbering)

The AOS interprets Ohio Rev. Code §§ 5705.41 and 5705.46²² to authorize direct charges (certification/encumbering under 5705.41(D)) is not required).

Per Ohio Rev. Code § 5705.41(D)(3) , “Contract” as used in this section excludes current payrolls of regular employees and officers. Therefore, the following payroll-related costs do not require certification:

- Salaries
- Employers’ Retirement Contributions
 - Ohio Public Employees Retirement System
 - Social Security
 - Medicare
 - Volunteer Firemen’s Dependents Fund
 - Ohio Police and Fire Pension Fund
 - Other Employer’s Retirement Contributions
- Employee Fringe Benefits
 - Workers’ Compensation
 - Unemployment Compensation

The following items do not involve a contract, therefore, do not require certification:

- Tax Collection Fees – Expenses and fees as deducted by the county auditor, county treasurer and the state department of taxation for the collection and administration of taxes including advertising for delinquent taxes (Updated definition to include advertising for delinquent taxes).
- Taxes and Assessments – General property taxes paid on newly acquired real estate and assessments paid on real property. Also included are state sales taxes collected on items sold of a taxable nature and later paid to the state.
- Election Expenses – Election expenses deducted by the county auditor
- Deposits Refunded – Utility Deposits Refunded
- Deposits Applied – Utility Deposits Applied

The following items require board action; therefore, do not require certification:

- Transfers
- Advances

Payments from the utility operating fund do not require certification. (However, payments from utility grant funds DO require certification per Ohio Rev. Code § 5705.44.)

²² AOS interprets payroll to include Salaries, Employer’s Retirement Contributions, Worker’s Compensation, and Unemployment Compensation.

Note: *Advertising and payments to another political subdivision* require a certification because direct charges are not allowed.

Advertising – Includes expenses for publication of official notes, ads, legal advertising in newspapers and periodicals.

Payment to Another Political Subdivision – Payments made to another political subdivision for contracted services provided to the township, such as fire protection, county health fees, police services, EMS, garbage and refuse.

APPENDIX B – Contracts and Expenditures (Applies to Chapter 2 Section B)

In addition to using tax budgets and appropriations to control expenditures, there are several specific laws concerning contracts and the expenditure of public money. Some of these laws are in the Ohio Rev. Code, while others are in local governments' charters, ordinances, and resolutions. Therefore, prior to auditing these requirements, the auditor should determine what the legislative authority's powers and restrictions are in relation to contracts and expending public money.

APPENDIX C – Debt (Applies to Chapter 1 Section C)

The power of a taxing authority to incur debt for public purposes is a power of local self-government provided by the Ohio Rev. Code through Chapter 133, the Uniform Public Securities Law. In addition, the taxing authority's charter, ordinances and resolutions may place further restrictions (or, in the case of a charter, fewer restrictions) on the taxing authority's power to incur debt.

In issuing debt, many governments either engage bond counsel or use a local financial institution to advise them regarding compliance with debt-related laws. Using legal counsel experienced with debt compliance can help a government meet Ohio Rev. Code Chapter 133 (and other requirements.) Auditors should consider this when determining the nature and extent of testing in this area.

Note: There are many Revised Code Sections authorizing governmental debt, in addition to Chapter 133. Many requirements from other chapters refer to, and require compliance with certain Ohio Rev. Code Chapter 133. It is impractical to describe every Rev. Code debt requirement in the OCS. Chapter 1 Section C focuses on some of the most common requirements applicable to local government securities. **However, auditors may need to refer to other Ohio Rev. Code sections, and amend the steps in OCS Chapter 1 Section C for debt issued under other Ohio Rev. Code sections.**

POSSIBLE NONCOMPLIANCE RISK FACTORS:

Note: In assessing the risk of noncompliance, auditors should consider whether the government has utilized the assistance of bond counsel for all debt issuances. Typically, bond counsel will evaluate (and possibly opine) on a government's compliance with certain laws and regulations related to debt *issuance*. An opinion or evaluation by bond counsel may lower the risk of noncompliance pertaining to recent debt *issuances*. However, an opinion from bond counsel will not mitigate the risk of noncompliance relating to covenants, debt retirement or reporting related to transactions or events occurring *after* the debt's issuance.

For example: where bond counsel was involved with debt issues we are testing, we usually can rely on documents they have prepared or opined on, as evidence that legislation authorizing the securities complies with statute. However, bond counsel would not "audit" the government's *subsequent* compliance with requirements. For example, we would not expect bond counsel to determine how the government accounted for debt proceeds or whether the proceeds were spent for authorized purposes.

APPENDIX C-1 Tax and Revenue Anticipation Notes (Applies to Chapter 1 Section C)

Tax and Revenue Anticipation Notes			
Ohio Rev. Code § and Entities to which it applies	Purpose	Reference to Ohio Rev. Code § 133.10	Reference to Ohio Rev. Code § 133.24
<p>§ 118.17. Issuance of local government fund notes (during fiscal emergency)</p> <p>Municipal corporation, county, or township (during fiscal emergency periods)</p>	<p>Current operating expenses the commission approves</p>	<p>§ 118.17(C)(3) states, in part, “Current revenue notes” means debt obligations described in 133.10 or Chapter 5705 of the Ohio Rev. Code or any other debt obligations issued to obtain funds for current operating expenses.”</p>	<p>No</p>
<p>§ 118.23. Current revenue notes issued during fiscal emergency</p> <p>Municipal corporation, county, or township (during fiscal emergency periods)</p>	<p>Current operating expenses the commission approves</p>	<p>§ 118.23(A) states “This section shall be applicable to current revenue notes approved by the financial planning and supervision commission or, when authorized by the commission, the financial supervisor pursuant to § 118.15 of the Ohio Rev. Code and issued by a municipal corporation, county, or township pursuant to § 133.10 of the Ohio Rev. Code and this section during a fiscal emergency period.”</p> <p>§ 118.23(G) states “ Current revenue notes of a municipal corporation, county, or township issued during a fiscal emergency period may mature on or before the thirty-first day of December of the calendar year in which issued, may, when issued in anticipation of the collection of current tax revenues, anticipate one-half of the amount that the budget commission estimates the subdivision will receive from all property taxes that are to be distributed to the subdivision from all settlements of taxes that are to be made in the remainder of that year, other than taxes to be received for the payment of debt charges, and less all advances, and may, if issued during the last two months of the calendar year in which the fiscal emergency period commenced, anticipate one-half the estimated amount of ad valorem property taxes levied in that year for the tax budget of the following year which were authorized to be levied by the municipal charter or otherwise authorized by vote of the electorate of the municipal corporation, county, or township and may mature not later than the thirty-first day of December of the year following the year in which such notes are issued,</p>	<p>No</p>

Tax and Revenue Anticipation Notes			
Ohio Rev. Code § and Entities to which it applies	Purpose	Reference to Ohio Rev. Code § 133.10	Reference to Ohio Rev. Code § 133.24
		notwithstanding (i.e. in spite of) section 133.10 of the Ohio Rev. Code.”	
<p>§ 118.24. Advance tax payment notes (during fiscal emergency)</p> <p>Municipal corporation, county, or township (during fiscal emergency periods)</p> <p>Note: <i>Advance tax payment notes</i> are not common, but involve a taxpayer prepaying taxes. In return, the government issues a note to the taxpayer. The face amount of the note = the tax prepayment + interest the government credits to the taxpayer over the life of the note. Therefore, these are discount notes. The taxpayer receives credit for the prepayment + accrued interest upon redemption.</p>	For purposes the commission approves per § 118.15	<p>§ 118.24(H) states, “As used in this section <i>interest factor</i> means the amount calculated based on an interest rate, as determined by the fiscal officer as of the date of such note, that would have been paid by the municipal corporation, county, or township on current tax revenue notes, maturing in six months, issued on that date pursuant to § 133.10 of the Ohio Rev. Code. The face amount of the note less the amount of the advance tax payment made in the purchase of such note, shall be and shall be deemed to be interest paid and received on such note.”</p> <p>§ 118.24(I) states “The aggregate principal amount of advance tax payment notes, together with the aggregate principal amount of any current revenue notes issued under § 133.10 of the Ohio Rev. Code in anticipation of ad valorem property taxes for the same year that are outstanding at the time of issuance, shall not exceed one-half of the amount that the budget commission estimates the municipal corporation, county, or township will receive from all property taxes that are to be distributed to the municipality from all settlements of taxes that are to be made in the remainder of that year, after subtracting from such amount advances thereon and property taxes to be received for the payment of debt service on debt obligations or to be deposited with a fiscal agent as provided in § 118.20 of the Ohio Rev. Code.”</p>	No
<p>§ 306.49. Annual tax levy; purpose</p> <p>Regional Transit Authority</p>	Current expenses (§ 133.10) or Permanent improvements (§ 133.24)	§ 306.49(A) States in part: “[t]he regional transit authority may borrow money in anticipation of the collection of current revenues as provided in § 133.10 of the Ohio Rev. Code.”	§ 306.49(A) <i>also</i> states, in part, “. . . the regional transit authority may levy upon the property within its territorial boundaries a tax, for all purposes other than bond debt charges, not in excess of five mills annually on the total value of all property as listed and assessed for taxation for any period not exceeding ten years. Such election shall be called, held, canvassed, and certified in the same manner as is provided for elections held pursuant to § 5705.191 of the Ohio Rev. Code (Refers to Ohio Rev. Code § 133.24. See separate description for § 5705.191 below). On approval of such a levy, notes may be issued in anticipation of the collection of the proceeds thereof, in the amount and manner and at the

Tax and Revenue Anticipation Notes			
Ohio Rev. Code § and Entities to which it applies	Purpose	Reference to Ohio Rev. Code § 133.10	Reference to Ohio Rev. Code § 133.24
			times as are provided in § 5705.193 of the Ohio Rev. Code.” (this section refers to § 133.24 and is for permanent improvements).
§ 1545.21. Election of tax levy for use of district; anticipation bonds Park District	Acquiring and improving land	No	§ 1545.21(B) states, in part, “When a tax levy has been authorized as provided in this section or in § 1545.041 of the Ohio Rev. Code, the board of park commissioners may issue bonds ²³ pursuant to § 133.24 of the Ohio Rev. Code in anticipation of the collection of such levy, provided that such bonds shall be issued only for the purpose of acquiring and improving lands.”
§ 3313.483. Closing or delaying opening for financial reasons prohibited; plan for implementing reductions; loans agreement School District	Permits obtaining various types of debt, including “§ 133.10 notes,” up to the amount of the deficit the AOS certifies.	§ 3313.483(E)(4) states, “Pursuant to the terms of such a loan, a board of education may issue its notes in anticipation of the collection of its voted levies for current expenses or its receipt of such state funds or both. Such notes shall be issued in accordance with division (E) of § 133.10 of the Ohio Rev. Code and constitute Chapter 133 securities to the extent such division and the otherwise applicable provisions of Chapter 133. of the Ohio Rev. Code are not inconsistent with this section, provided that in any event § 133.24 and § 5705.21 and divisions (A), (B), (C), and (E)(2) of § 133.10 of the Ohio Rev. Code do not apply to these notes.”	No
§ 3318.052. Payment of district’s portion of basic project cost from available tax proceeds; credits; issuance of securities School District	Permanent improvement levy for a stated number of years, per § 5705.21 or 5705.218	No	§ 3318.052 (E) states, in part, that a school district board may, “Issue securities to provide moneys to pay all or part of the district’s portion of the basic project cost of its classroom facilities project in accordance with an agreement entered into under division (A) of this section. Securities issued under this section shall be Chapter 133. securities and may be issued as general obligation securities or issued in anticipation of a school district income tax or as property tax anticipation notes under § 133.24 of the Ohio Rev. Code.”
§ 3381.16. Tax levy upon affirmative vote; authorized uses of funds; anticipation notes and borrowing; resubmission of levy Regional Arts and Cultural District	To grant money to other arts and cultural organizations or for the District’s operating or capital asset costs.	§ 3381.16(A) states in part: The district may borrow money in anticipation of current revenues as provided in § 133.10 of the Ohio Rev. Code.”	§ 3381.16(A) also states, in part, “On approval of such a levy, notes may be issued in anticipation of the collection of the proceeds thereof, in the amount and manner and at the times as are provided in § 5705.193 of the Ohio Rev. Code, (This section refers to § 133.24 and is for permanent improvements) for the issuance of notes in anticipation of the

²³ Ohio Rev. Code § 1545.21(B) mentions a bond issuance per Ohio Rev. Code § 133.24. However, § 133.24 only refers to notes. We will not object to the legal form of the debt if the government follows the advice of their legal or bond counsel.

Tax and Revenue Anticipation Notes			
Ohio Rev. Code § and Entities to which it applies	Purpose	Reference to Ohio Rev. Code § 133.10	Reference to Ohio Rev. Code § 133.24
§ 4582.14. Tax levy; anticipatory notes Port Authority	Any allowable port authority expense including debt charges.	§ 4582.14 states, in part, “The port authority may borrow money in anticipation of the collection of current revenues as provided in § 133.10 of the Ohio Rev. Code.”	proceeds of a tax levy.” § 4582.14 <i>also</i> states, in part, “. . . the port authority may levy upon the property within its jurisdiction a tax, for all purposes including bond debt charges, not in excess of one mill annually on the total value of all property as listed and assessed for taxation for any period not exceeding five years, except that when the tax is for the payment of bond debt charges, such tax shall be for the life of the bond indebtedness. On approval of such a levy, notes may be issued in anticipation of the collection of the proceeds thereof, other than the proceeds to be received for the payment of bond debt charges, in the amount and manner and at the times as are provided in § 5705.193 of the Ohio Rev. Code (this section refers to § 133.24 and is for permanent improvements), for the issuance of notes by a county in anticipation of the proceeds of a tax levy.”
§ 4582.40. Tax levy to provide necessary funds Newly created port authorities	Any allowable port authority expense including debt charges.	§ 4582.40 states, in part, “. . . The port authority may borrow money in anticipation of the collection of current revenues as provided in § 133.10 of the Ohio Rev. Code.”	§ 4582.40 <i>also</i> states, in part, “. . . the port authority may levy upon the property within its jurisdiction a tax, for all purposes including bond debt charges, not in excess of one mill annually on the total value of all property as listed and assessed for taxation for any period <u>not</u> exceeding five years, except that when the tax is to pay bond debt charges, the tax shall be for the life of the bond indebtedness. On approval of such a levy, notes may be issued in anticipation of the collection of the proceeds of the tax levy, other than the proceeds to be received for the payment of bond debt charges, in the amount and manner and at the times as are provided in § 5705.193 of the Ohio Rev. Code (this section refers to § 133.24 and is for permanent improvements), for the issuance of notes by a county in anticipation of the proceeds of a tax levy.”

Tax and Revenue Anticipation Notes			
Ohio Rev. Code § and Entities to which it applies	Purpose	Reference to Ohio Rev. Code § 133.10	Reference to Ohio Rev. Code § 133.24
<p>§ 5705.191. Approval of excess levy; issuing notes</p> <p>Any subdivision, other than the board of education of a school district or the taxing authority of a county school financing district</p>	<p>If it is necessary to levy a tax in excess of the 10 mill limit for any of the purposes in Ohio Rev. Code § 5705.19, or to supplement the general fund for one or more of the following purposes: public assistance, human or social services, relief, welfare, hospitalization, health, and support of general hospitals, and that the question of such additional tax levy shall be submitted to the electors of the subdivision at a general, primary, or special election to be held at a time therein specified.</p>	No	<p>§ 5705.191 states, in part: “The notes shall be issued as provided in § 133.24 of the Ohio Rev. Code, shall have principal payments during each year after the year of their issuance over a period not exceeding the life of the levy anticipated, and may have a principal payment in the year of their issuance.”</p> <p>An entity can also levy for operating expenses. The notes cannot exceed 50% of the proceeds of the levy. Notes issued for operations can mature over the life of a fixed-term levy. For an unlimited life levy, these notes must mature within 10 years.</p>
<p>§ 5705.193</p> <p>County</p>	<p>Permanent Improvement</p>	No	<p>§ 5705.193 states, in part, “Such notes shall be issued as provided in § 133.24 of the Ohio Rev. Code, shall have principal payments during each remaining year of the life of the levy after the year of their issuance, and may have a principal payment in the year of their issuance.”</p>
<p>§ 5705.194</p> <p>School District</p>	<p>Emergency levy</p>	No	<p>§ 5705.194 states, in part, “After the approval of the levy and prior to the time when the first tax collection from the levy can be made, the board of education may anticipate a fraction of the proceeds of the levy and issue anticipation notes in an amount not exceeding the total estimated proceeds of the levy to be collected during the first year of the levy.</p> <p>The notes shall be issued as provided in § 133.24 of the Ohio Rev. Code, shall have principal payments during each year after the year of their issuance over a period not to exceed five years, and may have principal payment in the year of their issuance.”</p>
<p>§ 5705.198. Levy by Joint Recreation District</p>	<p>Parks and recreational purposes per § 5705.19(H)</p>	No	<p>§ 5705.198 (limited to a fraction of the proceeds of that levy) “such notes shall be issued as provided in § 133.24 of the Ohio Rev. Code.” These notes must</p>

Tax and Revenue Anticipation Notes			
Ohio Rev. Code § and Entities to which it applies	Purpose	Reference to Ohio Rev. Code § 133.10	Reference to Ohio Rev. Code § 133.24
			mature by December 31 of the 5th year after the levy’s passage.
<p>§ 5705.21. Special election on additional school levy</p> <p>School District</p>	Permanent improvements	No	<p>§ 5705.21(D)(2) states, “After the approval of a levy for general permanent improvements for a specified number of years, or for permanent improvements having the purpose specified in division (F) of § 5705.19 of the Ohio Rev. Code, the board of education may anticipate a fraction of the proceeds of the levy and issue anticipation notes in a principal amount not exceeding fifty per cent of the total estimated proceeds of the levy remaining to be collected in each year over a period of five years after the issuance of the notes.</p> <p>The notes shall be issued as provided in § 133.24 of the Ohio Rev. Code, shall have principal payments during each year after the year of their issuance over a period not to exceed five years, and may have a principal payment in the year of their issuance.”</p> <p>§ 5705.21(D)(3) states, “After approval of a levy for general permanent improvements for a continuing period of time [i.e. an unlimited life levy], the board of education may anticipate a fraction of the proceeds of the levy and issue anticipation notes in a principal amount not exceeding fifty per cent of the total estimated proceeds of the levy to be collected in each year over a specified period of years, not exceeding ten, after the issuance of the notes.</p> <p>The notes shall be issued as provided in § 133.24 of the Ohio Rev. Code, shall have principal payments during each year after the year of their issuance over a period not to exceed ten years, and may have a principal payment in the year of their issuance.”</p>
<p>§ 5705.2112. Career-technical compact facilities</p> <p>STEM School</p>	Acquisition of classroom facilities.	No	<p>§ 5705.2112(F)(1) “... The notes shall be issued as provided in § 133.24 of the Ohio Rev. Code, shall have principal payments during each year after the year of their issuance over a period not to exceed ten years, and may have a principal payment in the year of their issuance.”</p>
<p>§ 5705.217. Special elections on additional tax for school district purposes; anticipation notes</p>	Current operating expenses and permanent improvements	No	<p>§ 5705.217(B)(3) provides, “After approval of a levy for general permanent improvements for a continuing period of time, the board of education may anticipate a fraction of the proceeds of</p>

Tax and Revenue Anticipation Notes			
Ohio Rev. Code § and Entities to which it applies	Purpose	Reference to Ohio Rev. Code § 133.10	Reference to Ohio Rev. Code § 133.24
School District			<p>the levy and issue anticipation notes in a principal amount not exceeding fifty per cent of the total estimated proceeds of the levy to be collected in each year over a specified period of years, not exceeding ten, after the issuance of the notes.</p> <p>Anticipation notes under this section shall be issued as provided in § 133.24 of the Ohio Rev. Code, shall have principal payments during each year after the year of their issuance over a period not to exceed ten years, and may have a principal payment in the year of their issuance.”</p>
<p>§ 5705.218. Special elections on school district bond issues and tax levies; anticipation notes</p> <p>School Districts</p>	Bonds or BAN for permanent improvements and current operating expenses	No	<p>§ 5705.218(F)(3) states, “After the approval of a tax for general, on-going permanent improvements as defined under § 5705.21 of the Revised Code, the board of education may anticipate a fraction of the proceeds of such tax and issue anticipation notes in a principal amount not exceeding fifty per cent of the total estimated proceeds of the tax to be collected in each year over a specified period of years, not exceeding ten, after issuance of the notes.</p> <p>Anticipation notes under this section shall be issued as provided in § 133.24 of the Ohio Rev. Code. Notes issued under division (F)(1) (for current operating expenses) mature within the next fiscal year) or (F)(2) (specific permanent improvements) shall have principal payments during each year after the year of their issuance over a period not to exceed five years, and may have a principal payment in the year of their issuance. Notes issued under division (F)(3) (ongoing permanent improvements) shall have principal payments during each year after the year of their issuance over a period not to exceed ten years, and may have a principal payment in the year of their issuance.”</p>
<p>§ 5705.23. Resolution for special levy for public library; submission to electors</p> <p>Public Library</p>	Current expenses or for constructing specific permanent improvements	No	<p>§ 5705.23 states, in part, “After the approval of a levy on the current tax list and duplicate to provide an increase in current expenses, and prior to the time when the first tax collection from such levy can be made, the taxing authority at the request of the board of library trustees may anticipate a fraction of the proceeds of such levy and issue anticipation notes in an amount not</p>

Tax and Revenue Anticipation Notes			
Ohio Rev. Code § and Entities to which it applies	Purpose	Reference to Ohio Rev. Code § 133.10	Reference to Ohio Rev. Code § 133.24
			<p>exceeding fifty per cent of the total estimated proceeds of the levy to be collected during the first year of the levy.</p> <p>After the approval of a levy to provide revenues for the construction or acquisition of any specific permanent improvement or class of improvements, the taxing authority at the request of the board of library trustees may anticipate a fraction of the proceeds of such levy and issue anticipation notes in a principal amount not exceeding fifty per cent of the total estimated proceeds of the levy to be collected in each year over a period of ten years after the issuance of such notes.</p> <p>The notes shall be issued as provided in § 133.24 of the Ohio Rev. Code, shall have principal payments during each year after the year of their issuance over a period not to exceed ten years, and may have a principal payment in the year of their issuance.”</p>
<p>§ 5705.24. County tax levy for children services</p> <p>County</p>	<p>Operating or capital improvement expenditure necessary for the support of children services and the care and placement of children</p>	No	<p>§ 5705.24 states, in part, “After the approval of such levy and prior to the time when the first tax collection from such levy can be made, the board of county commissioners may anticipate a fraction of the proceeds of such levy and issue anticipation notes in a principal amount not to exceed fifty per cent of the total estimated proceeds of the levy throughout its life.</p> <p>Such notes shall be issued as provided in § 133.24 of the Ohio Rev. Code, shall have principal payments during each year after the year of their issuance over a period not exceeding the life of the levy, and may have a principal payment in the year of their issuance.”</p>
<p>§ 5748.05. Income tax anticipation notes</p> <p>School District</p>	<p>Current operating expenses or permanent improvements</p>	No	<p>§ 5748.05 states, in part, “[A] board of education may anticipate a fraction of the proceeds of the tax and issue anticipation notes in an amount not exceeding fifty per cent of the total estimated proceeds of the tax to be collected for its first year of collection as estimated by the tax commissioner. The anticipation notes are Chapter 133 securities and shall be issued as provided in § 133.24 of the Ohio Rev. Code as if property tax anticipation notes.”</p>

Tax and Revenue Anticipation Notes			
Ohio Rev. Code § and Entities to which it applies	Purpose	Reference to Ohio Rev. Code § 133.10	Reference to Ohio Rev. Code § 133.24
<p>§ 5748.08. Election on income tax and bond issue as one ballot question</p> <p>School District</p>	<p>Permanent improvement bonds or BAN</p>	<p>No</p>	<p>§ 5748.08(G) states, "After approval of a question under this section, the board of education may anticipate a fraction of the proceeds of the school district income tax in accordance with § 5748.05 of the Ohio Rev. Code. Any anticipation notes under this division shall be issued as provided in § 133.24 of the Ohio Rev. Code, shall have principal payments during each year after the year of their issuance over a period not to exceed five years, and may have a principal payment in the year of their issuance."</p>

APPENDIX D – Reporting (Applies to Chapters 1 & 2 Section D)

The Auditor of State prescribes and requires by rules, that certain public offices prepare and file annual financial reports in accordance with generally accepted accounting principles. Certain public offices may also be required by statute, rule, or agreement to prepare and file performance or other special purpose reports.²⁴

As a matter of accountability and internal control, each public office should account for financial activities using an accounting system which demonstrate legal compliance and follows a documented chart of accounts appropriate for its particular activities; and is supported by appropriate subsidiary ledgers/journals. When a public office fails to maintain such an accounting system, auditors should consider whether the failure constitutes a reportable control deficiency or noncompliance. Also see OCS Step 2-4 as it relates to accounting systems.

²⁴ Ohio Admin. Code § 117-10-01(B) requires county and independent agricultural societies to record and report all financial transactions in accordance with Appendix A of the Auditor of State manual, “Uniform System of Accounting for Agricultural Societies.” This Manual is available at www.ohioauditor.gov, under *Resources/Publications & Manuals*.

APPENDIX E – Deposits and Investments (Applies to Chapter 2 Section E)

Depository and investment regulations for political subdivisions from Ohio Rev. Code Chapter 135 generally apply to all public offices, other than to charter municipalities which have exempted themselves by charter or ordinance and community schools.^{25 26} (See the OCS Legal Matrices Appendix for more specific guidance regarding the applicability of the requirements in Chapter 2 Section E to particular entity types.) Auditors should design audit procedures based on charter municipalities' own investment and deposit provisions. Provisions of Ohio Rev. Code Chapter 135 relating to counties are separate from those pertaining to other subdivisions.

POSSIBLE NONCOMPLIANCE RISK FACTORS:

Note: In assessing the risk of noncompliance, auditors should consider whether governments have adopted detailed deposit and investment policies and historically complied with those policies. Additionally, adequate training, segregation of duties, and supervisory monitoring controls can help mitigate the risk of noncompliance with deposits and investments requirements.

In assessing the adequacy of *policies*, remember Ohio Rev. Code Chapter 135 *is* a policy in many respects. For example, it prescribes allowable investments, collateral requirements, etc. designed to help safeguard assets. However, OCS Section 2-7 requires governments to adopt their own policy based on Ohio Rev. Code Chapter 135.

²⁵ While charter governments can exempt themselves from Ohio Rev. Code Chapter 135, they cannot exempt themselves from Ohio Constitutional requirements. Therefore charter governments cannot purchase equity securities, because Ohio Constitution Article VIII, Sections 4 and 6 prohibit public bodies from becoming a “stockholder in any joint stock company, corporation or association.”

²⁶ In some cases, *cash held by a fiscal agent* may not be public moneys subject to Ohio Rev. Code Chapter 135. Ohio Rev. Code § 135.01(k) defines public moneys of a political subdivision as “all such moneys coming lawfully into the possession or custody of the treasurer of the state or the treasurer of any subdivision.” Moneys held by a trustee (e.g., for entities participating in certain asset pools such as the OASBO Expanded Asset Pool program) are not considered public moneys until they are disbursed to the political subdivision. Therefore, these moneys are excluded from Ohio Rev. Code Chapter 135 requirements until they are spent. Such moneys would also be disclosed as uncollateralized deposits for reporting purposes under GASB Statement No. 40.

APPENDIX E-1 Federal Agencies (Applies to Chapter 2 Section E)

The table below describes the level of Federal guarantee, as well as other information. The “full faith and credit” language describes an *explicit* guarantee. GASB 40 does not require (though it does not prohibit) disclosing the credit risk for securities with explicit US guarantees. Credit risk must be disclosed for Federal Agency securities with implied US guarantees.

Security	U.S. Gov’t Guarantee	Interest payment schedule	Maturity range
<u>Government securities</u>			
U.S. Treasury bills	Full faith & credit	Face value at maturity	1 day to 1 year
U.S. Treasury notes	Full faith & credit	Semi-annual	1 to 10 years
U.S. Treasury bonds	Full faith & credit	Semi-annual	Issued with maturities beyond 10 yrs.
U.S. Treasury Strips	Full faith & credit	Face value at maturity	3 months to 30 yrs.
Treasury Inflation Protected Securities (TIPS)	Full faith & credit	Semi-annual	5 to 30 yrs.
<u>Mortgage-backed securities</u>			
Government National Mortgage Association (GNMA)	Full faith & credit	Monthly principal & interest	30-year maturity
<u>Agencies</u>			
Federal Home Loan Mortgage Corporation (FHLMC)	Implied backing	Semi-annual	1 to 20 yrs.
Federal National Mortgage Association (FNMA)	Implied backing	Semi-annual	1 to 20 yrs.
Federal Home Loan Bank (FHLB)	Implied backing	Semi-annual	1 to 20 yrs.
Financing Corporation (FICO)	Implied backing	Semi-annual Zeros at maturity	Out to the yr. 2019
Resolution Funding Corporation (REFCORP)	Implied backing	Semi-annual Zeros at maturity	Out to the yr. 2030
Tennessee Valley Authority (TVA)	Implied backing	Semi-annual Zeros at maturity	1 to 50 yrs.
Federal Farm Credit Bank (FFCB)	Implied backing	Semi-annual	3 months to 20 yrs.

APPENDIX E-2 GASB No. 40 (Applies to Chapter 2 Section E)

GASB Statement No. 40 paragraph 6 (Codification I50.151--158) requires governments to *briefly* describe policies related to the following risks for deposits and investments, *if* the government has instruments exposed to those risks:

Risk	Deposits	Investments
Credit		√
Custodial credit	√	√
Concentration of credit		√
Interest rate		√
Foreign currency	√	√

The ~~2015-1 implementation Guide (the CIG) Q&A 1.5.2 GASB Cod. I50.735-1~~ implies the Ohio Revised Code is a source of policies requiring GASB Statement No. 40 disclosure. A summary of Ohio Rev. Code requirements related to the risk disclosures of GASB Cod. I50.137-.143 follows.

The Ohio Rev. Code is not the only source of potential policies requiring disclosure. For example, locally adopted policies and charter provisions may also contain policies requiring disclosure. Financial statement preparers must read GASB Statement No. 40 and should refer to the CIG for more information when preparing GASB Statement No. 40 disclosures.

Ohio Rev. Code Section	OCS Step	Requirement	Related GASB 40 Risk
§ 135.01(O) § 135.35(A)(10)	2-6 2-10	Per Ohio Rev. Code § 135.01(O), no load money market funds must (1) be registered as investment companies under the Investment Company Act of 1940, have the highest credit rating issued by at least one national rater and the fund does not include any investment in a derivative. (Note: Per 2015-1 GASB Implementation Guide Q&A 1.9.12 GASB Cod. I50.738-12, governments should disclose the rating for mutual funds even if the fund limits investments to obligations the U.S. government guarantees, since it is the fund’s rating that is of concern, not its underlying investments.)	Credit risk
§ 135.14 § 135.35 (A)(8) § 135.35(C) § 135.35(N)(2)	2-6 2-10	<ul style="list-style-type: none"> Investments generally must mature within 5 years of purchase. <ul style="list-style-type: none"> A county may hold investments acquired before 9/10/12 until their maturity. 	Interest rate
		<ul style="list-style-type: none"> After an affirmative vote of the County’s investment Advisory Committee, the portfolio can be invested in securities that mature longer than five years (Ohio Rev. Code § 135.35(C)). Permits up to 25% of the county’s total average portfolio invested in commercial paper notes that has assets exceeding five hundred million dollar and are rated in the highest classification 	Concentrations of credit

		established by at least two nationally recognized standard rating services, aggregate value does not exceed 10% of outstanding commercial paper of the issuing corporation and mature not later than 270 days after purchase. (Ohio Rev. Code § 135.35(A)(8)).	
§ 135.14(E) § 135.35(D)	2-6 2-10	Repurchase agreements cannot exceed 30 days.	Interest rate
§ 135.14(E) § 135.35(D)	2-6 2-10	The market value of securities for repurchase agreements must exceed the principal value by \geq 2%.	Interest rate
§ 135.14(E) § 135.35(D)	2-6 2-10	Repurchase agreement securities must be delivered into the custody of the treasurer or governing board or an agent. ²⁷ County repurchase agreement securities must be delivered into the custody of the investing authority or the qualified custodian of the investing authority or a designated agent.	Custodial credit
§ 135.45(B)(1)	(Tested by the State Region)	STAR Ohio must maintain the highest letter or numerical rating provided by at least one nationally recognized standard rating service.	Credit
§ 135.14(B)(7) § 135.142(A)	2-8	Commercial paper + bankers' acceptances cannot exceed 40% of a government's investment portfolio	Concentrations of credit
§ 135.14(D) § 135.35(A)(8)	2-6 2-10	Commercial paper must be rated in the highest classification by at least two nationally-recognized rating services	Credit
§ 135.14(B)(7) § 135.35(A)(8)	2-6 2-10	Commercial paper must mature within 270 days and bankers' acceptances must mature within 180 days.	Interest rate
§ 135.18 § 135.181 ²⁸ § 135.182	2-9	Depositories must collateralize deposits.	Custodial credit
§ 135.35(A)(9)	2-10	A county's corporate debt investments must mature within 2 years of purchase.	Interest rate
§ 135.35(A)(9)	2-10	A county's corporate debt investments cannot exceed 15% of its investment portfolio	Concentrations of credit
§ 135.35(A)(9)	2-10	A county's corporate debt investments must be rated in 1 of the 2 highest categories by 2 ratings organizations.	Credit
§ 135.35(A)(10)	2-10 ²⁹	A county's foreign debt investments must mature within 5 years of purchase.	Interest rate
§ 135.35(A)(10)	2-10	A county's foreign debt investments cannot exceed 1% of its investment portfolio	Concentrations of credit
§ 135.35(A)(10)	2-10	A county's foreign debt investments must be rated	Credit

²⁷ The following general guidance can be used to determine whether securities are held in trust or by counterparty, but in the government's name (vs. not in the government's name). If the government receives a statement in their name, identifying the specific investments, auditors can assume the member's internal records identify the government as owner.

²⁸ This section is only applicable if the financial institution was issued an extension by the Treasurer of State.

²⁹ *Foreign currency risk* should not apply because the statute requires "all interest and principal shall be denominated and payable in United States funds."

		in 1 of the 3 highest categories by 2 ratings organizations.	
§ 135.13	2-6	Authorized investments	*
§ 135.14	2-8		
§ 135.144	2-10		
§ 135.35			

* Note: In addition to the risk-related policies above, GASB Codification I50.149 requires disclosing investments the Ohio Rev. Code (or other legal or contractual provisions) authorize. The asterisked Ohio Rev. Code Sections list authorized investments.

Exhibit 1 – Citation Format

PRESCRIBED FORMS FOR CITATION OF LEGAL AUTHORITY

The Auditor of State and independent public accountants (IPAs) performing audits of public offices pursuant to Ohio Rev. Code §§ 115.56(B), 117.11, or 117.43, must follow legal authority in determining “whether the laws, ordinances, and orders pertaining to [a public] office have been observed, and whether the requirements and rules of the auditor of state have been complied with” Ohio Rev. Code § 117.11(A). Legal authorities which may be cited in an audit report may include the Federal and State constitutions, the United States Code, the Ohio Revised Code, the Ohio Administrative Code, Federal and State court decisions, Federal and State regulations, opinions of the Attorney General, opinions of the Ethics Commission, and local ordinances and charters. Also, as described in *Government Auditing Standards*, non-compliance with provisions of contracts or grant agreements should be reported.

You should use the following forms of citation in all reports, letters, memoranda, opinions, and other documents if you are on the professional staff of the Auditor of State or are an IPA acting under contracts pursuant to Ohio Rev. Code §§ 115.56, 117.11(B), or 117.43.

Statutory Citations

Citations to the Ohio Revised Code should be in the following form:

Ohio Rev. Code § 325.19

Ohio Rev. Code Chapter 325

Ohio Rev. Code Title 3

Citations to the United States Code should be in the following form:

26 U.S.C. § 3402(a)

Attorney General Opinions

Opinions should be cited by year and opinion number in the following form:

1993 Op. Atty. Gen. No. 93-004 or 1993 Op. Att’y Gen. No.93-004

Court Cases

All citations to a reported case should use the following form:

Parsons v. Ferguson, 46 Ohio St.2d 389 (1976)

↓	↓	↓	↓	↓
1	2	3	4	5

The elements of such a citation include:

1. The title of the case (italicized);
2. The volume number of the reporter in which the case is reported;
3. The abbreviation for the reporter;
4. The page number at which the case commences; and
5. The date (in parentheses).

The following abbreviations should be used:

<u>Reporter</u>	<u>Abbreviation</u>
Ohio State Reports	Ohio St.
Ohio State Reports, Second Series	Ohio St.2d
Ohio State Reports, Third Series	Ohio St.3d
Ohio Reports	Ohio
Ohio Appellate Reports	Ohio App.
Ohio Appellate Reports, Second Series	Ohio App.2d
Ohio Appellate Reports, Third Series	Ohio App.3d
Ohio Miscellaneous	Ohio Misc. Or Ohio Misc.2d
Ohio Bar Reports	Ohio B.
Ohio Opinions	Ohio Op.
Ohio Opinions, Second Series	Ohio Op.2d
Ohio Opinions, Third Series	Ohio Op.3d
Ohio Decisions	Ohio Dec.
Ohio Decisions, Reprint	Ohio Dec. Reprint
Ohio Circuit Court Decisions	Ohio C.C. Dec.
Ohio Circuit Court Reports	Ohio C.C.
Ohio Circuit Court Reports, New Series	Ohio C.C. (n.s.)
Ohio Circuit Decisions	Ohio Cir. Dec.

If a case has not been reported, it should cite to the case *name*, docket number, court, and the date of the most recent (disposition). For example:

Collins v. Ferguson. FRANKLIN App. No. 80-AP-245, unreported (July 22, 1980)

Ohio Administrative Code

Citations to the Ohio Administrative Code should be by code section and date in the following form:

Ohio Admin. Code § 117-08-01

Federal Regulations

Federal administrative rules and regulations should be cited by title and section number to the Code of Federal Regulations in the following manner:

47 C.F.R. (Part, if known) § 609 (year).

Ohio Ethics Commission Advisory Opinions

Opinions of the Ethics Commission should be cited by year and opinion number in the following form:

1976 O.E.C. No. 76-008 or Ohio Ethics Comm'n, Advisory Op. No. 76-008

Special Legislation

Citations to special (uncodified) legislation enacted prior to January 4, 1971, should be cited by name, year of session, page number, and year of enactment in the following manner:

An Act to establish the Bucyrus, Oceola, and Upper Sandusky Free Turnpike Road, 1845 Ohio Laws 128 (1845)

Citations to such legislation enacted after January 3, 1971, should be cited by name, year of session, page number, and year of enactment as follows:

Am. S. B. No. 96, 1979 Ohio Legis. Bull 5-142 (1979)

Federal and Ohio Constitution

Cite in the following form:

U.S. Const. Art. III, Section 2

Ohio Const. Art. II, Section 20

Municipal Ordinances

In citing municipal ordinances, give the name of the municipality first, followed by the name of the code, section, or subdivision, and the year of publication:

Hilltown, Codified Ordinances, Section 133.05 (1977) Uncodified ordinances should be cited by name of municipality, number or name of the ordinance, and the exact date of adoption:

Middleville, Ordinance to Regulate the Conduct of Scarlet Women (1883)

Exhibit 2 – Public Officers’ Bond

This section has been reorganized for the 2018 Ohio Compliance Supplement. Due to the number of changes, they are not marked.

Please keep the following in mind:

1. **Bond requirements:** This Exhibit lists those who are required by statute to give a bond with a specified minimum amount, those required to give a bond without an amount specified, and those who may be required to give bond if an ordinance is passed by the legislative authority. Regardless of any minimum amounts specified, the governing board may specify a greater amount when/if they deem it necessary. Note: Ohio Rev. Code § 3.30 states, “A person elected or appointed to an office who is required by law to give a bond or security previous to the performance of the duties imposed on him by his office, who refuses or neglects to give such bond or furnish such security within the time and in the manner prescribed by law, and in all respects to qualify himself for the performance of such duties, is deemed to have refused to accept the office to which he was elected or appointed. Such office shall be considered vacant and shall be filled as provided by law.”
2. **Blanket bonds and/or Insurance in lieu of Surety Bonds:** Some individuals who must give bond may be covered under a blanket bond, while others must obtain a bond in the individual’s name only. Those listed in Tables 1 & 2 below **must** be an individual official bond, and those listed in Table 3 below may have an umbrella or blanket bond to satisfy the bonding requirement. (See Ohio Rev. Code § 3.06 and/or 1965 Op. Atty. Gen. No. 1965-087). Note: While blanket bonds generally satisfy some bonding requirements, insurance policies do not. Various types of insurance policies may be similar, however, there are various differences (see table below) which preclude insurance policies from being utilized to satisfy mandatory bond requirements.
3. **Bond given with/signed by:** All bonds required or permitted by law should be given by a surety or bonding company authorized to transact business in this state. (Ohio Rev. Code § 3929.14)
4. **Bond paid by:** The premium of any bond required or permitted by law is allowed to be paid by the state, county, township, municipal corporation, or other subdivision, or board of education, of which such person giving the bond is such officer, deputy, or employee. (Ohio Rev. Code § 3929.17)
5. **Term of bond:** When a bond is required, it should be in place for the entirety of the tenure of office/employment. Renewals of bonds are allowable, however, lapses should not exist.

Topic	Surety Bond	Insurance
Parties involved	Three party agreement. The surety guarantees the faithful performance of the principal to the obligee.	Generally, two party agreement. The insurance company agrees to pay the insured directly for certain losses incurred.
Loss Expectation	Losses not expected. The surety takes only those risks which its underwriting experience indicates is safe. A surety will usually look at the applicant’s credit, arrest, and bankruptcy history, as well as any previous bond claims made against the applicant.	Losses expected. Insurance rates are adjusted to cover losses and expenses as the law of averages fluctuates.
Recoverable	Losses recoverable. After a claim is paid, the surety expects to recoup its losses from the principal. This means the public official has “skin in the game,” and the risk of loss stays with the official.	Losses usually not recoverable. When an insurance company pays a claim, it usually doesn’t expect to get repaid by the insured. Risk of loss is transferred to the insurance company.
Premium costs	The cost of the bond covers expenses. A large portion of the surety bond price is really a service charge for weeding out unqualified candidates and for issuing the bond.	Premium covers losses and expenses. Insurance premiums are collected to pay for expected losses.
Selectivity	Sureties are selective.	Insurers cover most risks. The insurance agent generally tries to write a policy on anything that comes along (at the appropriate premium rate) and allows for a large volume to cover the risk.
Length of agreement	2 or 3 page document.	Often a multipage document containing many exclusions and exemptions.
Benefactor	Written in favor of the entity based on statute requirements	Typically, written in favor of the insurance company.
Dollar Amount of Coverage	Bond amounts vary depending on the applicable statutory requirements for the position. For some officials, this is a specific amount as stated in the law. For other officials the amount is based on the amount of local revenues or on population. And for some, the amount of the bond is determined by the legislative body or presiding judge.	Can vary significantly.
Third Party involvement	Official bonds allow any injured party to recover on the bond. Official bonds are not issued for the protection of the official himself, but rather to protect the government or the public from any injuries caused by the public official while in office.	Third party may not bring suit. Policy usually written to only allow recovery for the insured. That is, the policy is written for the sole benefit of the insured, the governmental entity.
Coverage	The statutes generally contain two basic obligations: (1) that the official faithfully discharge or perform the duties of the office; and (2) that the official truly account for and turn over public money, property, and records entrusted to the official by the duties of office. The public official bond covers the failure of the bonded official to carry out either one of these duties with the motives of the official being irrelevant. A breach of the bond can occur as the result of the failure to act, negligence of the principal, or intentional conduct, i.e., nonfeasance, misfeasance, and malfeasance. In essence, the failure to faithfully discharge one's duties may be attributed to either failing to take a required act or failing to refrain from doing something which by its nature should not have been done. Provided that loss occurs to one entitled to recover on a bond, all liability on a public official bond is absolute and is predicated on breach of duty.	In theory, insurance could cover everything that the bond covers.

Table 1: Required by statute to give bond (min specified)			
Entity Type	ORC	Employee/officer Position	Minimum amount of bond*
Union cemetery districts	759.36	Clerk-Treasurer	greater of - "amount in fund" or \$1,000
General health districts	3709.31	Custodian of health fund	\$1,000,000
Joint recreation districts	755.23	Park Trustee	\$2,500
Park districts	1545.05	Commissioner	\$5,000
County	305.04	Commissioner	\$5,000
	309.03	Prosecuting Attorney	\$1,000
	325.12	Prosecuting Attorney	annual salary
	311.02	Sheriff	\$5,000 - \$50,000
	325.071	Sheriff	annual salary
	313.03	Coroner	\$5,000 - \$50,000
	315.03	Engineer	\$2,000 - \$10,000
	317.02	Recorder	\$10,000
	319.02	Auditor	\$5,000 - \$20,000
	955.12	Dog Warden/deputy	\$500 - \$2,000
	1545.05	Park Commissioner	\$5,000
	1907.20(A)	Clerk of County Court	\$5,000
	2101.03	Probate Judge	\$5,000
	2153.1	Cuyahoga county juvenile court judge/clerk	\$5,000
	2301.16	Criminal Bailiff of Court of Common Pleas	\$5,000
	2303.02	Clerk of the Court of Common Pleas	\$10,000 - \$40,000
	5153.13	Executive Director of Children Services	\$5,000
6115.57	County Treasurer	not less than probable amount of levy(s)	
5593.05	Bridge Commissioner	\$5,000	
Township	505.02	Trustees	\$1,000
	507.03	Fiscal Officer	Based on budget
	509.02	Constable	\$500 - \$2,000
	519.161	Zoning Inspector	\$1,000 - \$5,000
	5571.04	Highway Superintendent	\$2,000
City	749.22	Hospital Trustee	\$2,500
	755.23	Park Trustee	\$2,500
	1901.32(A)(1)	Bailiff of Muni Court	\$3,000
	1901.32(A)(2)	Deputy bailiff of Muni Court	\$1,000
	1901.31(D)	Clerk/deputy clerk of Muni Court	\$6,000
New Community Organizations	349.04	Board Member	\$10,000

Table 2: Required to give bond (no amount specified by law)			
Entity Type	ORC	Employee/officer Position	Amount
Joint juvenile detention facilities	2151.7	Superintendent	Determined by board/court/etc., or amount otherwise not specified
	2152.42	Superintendent	
Airport authorities	308.12	Fiscal Officer	
Soil and water conservation districts	1515.07	all entrusted with funds	
Conservancy District	6101.58	County treasurer	
Libraries	3375.32	Clerk	
	3375.36	Deputy Clerk	
Community and technical colleges	3358.06	Treasurer/fiscal officer	
Joint ambulance districts	505.71	Clerk	
Joint Fire Districts	505.372	Clerk	
Fire & Ambulance District	505.375	Clerk	
Joint Police Districts	505.484	Treasurer	
Port Authorities	4582.15	Secretary	
	4582.41	Secretary	
County	153.24	Building Commissioner	
	321.02	Treasurer	
	329.01	CDJFS director	
	1545.13	Park law enforcement officer	
	2151.12	Judge/clerk of Juvenile Court	
	2301.12(C)	Chief Court Constable	
Township	507.02	Deputy Fiscal Officer	
	511.232	Township Park Law Enforcement	
City	705.27	Treasurer/Auditor	
	705.6	City Manager	
	733.65	Sealer of Weights and measures	
	739.02	Trustees of Municipal Sinking Fund	
	747.01	Rapid Transit Commissioner	
Traditional school districts	5593.05	Bridge Commissioner	
	3313.25	Treasurer	
	3319.05	Business Manager	
	3327.10(C)	Non-employee Bus Drivers	
Community schools	3314.011	Fiscal Officer	
Joint Children's Home	5153.41	Superintendent	
Regional Transit Authority (RTAs)	306.42	Secretary Treasurer	
Regional Library Systems	3375.92	Fiscal Officer and Deputy	
Sanitary Districts	6115.51	Treasurer	
Regional Arts and Cultural Districts	3381.1	Executive Director	
Watershed Districts	6105.1	Secretary Treasurer	
Memorial Buildings (Board of Trustees)	345.1	Trustees	

Table 3: Board may require bond			
Entity Type	ORC	Employee/officer Position	Minimum amt.
Joint Township cemeteries or Union cemeteries	759.06	Officer	*
Conservancy districts	6101.12	Secretary, employees	*
Park District	1545.13	Law Enforcement Officers	*
County	329.01	CDJFS employees	*
	1907.20(E)(1)	Deputy Clerks of County Court	\$3,000
	1907.20(F)(1)	Special Deputy Clerks of County Court	\$3,000
	1907.20(F)(2)	Special Deputy Clerks of County Court	\$3,000
	2101.06	Special Master Commissioner	*
	2101.11(C)	Judge Appointees	\$1,000
Township	2151.13	Juvenile Court Employees	\$1,000
	505.03	Trustees	*
	507.021(C)	Fiscal Officer Assistants	*
City	3.06	Constable deputy	*
	733.69	Various (“additional bonds”)	*
	705.27	Various	*
	735.03	Public Utility Board Member	*
	1901.31(H)	Deputy clerk of Muni Court	\$3,000
	1901.311	Special deputy clerk of Muni Court	\$3,000
Lake Facilities Authority	353.03	Any	*
Any entity	3.06	Deputies, Clerks	*

* = Determined by board/court/etc., or amount otherwise not specified

Exhibit 3 – Compliance ACE Form**Assessment of the Compliance Controls' Environment**

Note: This exhibit includes control environment points of focus specific to the OCS.

Instructions for Using the OCS Compliance ACE Form

- Illustrative points of focus are given for OCS Chapter 1. The auditor should not answer 'Yes' or 'No' to the points of focus. Rather, the auditor should comment on each area, using the points of focus as further guidance where appropriate, basing comments on information available from prior years' audits, inquiries of individuals inside and outside the organization, knowledge of factors outside the government that affect its activities, observation of circumstances that are known or are understood to exist within the government, and, in some circumstances, inspection of documents.
- The areas for assessment and illustrative points of focus in the ACE are not equally relevant to all engagements, and the significance of any particular area or point of focus varies with the government. Thus, the auditor should judge the applicability and importance of each in the context of the engagement.
- In assessing the control environment, the auditor should recognize that neither the areas for assessment nor the illustrative points of focus are necessarily all-inclusive. The auditor may encounter matters affecting the control environment other than those addressed by the ACE. The auditor should document those matters and assess their effect on the control environment.
- In assessing the control environment, the auditor should look beyond the form of control measures and management actions and should concentrate on their substance. An environment may appear to be favorable but in reality may not be. For instance, a system may provide adequate reports for the governing board or senior management, but if the information is not analyzed and acted on, the system does not contribute to the control environment. Similarly, a government may establish appropriate policies; however, to be effective, they should be enforced by management. For example, although a government may have a formal code of conduct, management may have a record of condoning actions that violate it. By not reprimanding such actions, management sends a clear message undermining the code of conduct.

Audit Implications

- After assessing each area, the auditor should consider the audit implications of any circumstances coming to his or her attention that may affect the audit strategy and audit program, or that may represent a matter for which we can offer a recommendation for improvement.

Application to Small and Mid-sized Entities

- Small and mid-sized entities may implement the control environment areas differently than larger entities. For example, smaller entities might not have a written code of conduct but instead, develop a culture that emphasizes the importance of integrity and ethical behavior through oral communication and by management example. However, the lack of a written code of conduct may not affect the auditor's assessment of control risk.

Budgetary (OCS Chapter 1 Section A)	
Area for Assessment	Comments
<p>The following factors may influence the auditor's assessment of risk of significant misstatements of budgetary presentations:</p> <p>Ohio Rev. Code Chapter 5705 codifies an annual budget process designed to prevent fund cash deficits. It prescribes levels of budgetary control, and a basis for recognizing budgetary receipts and budgetary expenditure, which can affect the fair presentation of budgetary statements and disclosures.</p> <p><i>Consider for example, the following points of focus:</i></p> <ul style="list-style-type: none"> - <i>Existence of a budgetary monitoring system and compliance function (This is part of monitoring more than the control environment, but we have listed it here because of its importance and interaction with the control environment.)</i> - <i>The effectiveness of the budget process (i.e. segregation of duties for budget preparation, adoption, execution and reporting).</i> <ul style="list-style-type: none"> • <i>The level of detail (e.g. legal level of control) and suitably knowledgeable and experienced personnel (such as operating line management).</i> - <i>The effectiveness of monitoring performance with respect to:</i> <ul style="list-style-type: none"> • <i>A commitment by those charged with governance and management to comply with budgetary laws.</i> • <i>indication and timeliness of corrective actions,</i> - <i>An accounting system that integrates budgetary accounts to provide continuous information regarding available appropriations and estimated resources not yet received.</i> <p>Note: The AICPA's State & Local Government Audit Guide, 11.24 cautions the auditor to consider whether the government uses its budget to control spending or instead, uses spending to establish (i.e. amend) the budget. Many governments do the latter, in which case analytical procedures relating to the budget may not be very useful audit support for financial position and activity statement assertions.</p>	
<p>Audit implications and/or management comments:</p>	

Debt (OCS Chapter 1 Section C)	
Area for Assessment	Comments
<p>Points of Focus (Debt)</p> <ul style="list-style-type: none"> - Existence of a debt monitoring system and compliance function (This is part of monitoring more than the control environment, but we have listed it here because of its importance and interaction with the control environment.) - Governing authority's and management's involvement in the internal control structure to assure compliance with debt laws, contracts and regulation such as covenant requirements and 17 C.F.R. 240.15c2-12 - Willingness to use bond counsel or other specialists (e.g. arbitrage specialists) when issuing debt. - Accounting system suitably designed to comply with any requirements to separately account for debt proceeds or debt service payments. 	
<p>Audit implications and/or management comments:</p>	

Accounting and Reporting (OCS Chapter 1 Section D)	
Area for Assessment	Comments
<p>Points of Focus</p> <ul style="list-style-type: none"> - Existence of a monitoring system and compliance function (This is part of monitoring more than the control environment, but we have listed it here because of its importance and interaction with the control environment.) - Accounting system suitably designed to accommodate the reporting requirements in Chapter 2 applicable to the auditee. 	
<p>Audit implications and/or management comments:</p>	

Other Potentially Direct and Material Laws and Regulations (OCS Chapter 1 Section F)	
Area for Assessment	Comments
<p>Points of Focus</p> <ul style="list-style-type: none"> - <i>Existence of an appropriate monitoring system and compliance function. (This is part of monitoring more than the control environment, but we have listed it here because of its importance and interaction with the control environment.)</i> - <i>Accounting system suitably designed to provide information when needed, such as information related to insurance claims, landfill costs, especially closure or post closure costs.</i> - <i>Suitable systems and procedures for collecting other financially significant information reliably, such as landfill usage, student attendance statistics.</i> - <i>A commitment by school management and those charged with their governance to obtain accurate ADM student counts.</i> 	
<p>Audit implications and/or management comments:</p>	

Exhibit 4 – Elected Officials’ Compensation**Contents**

Excerpt from AOS Bulletin 2016-001
County Official Tables for 2016 and 2017**
Township Official Tables for 2016 and 2017***

The Ohio Constitution provides a general prohibition on in-term compensation changes for public officers, both increases and decreases, Ohio Const. Art. II, Section 20.

2000 Op. Atty. Gen. No 2000-043 details the specific requirements for township trustees to receive in-term salary increases as follows: “If a board of township trustees passes a resolution that fixes the annual salary of township trustees as the maximum amount permitted under Ohio Rev. Code § 505.24, without setting forth a specific dollar figure, Ohio Const. art. II, § 20 prohibits a trustee from receiving an in-term increase in salary that results from a change by the General Assembly to the compensation scheme or compensation rates of Ohio Rev. Code § 505.24 during the trustee's term. Ohio Const. art II, § 20 does not, however, prohibit a township trustee who is compensated pursuant to such a resolution from receiving an in-term increase in salary resulting from a statutory scheme, effective prior to the commencement of the trustee's term, that provides periodic automatic increases in the rates of compensation for township trustees or from an increase in the township budget.”

Therefore, township trustees are not permitted to receive an in-term increase unless all of the following conditions have been met:

- 1) The board of trustees passed a resolution stating trustees will be paid using the salary method at the maximum amount permitted under Ohio Rev. Code § 505.24 without setting for a specific dollar figure and in accordance with the township budget;
- 2) The resolution was passed prior to the current term of the township trustee; and
- 3) The township budget is increased by an amended certificate.

However, pursuant to the doctrine of waiver, officers may elect to voluntarily waive a portion of their salary. 2003 Op. Atty. Gen. No. 2003-027. “A public officer that has voluntarily waived all or a portion of his statutorily-prescribed compensation [however] may not thereafter request and receive payment of the compensation he waived.” Id. at Note 8.

The elected officials would be able to reduce their salaries voluntarily (this would include voluntary furlough days). They would then be precluded during that term from receiving the portion that they waived. For instance, a council member could voluntarily waive her salary today. In December, she determines that she would like to rescind the waiver. She can take that action, and be entitled to her full salary going forward. She does not, however, have any rights to the amount that she waived.

**** For 2016 & 2017 Ohio Rev. Code § 325.18 permits a cost of living increase for county officials see compensation charts at:**

www.ccao.org/userfiles/CAB2015-01.

***** For 2016 & 2017, Ohio Rev. Code §§ 505.24 and 507.09 permit a cost of living increase for township officials – see 2016 compensation charts at: www.ohiotownships.org/sites/default/files/2016_Compensation_Charts and 2017 compensation charts at: www.ohiotownships.org/sites/default/files/2017_comp_chart.**

Note: For more information regarding township trustee and fiscal officer compensation, see the Ohio Township Handbook located at the following website: www.ohioauditor.gov (Resources/Publications & Manuals/Manuals/Ohio Township Handbook)

2017 Compensation Charts

Per ORC Sections 505.24 and 507.09, township trustee and fiscal officer salaries are based on the annual budget of the township. The increase for 2017, per HB 64 (131st GA) will be 5%. Only those township officials that are elected or appointed after September 29, 2015 are entitled to the increase in 2017, as current officials may not have an interim raise pursuant to the Ohio Constitution. If you have any questions about the compensation charts, please do not hesitate to contact the State Association office.

FISCAL OFFICER COMPENSATION ANNUAL SALARY

Township Budget	Pay for 2008 (2.8% increase)	Pay for 2016 (5% increase)	Pay for 2017 (5% increase)
\$50,000 or less	\$4,502		
\$50,000.01 - 100,000	\$7,074		
\$100,000.01 - 250,000	\$9,903		
\$250,000 or less		\$10,398	\$10,918
\$250,000.01 - 500,000	\$12,733	\$13,370	\$14,039
\$500,000.01 - 750,000	\$14,147	\$14,854	\$15,597
\$750,000.01 - 1,500,000	\$16,977	\$17,826	\$18,717
\$1,500,000.01 - 3,500,000	\$19,806	\$20,796	\$21,836
\$3,500,000.01 - 6,000,000	\$21,221	\$22,282	\$23,396
\$6,000,000.01 - 10,000,000	\$24,355	\$25,573	\$26,852
Greater than \$10,000,000	\$28,176	\$29,585	\$31,064

TRUSTEE COMPENSATION AMOUNT PER DAY, NOT TO EXCEED 200 DAYS PER YEAR IF PAID SALARY, 200 TIMES DAILY RATE, PAID MONTHLY

Township Budget	Pay for 2008 (2.8% increase)	Pay for 2016 (5% increase)	Pay for 2017 (5% increase)
\$50,000 or less	\$25.72		
\$50,000.01 - 100,000	\$30.87		
\$100,000.01 - 250,000	\$36.66		
\$250,000 or less		\$38.49	\$40.41
\$250,000.01 - 500,000	\$42.45	\$44.57	\$46.80
\$500,000.01 - 750,000	\$45.02	\$47.27	\$49.63
\$750,000.01 - 1,500,000	\$51.44	\$54.01	\$56.71
\$1,500,000.01 - 3,500,000	\$56.59	\$59.42	\$62.39
\$3,500,000.01 - 6,000,000	\$61.73	\$64.82	\$68.06
\$6,000,000.01 - 10,000,000	\$79.99	\$83.99	\$88.19
Greater than \$10,000,000	\$102.84	\$107.98	\$113.38

Revised: SB 3, 131 GA**Effective: 3/16/2017****Revised: HB 49, 132 GA****Effective: 6/30/2017**

Exhibit 5 – Legal Matrices

This exhibit contains three matrices. Each matrix matches the applicability of OCS steps to various entity types. The information in the matrices does not necessarily encompass every item requiring testing for these entities. Additionally, when footnotes in the matrices reference specific sections of the Ohio Rev. Code, you should read those sections when planning and/or conducting the audit.

Matrix 1 lists the following entities:

- Joint mental health districts
- Joint juvenile detention facilities
- Regional planning commissions
- Solid waste districts
- Joint township cemeteries or union cemeteries
- Union cemetery districts
- Airport authorities
- Family and children first councils (FCFC)
- Soil and water conservation districts
- Educational service centers (ESC)
- ~~Regional Student Education District~~
- Conservancy districts

Matrix 2 lists the following entities:

- Libraries
- Councils of government (COG)
- Regional water & sewer districts
- General health districts
- Joint recreation districts
- Park districts
- Community and technical colleges
- State colleges and universities
- Joint ambulance districts

Matrix 2 lists the following entities (Continued):

- Joint fire districts
- Joint police districts
- Port authorities
- Agricultural societies³⁰
- Community improvement and development corporations

Matrix 3 includes a discussion of Home Rule Powers and lists the following entities:

- Counties
- Townships
- Cities
- Villages
- Traditional school districts
- STEM/STEAM³¹ schools
- Community schools

³⁰ Auditors use Chapter 1 Appendix A in conjunction with this Exhibit when determining the applicability of certain compliance requirements to Agricultural Societies.

³¹ “STEAM” is an abbreviation for “science, technology, engineering, arts, and mathematics” and is considered a type of STEM school. References to STEM schools includes STEAM schools unless otherwise noted. [Ohio Rev. Code § 3326.01]

Matrix 1

Chapter 1: Direct Laws

Step No.	Requirement	Joint Mental Health District	Jt. Juv. Detention Facility	Regional Planning Comm'n	Solid Waste District	Joint Township Cemetery or Union Cemetery	Union Cemetery District	Airport Authority	FCFC	Soil & Water Conservation District	ESC	Conser-vancy District
	General Budgetary Requirements				32	33	32, 33		34	32		32
1-1	ORC 5705.38: Annual appropriation measure	✓	✓		✓		✓			✓		✓
1-2	ORC 5705.41(D); and 5705.42: Restrictions on appropriating/expending money, including "Blanket" fiscal officer certificates	✓	✓		✓		✓			✓		✓
1-3	ORC 5705.40: Amending or supplementing appropriations; contingencies	✓	✓		✓		✓			✓		✓

³² If these entities levy taxes, the checkmarks noted above apply. However, often they do not levy taxes. When they do not levy taxes, Ohio Rev. Code §5705.28 (B)(2) requires a comparable, but somewhat streamlined budget process. Ohio Rev. Code §5705.28(B)(2) requires entities to follow §§ 5705.36, .38, .40, .41, .43, .44, and .45. However, documents prepared in accordance with these sections need not be filed with the county auditor or county budget commission. Finally, while Ohio Rev. Code § 5705.39 does not apply, § 5705.28(B)(2)(c) prohibits appropriations from exceeding estimated revenue (i.e. receipts + beginning unencumbered cash). For conservancy districts, auditors should additionally review the requirements of Ohio Rev. Code §6101.44 and tailor their compliance testing procedures accordingly, if necessary. For conservancy districts that levy taxes, we should cite to the budgetary requirements contained in Ohio Rev. Code § 6101.44 where they are similar to requirements contained in Ohio Rev. Code Chapter 5705. The more specific requirements contained in Ohio Rev. Code Chapter 6101 trump those contained in Chapter 5705. Auditors should apply the provisions of Ohio Rev. Code Chapter 5705 when Chapter 6101 does not address budgetary restrictions applicable to conservancy districts.

³³ Joint Township Cemeteries and Union Cemeteries are not subject to Ohio Rev. Code Chapter 5705 because they are not taxing authorities as defined in Ohio Rev. Code § 5705.01. Unlike Joint Township Cemeteries and Union Cemeteries, Union Cemetery Districts are subject to Ohio Rev. Code Chapter 5705. In a Union Cemetery District, the legislative authority of each municipal corporation and the board of township trustees of each township, jointly, is the taxing authority. However, this distinction does not affect the application of Ohio Rev. Code § 5705.01 on a union cemetery district, which is specifically noted as a "subdivision."

³⁴ Ohio Rev. Code Chapter 5705 does not apply. However, § 121.37(B)(5)(a) requires the council to file an annual budget with its administrative agent.

Matrix 1

Chapter 1: Direct Laws (continued)

Step No.	Requirement	Joint Mental Health District	Jt. Juv. Detention Facility	Regional Planning Comm'n	Solid Waste District	Joint Township or Union Cemetery	Union Cemetery District	Airport Authority	FCFC	Soil & Water Conservation District	ESC	Conser-vancy District
1-4	ORC 5705.09: Establish funds and 5705.12 Permission to establish funds	✓	✓		✓ ³⁵		✓			✓ ³⁶		
1-5	Various 5705 Sections, 3315.20(A), 5731.48: Distribution of levy revenue	✓	✓		✓		✓			✓		✓
1-6	ORC 5705.05-.06, 5705.14-.16: Transfer funds ³⁷	✓	✓		✓		✓			✓		✓
1-7	Various 5705 Sections & AOS Bulletin 97-003: Advances ³⁷	✓	✓		✓		✓			✓		✓
1-8	ORC 5705.13 and 5705.132: Reserve balance accounts & funds	✓	✓		✓		✓			✓		✓

³⁵ Ohio Rev. Code § 5705.09 only applies to township waste disposal districts.

³⁶ Ohio Rev. Code § 5705.09 does not apply to Soil and Water Districts.

³⁷ AOS Bulletin 1997-003 applies to entities subject to Ohio Rev. Code Chapter 5705. This Bulletin describes the AOS' position regarding using transfers to advance / loan money from one fund to another. Auditors should also refer to Appendix A-1, *Transfers and Advances*, for additional guidance related to transfers and advances.

Matrix 1

Chapter 1: Direct Laws (continued)

Step No.	Requirement	Joint Mental Health District	Jt. Juv. Detenti on Facility	Regional Planning Comm'n	Solid Waste District	Joint Township or Union Cemetery	Union Cem- etery District	Airport Authority	FCFC	Soil & Water Conservation District	ESC	Conser- vancy District
	Debt ³⁸											
1-13	ORC 133.22: Leg. auth. anticip. securities				✓							✓
1-13	ORC 133.24: Tax anticipation notes				✓							✓
1-13	ORC 5705.03: Auth. to levy taxes	✓			✓ ³⁹		✓					✓ ³⁹
1-13	ORC 5705.05: Gen. levy for current exp.	✓					✓					
1-13	ORC 5705.09: Est. of funds	✓			40		✓					
1-13	ORC 5705.10: Disp. and use of tax rev.	✓					✓					
1-13	ORC 321.34: Advance payments to local authorities ⁴¹											
1-13	ORC 167.041: ESC as Fiscal Agent lend money to COG members										✓	
1-13	ORC 308.08: Issuing Revenue Bonds							✓				
1-14	ORC 133.10, 133.22, 133.24 and 4582.56 (B)&(C): Anticipation notes		✓		✓							✓

³⁸ If the entity has a specific Ohio Rev. Code Section that refers to its ability to issue bonds, notes or anticipatory securities, that section takes precedence if there was a conflict between it and the general debt provisions in Chapter 133.

³⁹ For solid waste districts and conservancy districts, the only parts of Ohio Rev. Code § 5705.03 that apply are those sentences referring to a “taxing unit.”

⁴⁰ This only applies to township waste disposal districts.

⁴¹ If any entity receives money from that county and the county is holding this money on behalf of the entity, the entity may ask for an advance.

Matrix 1

Chapter 1: Direct Laws (continued)

Step No.	Requirement	Joint Mental Health District	Jt. Juv. Detention Facility	Regional Planning Comm'n	Solid Waste District	Joint Township or Union Cemetery	Union Cemetery District	Airport Authority	FCFC	Soil & Water Conservation District	ESC	Conser-vancy District
1-16	ORC 133.29, 135.14, 731.56: Governments investing in their own securities		✓		✓							
1-17	ORC 117.38, 1724.05 and 1726.11; OAC 117-2-03(B) and 126:3-1-01(A)(2)(a): Annual Financial Reporting ⁴²	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
1-19	ORC 9.833 and 305.172: Health Care Self Insurance ⁴³	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
1-20	ORC 2744.081: Liability self-insurance	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
1-21	ORC 117.13(C)(3): Allocating Audit Costs	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
1-23	26 U.S.C.: Income tax Collection	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
1-24	Various ORC Sections: Definitions, Rates of Contributions, etc.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
1-25	ORC 17.15.51-59, 517.15, 759.36: Permanent endowment funds ⁷⁷	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
1-30	ORC 343.01, 3734.52, 3734.55, 3734.56, 3734.57(B), 3734.573, 3734.57(G) and 3734.577: Expenditures by solid waste management district				✓							

⁴² ESCs are the only entities on this matrix required to follow GAAP. However for all entities listed on this matrix, auditors and financial statement preparers should read the guidance in AOS Bulletin 2015-07.

⁴³ See AOS Bulletin 2001-005 appendix 2 for a detailed table regarding the specific requirements for each type of self-insured subdivision. AOS Bulletin 2011-008 explains some subsequent considerations. Only test the OCS steps to the extent they apply and are mandatory for the subdivision under audit.

Matrix 1

Chapter 2: Indirect Laws & Statutorily Mandated Tests

Step No.	Requirement	Joint Mental Health District	Jt. Juv. Detention Facility	Regional Planning Comm'n	Solid Waste District	Joint Township or Union Cemetery	Union Cemetery District	Airport Authority	FCFC	Soil & Water Conservation District	ESC	Conser-vancy District
2-1	ORC 5705.39: Appropriations limited by estimated resources	✓	✓		✓		✓			✓		✓
2-2	ORC 5705.41(A)&(B); and 5705.42: Restrictions on appropriating/expending money	✓	✓		✓		✓			✓		✓
2-4	OAC 117-2-02(D)&(E): Required accounting records	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
2-6 through 2-8	Various ORC 135 Sections: Eligible investments of interim monies	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓
2-9	ORC 135.18 & 135.181; 135.37, 12 C.F.R. 330: Security for repayment of public deposits	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓
2-10 through 2-11	(Airports follow county investing requirements per RC 308.12.)							✓				
2-21	Various ORC Sections: Education Requirements	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
2-22	1979 Op. Atty. Gen. No. 79-111: Prohibitions from holding office; and 117.103(B)(1): Fraud Hotline	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Matrix 1

Chapter 2: Indirect Laws & Statutorily Mandated Tests

Step No.	Requirement	Joint Mental Health District	Jt. Juv. Detention Facility	Regional Planning Comm'n	Solid Waste District	Joint Township or Union Cemetery	Union Cemetery District	Airport Authority	FCFC	Soil & Water Conservation District	ESC	Conser-vancy District
2-22	Various ORC Sections: Fraud, abuse & illegal acts, Conflict of Interest, Ethics ⁴⁴	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
2-23	ORC 149.43: Availability of public records and related policies	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

⁴⁴ Some provisions of these OCS Sections have general applicability while others do not. Also, other requirements may apply. Auditors should be alert for circumstances which raise questions about whether such activity has occurred and seek legal counsel when questionable activity is noted.

Matrix 1

Chapter 3: Stewardship

Step No.	Requirement	Joint Mental Health District	Jt. Juv. Detention Facility	Regional Planning Comm'n	Solid Waste District	Joint Township or Union Cemetery	Union Cemetery District	Airport Authority	FCFC	Soil & Water Conservation District	ESC	Conser-vancy District
3-1	ORC 9.38: Deposits of public money	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
3-2	ORC 121.22: Meeting of public bodies	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
3-4	Various ORC Sections: Prohibited political activities ⁴⁵	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
3-5	Bonding Requirements		✓				✓	✓		✓		✓

⁴⁵ Some provisions of these OCS Sections have general applicability while others do not. Also, other requirements may apply. Auditors should be alert for circumstances which raise questions about whether such activity has occurred and seek legal counsel when questionable activity is noted.

Matrix 2

Chapter 1: Direct Laws

Step No.	Requirement	Library ⁴⁶	COG	Regional Water & Sewer	Gen. Health Dist.	Joint Rec. Dist.	Park Dist.	Comm./Tech College		State Colg./ Univ.	Joint Amb. Dist.	Joint Fire Dist.	Joint Police Dist.	Port Auth.	Ag. Soc	DC & CIC
								3357	3358							
	Gen Budgetary Requirements			47	48	47	47	47	47		47	47	47	47		49

⁴⁶ An association library organized and operating prior to January 1, 1968 may participate in the proceeds of a county library and local government support fund ONLY where there are rules in place guaranteeing the benefit of the library to all inhabitants [Ohio Rev. Code §5705.28(D)]. Ohio Rev. Code §5705.28(D) applies to association libraries and provides that to participate in the local government support fund, they must (1) demonstrate that their laws allow access to all people and (2) submit an estimate of revenue/expenditures to the taxing authority. Association libraries receiving monies from the library and local government support fund must also follow the depositing and investing requirements of Ohio Rev. Code Chapter 135 for public monies received (See OCS Chapter 2 for Ohio Rev. Code Chapter 135 requirements). Any private money they receive would remain private and be outside the purview of Ohio Rev. Code Chapter 135.

⁴⁷ If these entities levy taxes, the checkmarks apply. However, often they do not levy taxes. When they do not levy taxes, Ohio Rev. Code §5705.28 (B)(2) requires a comparable, but somewhat streamlined budget process. Ohio Rev. Code §5705.28(B)(2) requires entities to follow §§ 5705.36, .38, .40, .41, .43, .44, and .45. However, documents prepared in accordance with these sections need not be filed with the county auditor or county budget commission. Also, while Ohio Rev. Code § 5705.39 does not apply, § 5705.28(B)(2)(c) prohibits appropriations from exceeding estimated revenue (i.e. receipts + beginning unencumbered cash). Ohio Rev. Code § 4582.13 requires re-appropriation of surplus funds for Port Authorities.

⁴⁸ If a general health district will receive any part of its revenue for a fiscal year from an appropriation apportioned among the townships and municipal corporations composing the district, the board of health of the district shall adopt an itemized appropriation measure under Ohio Rev. Code § 3709.28 for that fiscal year. If it will not receive any part of its revenue for a fiscal year from an appropriation apportioned among the townships and municipal corporations composing the district, the board of health of the district shall adopt an annual appropriation measure for that fiscal year under Ohio Rev. Code § 3709.28 or sections 5705.38, 5705.39, and 5705.40 of the Revised Code. Ohio Rev. Code § 3709.28 establishes budgetary requirements for General Health Districts, which are similar to certain Ohio Rev. Code Chapter 5705 budgetary requirements. On or about the first Monday of April the district must adopt an itemized appropriation measure. The appropriation measure, together with an itemized estimate of revenues to be collected during the next fiscal year, shall be certified to the county budget commission. Subject to estimated resources, the board of health may, by resolution, transfer funds from one appropriation item to another, reduce or increase any item, create new items, and make additional appropriations or reduce the total appropriation. Such appropriation modifications shall be certified to the county budget commission for approval. You should normally cite Ohio Rev. Code § 3709.28 (or 5705.38, 5705.39, 5705.40 – see first sentence of this footnote) if a General Health District: (1) does not adopt an itemized appropriation; (2) does not itemize estimated resources; or (3) appropriates more than its estimated resources as submitted to the county budget commission. Cite Ohio Rev. Code § 5705.41(B) & (D) if a general health district: (1) disburses or encumbers more than appropriations at the legal level of control, or (2) obligates district moneys without the certification that section requires. Ohio Rev. Code § 5705.28(C)(1) requires general health districts to file an estimate of contemplated revenue and expenses with the municipalities and townships within the district. They must file this by about June 1 (forty-five days prior to July 15). The county auditor cannot allocate property taxes from the municipalities and townships within the district if such filing has not been made (1984 Op. Atty. Gen. No. 1984-013). NOTE: There is no requirement to design tests for all of the budgetary requirements listed in this footnote, only those that correspond to sections already in the OCS. For example, there are no budgetary filing deadline tests in the OCS, therefore there is no need to design tests for filing deadlines for General Health Districts.

⁴⁹ Ohio Rev. Code Chapters 1724 and 1726 apply to community improvement corporations (CICs) and development corporations (DCs), respectively. Other than financial reporting (see OCS Chapter 1-18) the OCS does not include requirements generally considered to be direct and material. When auditing these entities, auditors should review the entity’s articles of incorporation, by-laws, and contract, grant and debt agreements, to determine whether potentially direct and material requirements apply.

Matrix 2

Chapter 1: Direct Laws (continued)

Step No.	Requirement	Library	COG	Reg Water & Sewer	Gen. Health Dist.	Joint Rec. Dist.	Park Dist.	Comm./Tech . College		State Colg./ Univ.	Joint Amb Dist.	Joint Fire Dist.	Joint Police Dist.	Port Auth	Ag Soc. 50	DC & CIC
								3357	3358 51							
1-1	ORC 5705.38: Annual appropriations	52		✓		✓	✓	✓	✓		✓	✓	✓	✓		
1-2	ORC 5705.41(D); and 5705.42: Restrictions on appropriating/expending money including "Blanket" fiscal officer certificates	52, 53		✓ ⁵⁴	55	✓	✓	✓	✓		✓	✓	✓	✓		
1-3	ORC 5705.40: Amending or supplementing appropriations; contingencies			✓		✓	✓	✓	✓		✓	✓	✓	✓		

⁵⁰ This column indicates which general compliance requirements are applicable to agricultural societies. However, auditors must also test the compliance requirements specific to agricultural societies that are described within OCS Chapter 1 Appendix A.

⁵¹ A state community college district is a political subdivision composed of the territory of a county, or two or more contiguous counties, in either case having a total population of at least one hundred fifty thousand, and organized for the purpose of establishing, owning, and operating a state community college within the district or a political subdivision created pursuant to division (A) of section 3358.02 of the Revised code. (Ohio Rev. Code § 3358.01)

⁵² Ohio Admin. Code § 117-8-02 requires libraries to adopt appropriation measures, and prohibits expending more than appropriated.

⁵³ The majority of Ohio Rev. Code Chapter 5705 applies to "subdivision", "taxing units", and "taxing authorities". However, Ohio Rev. Code § 5705.41 also applies to "district authorities". Public library boards do not fall under any of these definitions, except, under certain circumstances, they can be considered district authorities. 1982 Op. Atty. Gen. No. 1982-056 concluded that a board of public library trustees deriving funds from two or more subdivisions is therefore a district authority, subject to Ohio Rev. Code § 5705.41. The Opinion provides that library funds derived from property tax proceeds are actually funds derived from the state, rather than funds derived from two or more subdivisions. The Opinion also provides that a special tax levied pursuant to Ohio Rev. Code § 5705.23 would similarly not be considered "funds derived from two or more subdivisions" since the taxing authority's role would be strictly ministerial. The Opinion concludes by offering some examples of what could meet this definition, including the following levies: Ohio Rev. Code §§ 5705.06(B), 5705.19(D), 3375.07, 3375.23, 3375.09, 3375.18, 3375.31, 3375.31 and 3375.42.

⁵⁴ Ohio Rev. Code § 5705.44 contains an exception that payments made from "earnings" are not required to use the 5705.41 (D) certificate. Therefore, payments from the utility operating fund do not require certification. (However, payments from utility grant funds DO require certification.)

⁵⁵ The only part of Ohio Rev. Code § 5705.41 that does not apply to a general health district is § 5705.41(A). Instead, Ohio Rev. Code § 3709.28 (or 5705.38, 5705.39, and 5705.40) applies to health districts. See related footnote 48 on preceding page.

Matrix 2

Chapter 1: Direct Laws (continued)

Step No.	Requirement	Library	COG	Reg. Water & Sewer	Gen. Health Dist.	Joint Rec. Dist.	Park Dist.	Comm./Tech. College		State Colg./ Univ.	Joint Amb. Dist.	Joint Fire Dist.	Joint Police Dist.	Port Auth	Ag. Soc.	DC & CIC
								3357	3358							
1-4	ORC 5705.09: Establish funds; and 5705.12: Permission to establish funds			✓ ⁵⁶		✓	✓ ⁵⁷	✓	✓		✓	✓	✓	✓		
1-5	Various ORC 5705 Sections, 5731.48, and 3315.20(A): Distribution of levy revenue			✓		✓	✓	✓	✓		✓	✓	✓	✓		
1-6	ORC 5705.05-.065705.14-.06: Transfer funds			✓		✓	✓	✓	✓		✓	✓	✓	✓		
1-7	Various 5705 Sections & AOS Bulletin 97-003: Advances ⁵⁸			✓		✓	✓	✓	✓		✓	✓	✓	✓		
1-8	ORC 5705.13 and 5705.132: Reserve balance accounts & funds			✓		✓	✓	✓	✓		✓	✓	✓	✓		

⁵⁶ Ohio Rev. Code § 5705.09 doesn't apply to Regional Water & Sewer.

⁵⁷ Ohio Rev. Code § 5705.09 doesn't apply to Park Districts.

⁵⁸ Auditors should refer to Appendix A-1, *Transfers and Advances*, for guidance on using transfers and advances.

Matrix 2

Chapter 1: Direct Laws (continued)

Step No.	Requirement	Library	COG	Reg. Water & Sewer	Gen. Health Dist.	Joint Rec. Dist.	Park Dist.	Comm./Tech. College		State Colg./ Univ.	Joint Amb. Dist.	Joint Fire Dist.	Joint Police Dist.	Port Auth.	Ag. Soc.	DC & CIC
								3357	3358							
	Debt ⁵⁹															
1-13	ORC 133.22: Leg. auth. Anticipation securities			✓		✓	✓	✓	✓	✓	✓	✓	✓			
1-13	ORC 133.24: Tax anticipation notes			✓		✓	✓	✓	✓	60	✓	✓	✓			
1-13	ORC 5705.03: Auth. to levy taxes			✓ ⁶¹		✓	✓ ⁶¹	✓	✓		✓	✓	✓	✓		
1-13	ORC 5705.05: Gen. levy for current exp.					✓		✓	✓		✓	✓	✓	✓		
1-13	ORC 5705.09: Est. of funds					✓		✓	✓		✓	✓	✓			
1-13	ORC 5705.10: Disp. and use of tax rev.					✓		✓	✓		✓	✓	✓	✓		
1-13	ORC 505.401: Additional borrowing authority (Fire Districts)											✓	✓			
1-13	ORC 167.041: ESC as Fiscal Agent lend money to COG members		✓													
1-14	ORC 133.10, 133.22, 133.24, and 4582.56(B)&(C): Anticipation Notes	✓ ⁶²		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓		
1-15	ORC 3375.404: Additional borrowing authority (Libraries)	✓														

⁵⁹ If the entity has a specific section that refers to its ability to issue bonds, notes or anticipatory securities, that section would supersede the general debt provisions in Ohio Rev. Code Chapter 133.

⁶⁰ For state universities, under Ohio Rev. Code § 3345.66, they can issue notes, and this section states that Ohio Rev. Code Chapter 133 does not apply. However, if issuing bonds, Chapter 133 applies.

⁶¹ For regional water and sewer districts and park districts, the only parts of Ohio Rev. Code § 5705.03 that apply are those sentences referring to a “taxing unit.”

⁶² County Library districts and regional library districts must follow Ohio Rev. Code Chapter 133. For all other libraries, only parts (A) and (B) of Ohio Rev. Code § 133.10 apply.

Matrix 2

Chapter 1: Direct Laws (continued)

Step No.	Requirement	Library	COG	Reg. Water & Sewer	Gen. Health Dist.	Joint Rec. Dist.	Park Dist.	Comm./Tech. College		State Colg./ Univ.	Joint Amb. Dist.	Joint Fire Dist.	Joint Police Dist.	Port Auth.	Ag. Soc.	DC & CIC
								3357	3358							
1-16	ORC 133.29, 135.14, and 731.56: Gov'ts investing in their own securities	✓		✓		✓					✓	✓	✓			
1-17	ORC 117.38, 1724.05 and 1726.11; OAC 117-2-03(B) and 126:3-1-01(A)(2)(a): Annual Financial Reporting ⁶³	✓	✓	✓	✓	✓	✓	✓	✓	✓ ⁶⁴	✓	✓	✓	✓	✓	✓
1-18	ORC 1724.05 and 1726.11: Annual Financial Reporting															✓
1-19	ORC 9.833 and 305.172: Health Care Self Insurance ⁶⁵	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	
1-20	ORC 2744.081: Liability self-insurance	✓	✓	✓	✓	✓	✓	✓	✓	✓ ⁶⁶	✓	✓	✓	✓	✓	
1-21	ORC 117.13(C)(3): Allocating Audit Costs	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
1-23	26 U.S.C.: Income Tax Collection	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
1-24	Various ORC Sections: Definitions, Rates of Contributions, etc	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
1-25	ORC 1715.51-59, 517.15, 759.36: Permanent endowment funds ⁷⁷	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

⁶³ Note: Community improvement corporations and development corporations are the only entities on this matrix required to follow GAAP. However for all entities listed on this matrix, auditors and financial statement preparers should read the guidance in AOS Bulletin 2015-007.

⁶⁴ Ohio Rev. Code § 3345.72(A)(1)(b) requires state universities and colleges to submit annual financial reports to the Auditor of State within 4 months after the end of the fiscal year (see AOS Bulletin 2015-007).

⁶⁵ See AOS Bulletin 2001-005 appendix 2 for a detailed table regarding the specific requirements for each type of self-insured subdivision. AOS Bulletin 2011-008 explains some subsequent considerations. Only test the OCS steps to the extent they apply and are mandatory for the subdivision under audit.

⁶⁶ Additional requirements specific to these entities, although not included in this OCS section, are included in Ohio Rev. Code §3345.203.

Matrix 2

Chapter 2: Indirect Laws & Statutorily Mandated Tests

Step No.	Requirement	Library	COG	Reg. Water & Sewer	Gen. Health Dist.	Joint Rec. Dist.	Park Dist.	Comm./Tech. College		State Colg./ Univ.	Joint Amb. Dist.	Joint Fire Dist.	Joint Police Dist.	Port Auth	Ag. Soc.	DC & CIC
								3357	3358							
2-1	ORC 5705.39: Appropriations limited by estimated resources			✓		✓	✓	✓	✓		✓	✓	✓	✓		
2-2	ORC 5705.41(A)&(B); and 5705.42: Restrictions on appropriating/expending money	67		✓	68	✓	✓	✓	✓		✓	✓	✓	✓		
2-4	OAC 117-2-02(D)&(E): Required accounting records	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓		
2-6 through 2-8	Various ORC 135 Sections: Eligible investments of interim monies	✓	✓			✓	✓				✓	✓	✓	✓	✓	

⁶⁷ The majority of Ohio Rev. Code Chapter 5705 applies to “subdivision”, “taxing units”, and “taxing authorities”. However, Ohio Rev. Code § 5705.41 also applies to “district authorities”. Public library boards do not fall under any of these definitions, except, under certain circumstances, they can be considered district authorities. 1982 Op. Atty. Gen. No. 1982-056 concluded that a board of public library trustees deriving funds from two or more subdivisions is therefore a district authority, subject to Ohio Rev. Code § 5705.41. The Opinion **provides** that library funds derived from property tax proceeds are actually funds derived from the state, rather than funds derived from two or more subdivisions. The Opinion also provides that a special tax levied pursuant to Ohio Rev. Code §5705.23 would similarly not be considered “funds derived from two or more subdivisions” since the taxing authority’s role would be strictly ministerial. The Opinion concludes by offering some examples of what could meet this definition, including the following levies: Ohio Rev. Code §§ 5705.06(B), 5705.19(D), 3375.07, 3375.23, 3375.09, 3375.18, 3375.31, 3375.31 and 3375.42.

⁶⁸ The only part of Ohio Rev. Code § 5705.41 that does not apply to a general health district is § 5705.41(A). Instead, Ohio Rev. Code § 3709.28 applies to health districts.

Matrix 2

Chapter 2: Indirect Laws & Statutorily Mandated Tests (Continued)

Step No.	Requirement	Library	COG	Reg. Water & Sewer	Gen. Health Dist.	Joint Rec. Dist.	Park Dist.	Comm./Tech. College		State Colg./ Univ.	Joint Amb. Dist.	Joint Fire Dist.	Joint Police Dist.	Port Auth.	Ag. Soc.	DC & CIC
								3357	3358							
2-9	ORC 135.18, 135.181 and 135.37; 12 C.F.R. 330: Security for repayment of public deposits	✓		✓		✓	✓ ⁶⁹				✓	✓	✓	✓	✓	
2-21	Various ORC Sections: Education Requirements ⁷⁰	✓				✓	✓				✓	✓	✓	✓	✓	
2-22	1979 Op. Atty. Gen. No. 79-111: Prohibitions from holding office; and 117.103(B)(1): Fraud Hotline	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
2-22	Various ORC Sections: Fraud, abuse & illegal acts, conflict of interest, Ethics ⁷¹	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
2-23	ORC 149.43: Availability of public records and related policies	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		

⁶⁹ If a park district appoints a treasurer, then Ohio Rev. Code § 131.18 may apply. If a treasurer is not appointed, two things could happen:
 a. The board can resolve to select a depository per §§ 135.01-135.21, in which case § 135.18 or § 135.181 apply (OCS Step 2-9); or
 b. If board resolutions are silent on this matter, the district must follow the procedures for county funds, which is Ohio Rev. Code § 135.37 (OCS step 2-9)

⁷⁰ If the treasurer of an entity invests under Ohio Rev. Code § 135.14, the training requirements in § 135.22 may apply.

⁷¹ Some provisions of these OCS Sections have general applicability while others do not. Also, other requirements may apply. Auditors should be alert for circumstances which raise questions about whether such activity has occurred and seek legal counsel when questionable activity is noted.

Matrix 2

Chapter 3: Stewardship

Step No.	Requirement	Library	COG	Reg. Water & Sewer	Gen. Health Dist.	Joint Rec. Dist.	Park Dist.	Comm. & Tec. College		State Colg./ Univ.	Joint Amb. Dist.	Joint Fire Dist.	Joint Police Dist.	Port Auth.	Ag. Soc.	DC & CIC
								3357	3358							
3-1	ORC 9.38: Deposits of public money	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
3-2	ORC 121.22: Meeting of public bodies	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
3-3	Various ORC Sections: Compensation, etc.							✓	✓	✓						
3-4	Various ORC Sections: Prohibited Political Activity ⁷²	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
3-5	Bonding Requirements	✓					✓			✓	✓	✓	✓			
3-18	ORC 2925.03(F), 2929.18, 2981.11, 2981.13: Law Enforcement trust fund						✓ ⁷³									

⁷² Some provisions of these OCS Sections have general applicability while others do not. Also, other requirements may apply. Auditors should be alert for circumstances which raise questions about whether such activity has occurred and seek legal counsel when questionable activity is noted.

⁷³ This section is only applicable when related fines, forfeitures, or penalties are collected.

Matrix 3

Chapter 1: Direct Laws

Step No.	Requirement	County ⁷⁴	Township	City	Village	Traditional Schools	STEM Schools	Community School
1-1	ORC 5705.38: Annual appropriation measure	✓	✓	✓	✓	✓		
1-2	ORC 5705.41(D) and 5705.42: Restrictions on the appropriation/expending money including "Blanket" fiscal officer certificates	✓	✓	✓	✓	✓		
1-3	ORC 5705.40: Amending or supplementing appropriations; contingencies	✓	✓	✓	✓	✓		
1-4	ORC 5705.09: Establishing funds; and 5705.12: Permission to establish funds	✓	✓	✓	✓	✓		
1-5	Various ORC 5705 Sections, 5731.48 and 3315.20(A): Distributing revenue derived from tax levies, etc.	✓	✓	✓	✓	✓		
1-6	ORC 5705.05-.06 and 5705.14-16: Transfer of funds	✓	✓	✓	✓	✓		
1-7	AOS Bulletin 97-003 and various ORC 5705 Sections: Advances	✓	✓	✓	✓	✓		
1-8	ORC 5705.13 and 5705.132: Reserve balance accounts and funds	✓	✓	✓	✓	✓		
1-9	ORC 5101.144: County Children Services Fund	✓						

⁷⁴ Emergency Management Agencies (EMAs) formed under Ohio Rev. Code § 5502.26 should be considered part of the county and does not require separate filing or auditing requirements.

Matrix 3

Chapter 1: Direct Laws (continued)

Step No.	Requirement	County	Township	City	Village	Traditional Schools	STEM Schools	Community School
1-10	ORC 3313.33: Conveyances and contracts					✓		
1-11	ORC Chapter 3318: Permissible expenditures for school districts participating in the classroom facilities assistance programs					✓	✓	✓
1-12	ORC 3314.08: Foundation anticipation notes							✓
1-13	Ohio Const. Art. XII, Section 11; Ohio Const. Art. XVIII, Section 12; ORC 133.10, 133.22 133.24, 167.041, 321.34, 505.401, 5705.03, 5705.05, 5705.09 and 5705.10; 1981 Op. Atty. Gen. No. 81-035: Retiring Debt	✓	✓	✓	✓	✓		
1-14	ORC 133.10, 133.22, 133.24 and 4582.56(B)&(C): Anticipation Notes	✓	✓	✓	✓	✓		
1-16	ORC 133.29; 135.14, and 731.56: Governments investing in their own securities	✓	✓	✓	✓	✓		

Matrix 3

Chapter 1: Direct Laws (continued)

Step No.	Requirement	County	Township	City	Village	Traditional Schools	STEM Schools	Community School
1-17	OAC 117-2-03(B); ORC 117.38 ⁷⁵ and 1724.05: Annual Financial Reporting	✓	✓	✓	✓	✓	✓	✓
1-19	ORC 9.833 and 305.172: Health Care Self Insurance ⁷⁶	✓	✓	✓	✓	✓	✓	
1-20	ORC 2744.081: Liability Self Insurance	✓	✓	✓	✓	✓	✓	✓
1-21	ORC 117.13(C)(3): Allocating Audit Costs	✓	✓	✓	✓	✓	✓	✓
1-22	Various ORC sections: Vacation and sick leave	✓	✓	✓	✓	✓		
1-23	26 U.S.C.: Income tax collection	✓	✓	✓	✓	✓	✓	✓
1-24	Various ORC sections: Definitions, rates of contributions etc	✓	✓	✓	✓	✓	✓	✓
1-25	ORC 1715.51-59, 517.15, 759.36: Permanent endowment funds ⁷⁷	✓	✓	✓	✓	✓	✓	✓
1-26	ORC 3313.981(F), 3317.01, 3317.02, 3317.03(E), 3321.04, and 3313.48: School District Average Daily Membership					✓		
1-27	ORC 3313.64, 3314.03 and 3314.08: Community School Funding						78	✓
1-28	ORC Chapter 5727: Electric kilowatt-hour tax ⁷⁹	✓		✓	✓			
1-29	ORC 507.09 and 505.24(D): Allocating township trustee and fiscal officer compensation		✓					

⁷⁵ Note: Counties, Cities, Traditional, STEM, and Community Schools are the only entities on this matrix required to follow GAAP. However for all entities listed on this matrix, auditors and financial statement preparers should read the guidance in AOS Bulletin 2015-007.

⁷⁶ See AOS Bulletin 2001-005 appendix 2 for a detailed table regarding the specific requirements for each type of self-insured subdivision. AOS Bulletin 2011-008 explains some subsequent considerations. Only test the OCS steps to the extent they apply and are mandatory for the subdivision under audit.

⁷⁷ A governmental organization that qualifies as an “institution” may manage and invest an institutional fund. [Ohio Rev. Code § 1715.52(E)(3)]. The term “institution” includes, a governmental organization to the extent that it holds funds exclusively for a charitable purpose.” Ohio Rev. Code § 1715.51(B)(2).

If a particular governmental entity has statutory authority itself to hold and invest donations that it receives, it may do so. If a particular governmental entity does not have statutory authority itself to invest and hold moneys that it receives as donations, the moneys must be paid to the appropriate treasurer for deposit and investment.

⁷⁸ Although these specific requirements do not apply to STEM schools, there are similar statutes in Chapter in Ohio Rev. Code §§ 3326.31 to 3326.50.

⁷⁹ This step cannot be superseded by home rule powers.

Matrix 3

Chapter 2: Indirect Laws & Statutorily Mandated Tests

Step No.	Requirement	County	Township	City	Village	Traditional Schools	STEM Schools	Community School
2-1	ORC 5705.39: Appropriations limited by estimated resources	✓	✓	✓	✓	✓		
2-2	ORC 5705.41(A)(B) and 5705.42: Restrictions on the appropriation/expending money	✓	✓	✓	✓	✓		
2-3	ORC 3314.24(A): Internet or Computer-based community school space							✓
2-4	OAC 117-2-02(D)&(E): Required accounting records	✓	✓	✓	✓	✓	✓	✓
2-5	ORC 3314.024: Accounting for management company expenses							✓
2-6	ORC 135.13, 135.14, 135.144, 133.03 and 12 C.F.R. 370: Eligible investments for interim monies		✓	✓	✓	✓	✓	
2-7	ORC 135.14 and 135.18: Other requirements		✓	✓	✓	✓	✓	
2-8	ORC 135.142, and 135.14(B)(7): Other eligible investments		✓	✓	✓	✓	✓	
2-9	ORC 135.18, 135.181; 135.37, and 12 C.F.R. 330: Security for repayment of public deposits	✓	✓	✓	✓	✓	✓	
2-10	ORC 135.35135.353 and 339.061(D); 12 C.F.R. 370: Eligible investments	✓						
2-11	ORC 135.35 and 339.061(B): Other requirements	✓						
2-12	ORC 3314.04: Contractually imposed deposit and investment requirements							✓
2-13	ORC 3314.011, 3314.019, 3314.02, 3314.023, 3314.03, 3314.036, and 3314.46: Sponsor monitoring of community schools							✓
2-14	ORC 3314.032: Operator oversight of community schools							✓
2-15	ORC 2335.25, 1901.31 and 1905.21: Cashbook of costs etc	✓		✓				

Matrix 3

Chapter 2: Indirect Laws & Statutorily Mandated Tests (Continued)

Step No.	Requirement	County	Township	City	Village	Traditional Schools	STEM Schools	Community School
2-16	ORC 117.16(A), 723.52, 5517.02 and 5517.021: Force Accounts Municipal Corporations [Cities/Villages]			✓	✓			
2-17	ORC 117.16(A), 5517.02, 5517.021 and 5543.19: Force Accounts – Counties	✓						
2-18	ORC 117.16(A), 5517.02, 5517.021 and 5575.01: Force Accounts – Townships		✓					
2-19	ORC 117.111(A), 304.01, 304.02, 955.013, 1306.01(P), 1306.02(A), 1306.04(B) and 1306.11: Security controls over counties' electronic transactions	✓						
2-20	OAC 3745-27-15 through 18: Landfill Financial Responsibility and Certifications	✓	✓	✓	✓			
2-21	Various ORC Sections: Education Requirements	✓	✓	✓	✓	✓	✓	
2-22	1979 Op. Atty. Gen. No. 79-111: Prohibitions from holding office; and 117.103(B)(1): Fraud Hotline	✓	✓	✓	✓	✓	✓	✓
2-22	Various ORC Sections: Fraud, <u>and</u> Abuse, and Illegal Acts ; Conflict of Interest; Ethics	✓	✓	✓	✓	✓	✓	✓
2-23	ORC 149.43: Availability of public records and related policies	✓	✓	✓	✓	✓	✓	✓
2-24	ORC 3313.666(A), (B), & (C) and 3314.03(A)(11)(d): Anti-Bullying Provisions					✓	✓	✓

Matrix 3

Chapter 3: Stewardship

Step No.	Requirement	County	Township	City	Village	Traditional Schools	STEM Schools	Community School
3-1	ORC 9.38: Deposits of public money	✓	✓	✓	✓	✓	✓	✓
3-2	ORC 121.22: Meeting of public bodies to be open, exceptions, and notice	✓	✓	✓	✓	✓	✓	✓
3-3	Various ORC sections: Appointments, compensation, contracts etc	✓	✓	✓	✓	✓	✓	✓
3-4	Various ORC Sections: Prohibited Political Activity ⁸⁰	✓	✓	✓	✓	✓	✓	
3-5	Various ORC Sections: Bonding requirements	✓	✓	✓	✓	✓	✓	✓
3-6	ORC 307.93(F), 341.25, 753.22, and 2301.58: Establishment and accounting treatment of Commissaries	✓		✓	✓			
3-7	ORC 2335.34 - .35: Unclaimed costs and fees (court of common pleas and probate court)	✓						
3-8	ORC 1907.20: Records required of county courts	✓						
3-9	ORC 1901.31: Municipal court records	✓		✓				
3-10	ORC 1905.21 and 733.40: Records required and disposition of receipts for mayor's court			✓	✓			

⁸⁰ Some provisions of these OCS Sections have general applicability while others do not. Also, other requirements may apply. Auditors should be alert for circumstances which raise questions about whether such activity has occurred and seek legal counsel when questionable activity is noted.

Step No.	Requirement	County	Township	City	Village	Traditional Schools	STEM Schools	Community School
3-11	Various ORC Sections: Collection, custody and disbursement of fees, fines	✓		✓	✓			
3-12	ORC 2743.70 and 2949.091: Additional court costs	✓		✓	✓			
3-13	ORC 319.04: Training and continuing education requirements for county auditors	✓						
3-14	ORC 325.071, 325.12, 325.06 and 325.18: Furtherance of justice allowance;	✓						
3-15	ORC 505.60, 505.601, Op. Atty. Gen. No. 2005-038 and 2013-022; AOS Bulletin 2015-002: Reimbursement of insurance premiums – Townships		✓					
3-16	ORC 505.603: “Cafeteria Plans” – Townships		✓					
3-17	ORC 507.12 and 733.81: Fiscal Integrity Act		✓	✓	✓			
3-18	ORC 4511.0915: Operation of traffic law photo monitoring device	✓	✓	✓	✓			
3-18	ORC 2925.03(F), 2929.18, 2981.11, 2981.13, and 2929.13: Law Enforcement trust fund	✓	✓ ⁷³	✓ ⁷³	✓ ⁷³			

Exhibit 6 – Entities Not Included

This exhibit contains the entity types which have NOT been considered for the applicability of OCS steps. Below is a table of the Ohio Rev. Code sections which establish these entity types. This table is not intended to define the requirements for these entities. Instead, it is intended to be used as a reference on where to begin the determination of the applicable compliance sections.

<u>Entity Type</u>	<u>Establishing Code Section</u>	<u>Notes</u>
<u>Community Based Correctional Facility (CBCF)</u>	<u>ORC 2301.51</u>	Specific audit procedures are located: AOS: in TeamMate IPA: at http://www.ohioauditor.gov/references/guidance.html
<u>Consolidated Department of JFS</u>	<u>ORC 329.40</u>	
<u>Convention Facility Authority</u>	<u>ORC 351</u>	
<u>County School Financing District</u>	<u>ORC 3311.50</u>	
<u>County Transit Board</u>	<u>ORC 306.01</u>	
<u>Emergency Management Agencies (EMAs)</u>	<u>ORC 5502.27</u>	See Footnote 74 in Matrix 1
<u>Government Insurance Pools</u>	<u>ORC 9.833, 2744.08</u>	
<u>Joint Economic Development District (JEDD)</u>	<u>ORC 715.70-.72</u>	
<u>Joint Economic Development Zones (JEDZ)</u>	<u>ORC 715.69-.692</u>	
<u>Juvenile Correctional Facility</u>	<u>ORC 2151</u>	
<u>Lake Facilities Authority</u>	<u>ORC 353</u>	See HB 340
<u>Memorial Buildings</u>	<u>ORC 345</u>	
<u>Metropolitan Housing Authorities</u>	<u>ORC 3735</u>	
<u>Multi-County Correctional Facility</u>	<u>ORC 307.93</u>	
<u>New Community Organizations</u>	<u>ORC 349</u>	
<u>Public Hospitals</u>	<u>ORC 140.01, 339, 513, and 749</u>	
<u>Regional Arts and Cultural Districts</u>	<u>ORC 3381</u>	
<u>Regional Library Systems</u>	<u>ORC 3375.90</u>	
<u>Regional Student Education Districts</u>	<u>ORC 3313.83</u>	
<u>Regional Transit Authority (RTAs)</u>	<u>ORC 306.31</u>	
<u>Regional Transportation Improvement Project (RTIP)</u>	<u>ORC 5595</u>	
<u>Retirement Systems</u>	<u>ORC 145, 742, 3307, 3309, and 5505</u>	
<u>Sanitary Districts</u>	<u>ORC 6115</u>	
<u>Special Improvement Districts</u>	<u>ORC 1710</u>	
<u>Transportation Improvement Districts</u>	<u>ORC 5540</u>	
<u>University Branch District</u>	<u>ORC 3355</u>	
<u>Workforce Investment Area Agencies</u>	<u>ORC 6301</u>	

Questions and Comments

The Auditor of State welcomes comments and suggestions on the *OCS*. Please submit them through:

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