

Ohio Auditor of State Mary Taylor's

# Best Practices

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## Generally Accepted Accounting Principles



Mary Taylor, CPA  
Ohio Auditor of State



# Mary Taylor, CPA Ohio Auditor of State

Dear Colleague,

My office is continuously searching for ways to improve accountability and increase efficiency within Ohio government. This issue of Best Practices highlights Generally Accepted Accounting Principles (GAAP) and points out the benefits GAAP can provide to Ohio taxpayers through enhanced government transparency.

GAAP provides a more detailed financial breakdown, providing taxpayers the opportunity to better understand how their dollars are being spent. All Ohioans should be afforded the right to review tax dollar expenditures in GAAP format. Although I understand that not every government entity currently reports its finances using GAAP, I encourage all organizations to move toward that goal.

As a state, we can achieve excellence in financial reporting by employing GAAP in all financial operations. More importantly, community leaders can help reduce the potential for fraud, waste and abuse of public funds thanks to the financial clarity GAAP provides.

The Auditor of State's office has numerous resources available to assist entities with GAAP related issues and I encourage you to take advantage of these opportunities. For more information about the services and resources we offer, please contact my office at (800) 282- 0370 or visit [www.auditor.state.oh.us](http://www.auditor.state.oh.us).

Sincerely,

A handwritten signature in blue ink that reads "Mary Taylor".

Mary Taylor, CPA  
Ohio Auditor of State

# Got GAAP?

By Steve Faulkner, *Public Affairs Staff Writer*

When some people hear the word “gap” they might think of Gap, Inc., the popular clothing store chain with more than \$15 billion in annual revenues. But in the world of accounting, the acronym “GAAP” takes on an entirely different meaning.

GAAP stands for Generally Accepted Accounting Principles and is the accounting standard many of Ohio’s public entities must follow. Ohio Administrative Code section 117-2-03 (B) states that, “all counties, cities and school districts, including educational service centers and community schools, shall file annual financial reports which are prepared using GAAP.”

GAAP is an agreed upon set of accounting principles, standards and procedures that organizations use to compile their financial statements. Simply defined, GAAP is a common way of recording and reporting financial information.

Fred Kruse, CPA and chief auditor of the Ohio Auditor of State Mary Taylor’s Accounting and Auditing section says, “GAAP is designed to produce financial statements that readers can use to analyze an entity’s financial position, results of operations and cash flows. For example, GAAP statements often identify a government heading towards financial difficulties, such as fiscal emergency, several years before cash-basis statements report problems.”

The accounting principles outlined in GAAP are “generally accepted” by the Governmental Accounting Standards Board (GASB). GASB’s mission is to establish and improve standards of state and local governmental accounting and financial reporting. Accounting professionals recognize the GASB as the official source of GAAP for state and local governments. The Financial Accounting Standards Board (FASB) does the same thing for the nation’s private sector companies.

"The Securities and Exchange Commission (SEC) has required GAAP for decades. Why should Ohio governments use a lesser standard?"

*Fred Kruse, CPA and chief auditor of the Ohio Auditor of State Mary Taylor's Accounting and Auditing Section*

“The Securities and Exchange Commission (SEC) has required GAAP for decades. Why should Ohio governments use a lesser standard?” Kruse says.

While the state’s larger public agencies, including counties, cities and schools, are statutorily obligated to follow GAAP, it is not a requirement for smaller communities. Many townships and villages still use the cash basis of accounting. Cash basis is essentially the “checkbook” approach to financial reporting we use every day to record our personal debit card and check purchases. Cash basis only reports how much cash an entity receives, spends and keeps.

Cash basis of accounting is oftentimes criticized for failing to show an organization’s financial “big picture.” Cash basis omits critical financial information such as debt and other liabilities, as well as capital assets like buildings, vehicles, computer equipment and furniture.

Think of it this way: the typical family does not assess their financial condition simply by finding out how much they have in a checking account. Instead, they want to know how much credit card debt, mortgage debt, car loans and other obligations they owe. They also want to know the market value of their home, car or other items to assess their financial condition.

Similar to their finances at home, GAAP reporting allows taxpayers to gain a better understanding of their government’s financial condition. GAAP itemizes debt as a liability and shows whether or not an entity will have enough money, under current circumstances, to continue making timely payments when due. GAAP also requires entities to properly report how much is invested in capital assets. Capital asset reports include information about where assets are physically located, how old they are and how long until they will require replacement.

Ohio Auditor of State Mary Taylor’s Local Government Services (LGS) section serves as a resource to guide community leaders through the process of converting to GAAP. Reviewing the financial statements

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of a similarly sized organization is also helpful. And gathering financial information throughout the year will help an entity meet filing deadlines once the fiscal year is over.

“The entity should maintain detailed records on investments, receivables, assets, employee leave balances, debt and other obligations, including amortization schedules and payment information,” says Dave Thompson, CPA and chief project manager with Auditor of State Mary Taylor’s Local Government Services section. “Care should be taken to ensure that accounts are reconciled monthly and not only should year-end data be available, but activity occurring throughout the year should also be detailed and available for use in supporting year-end financial statements.”

Most Ohio governments implement cash basis of accounting throughout the fiscal year, then convert to GAAP at year-end for financial reporting. Unfortunately, too many governments wait until after the fiscal year-end to start this process. Preparation for financial reporting should be an ongoing process that helps to alleviate last minute deadline work that is prone to errors and missed deadlines. With proper planning and assignment of duties, financial reporting is capable of being completed much sooner than the 150-day deadline imposed on Ohio’s GAAP governments. Kruse says the rules for private companies are much more stringent.

“SEC companies must report unaudited GAAP results quarterly within 45 days and audited annual statements within 90 days of each fiscal year end,” Kruse says. “Recent SEC rule changes are reducing these deadlines to 35 and 60 days respectively for larger entities. So, clearly it can be done.”

Assuming that proper financial records were kept throughout the year, the actual conversion of data should begin as soon as the fiscal year is closed out. The Auditor of State’s 150-day deadline is firm and the failure to meet that deadline may result in penalties assessed against the government entity.

“GAAP is a very powerful internal planning tool for government officials,” Thompson says. “Many individuals other than the fiscal officer play a part in the decision-making process of the entity, but few have first-hand

knowledge of the detailed financial transactions of the entity.”

In the interest of improved accountability, it is important to provide decision makers, as well as local taxpayers, with a snapshot of an entity’s complete and accurate financial standing. GAAP financial statements accomplish this goal.

Oh, by the way, even Gap, Inc. files GAAP financial statements. The SEC requires it!

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## GAAP Resources

*Government Accounting Standards Board*  
[www.gasb.org](http://www.gasb.org)

*Government Finance Officers Association*  
[www.gfoa.org](http://www.gfoa.org)

*The American Institute of Certified Public Accountants*  
[www.aicpa.org](http://www.aicpa.org)

*The Ohio Society of Certified Public Accountants*  
[www.ohioscpa.com](http://www.ohioscpa.com)

*Financial Accounting Standards Board*  
[www.fasb.org](http://www.fasb.org)

*The National Association of State Auditors,  
Comptrollers and Treasurers*  
[www.nasact.org](http://www.nasact.org)

*The U.S. Government Accountability Office*  
[www.gao.gov](http://www.gao.gov)

*U.S. Securities and Exchange Commission*  
[www.sec.gov](http://www.sec.gov)

# Spotlight: Crawford Co., Ohio

By Emily Frazee, *Public Affairs Staff Writer*

For almost 20 years, Crawford County, Ohio has been commended for dedication to financial transparency and accountability. Since 1989, the county has received the Certificate for Excellence in Financial Reporting from the Governmental Finance Officers Association (GFOA). This distinction is given to state and local



*Crawford County Courthouse*

governments that exceed the minimum requirements established by generally accepted accounting principles (GAAP) including preparation of a comprehensive annual financial report (CAFR).

County Auditor Robin Hildebrand takes great pride in the fact that Crawford County has received the Certificate for Excellence in Financial Reporting for so many years. It is quite a professional achievement for Hildebrand because the majority of her years in public service have been spent in the Crawford County Auditor's office. After assisting the Crawford County Auditor in various roles, Hildebrand was appointed to the helm on May 1, 2001. She is currently serving in her second full term.

According to Hildebrand, learning the ins and outs of GAAP was no more difficult than learning other requirements put forth in Ohio law. She considers her knowledge of county government an asset to learning the reporting style. When GAAP reporting was first established by the legislature, Hildebrand

participated in training sponsored by Auditor of State Mary Taylor's Local Government Services Section (LGS). Although there was a learning curve associated with changing to GAAP reporting, Hildebrand is reaping the benefits of knowing how to utilize this nationally recognized accounting standard. "By learning how to prepare GAAP financial statements

in-house, Crawford County has been able to prepare them at minimal cost to the taxpayer," says Hildebrand.

Pete Sorem, chief of LGS, says that Crawford County is an excellent example of utilizing GAAP reporting to its fullest potential because the County Auditor employees are responsible for creating the statements each year. Sorem believes that the act of compiling the information is a valuable learning experience.

"Understanding how to read and explain a GAAP report is important, however the knowledge and understanding that is gained by putting the report together can be even more

beneficial," Sorem says. Additionally, Crawford County is a model for others because they use their GAAP statements on a regular basis. For example, the County Auditor's office uses the report to answer questions and compile financial data for county projects.

Crawford County has also been able to identify areas of concern because of GAAP statements. For example, the information helped them identify financial issues involving the county owned and operated landfill and verify the financial status of the county self-insurance health and worker's compensation programs.

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"In these times of economic uncertainty, the public's demand for accountability, communication and understanding of how their tax dollars are being spent is at an all-time high. Preparing GAAP financial statements and a CAFR is just one way that I can communicate and provide financial data that will increase accountability and understanding of local government which in turn will hopefully increase public confidence in county government and its elected officials."

*Robin Hildebrand  
Crawford County Auditor*

There are many resources available for state and local government entities who want to learn more about GAAP. Hildebrand states that LGS has been invaluable to Crawford County. “From the beginning, LGS understood the importance for all local governments, big and small, to know how to prepare GAAP statements,” Hildebrand said. Additionally, the GFOA has tools for community leaders interested in GAAP and government entities that already prepare GAAP statements are often willing to help.

Ultimately, Hildebrand feels that, “preparing GAAP financial statements shouldn’t be viewed any differently than other legal mandates of the office.” She sees the cost of preparing GAAP financial statements or a CAFR as an investment in the taxpayers rather than as a cost to the taxpayers. To Auditor Hildebrand and the citizens of Crawford County, it is clear that the benefits of GAAP are well worth the effort.

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### Village Fiscal Officer and Clerk/Clerk-Treasurer Training

This one-day continuing education program is available to village fiscal officers and clerk-treasurers at one of five locations throughout the state. This seminar is open to newly appointed or incumbent village fiscal officers and clerk-treasurers.

October 8, 2008  
Columbus – Ramada Plaza  
4900 Sinclair Road  
Columbus, OH 43229

October 23, 2008  
Athens – Ohio University Inn  
331 Richland Avenue  
Athens, OH 45701

October 15, 2008  
Hudson – Holiday Inn  
240 East Hines Hill Road  
Hudson, OH 44236

October 27, 2008  
Perrysburg – Holiday Inn  
French Quarter  
10630 Fremont Pike  
Perrysburg, OH 43551

October 20, 2008  
Mason – Kings Island Conference Center  
5691 Kings Island Drive  
Mason, OH 45040

Registration begins at 8:30 a.m. Program lasts from 9 a.m. to 3:30 p.m. To register or for more information please contact:

Kimberly A. Kirkbride  
Office of the Ohio Auditor of State Mary Taylor, CPA  
Local Government Services Section  
(614) 728-7211 [kakirkbride@auditor.state.oh.us](mailto:kakirkbride@auditor.state.oh.us)

## GAAP Advice

*Crawford County Auditor, Robin Hildebrand*

- Make the financial statements meaningful to the public entity and its taxpayers. Don't just hire a consultant to prepare the statements without the entity's guidance, understanding and input.
- The added value of preparing GAAP statements is the knowledge gained by the public entity during the compilation process.
- If a consultant is hired, and there isn't any input from the public entity, that added value is generally eliminated. Also, a consultant generally does not have a vested interest in communicating the goals and objectives of the public entity.
- Preparing a CAFR gives a public entity a wonderful opportunity to communicate with its citizenry. If a consultant puts the report together, many times this opportunity is not realized.
- Financial statements should be a reflection of the officials responsible for compliance with Ohio law and proper communication to the taxpayers.



## Ohio Auditor of State Regional Offices

### Columbus/State

88 East Broad Street, 10th Floor  
Columbus, Ohio 43215  
Phone: (614) 466-4514  
(800) 282-0370  
Fax: (614) 466-4490

### Akron/Canton

101 Central Plaza South  
700 Chase Tower  
Canton, OH 44702  
Phone: (330) 438-0617  
(800) 443-9272  
Fax: (330) 471-0001

### Athens

743 E. State Street, Suite B  
Athens Mall  
Athens, Ohio 45701  
Phone: (740) 594-3300  
(800) 441-1389  
Fax: (740) 594-2110

### Cincinnati

11117 Kenwood Road  
Blue Ash, Ohio 45242  
Phone: (513) 361-8550  
(800) 368-7419  
Fax: (513) 361-8577

### Cleveland

Lausche Building, 12th Floor  
615 Superior Avenue, NW  
Cleveland, Ohio 44113  
Phone: (216) 787-3665  
(800) 626-2297  
Fax: (216) 787-3361

### Dayton

One First National Plaza  
130 West Second Street, Suite 2040  
Dayton, Ohio 45402  
Phone: (937) 285-6677  
(800) 443-9274  
Fax: (937) 285-6688

### Toledo

One Government Center, Room 1420  
Toledo, Ohio 43604  
Phone: (419) 245-2811  
(800) 443-9276  
Fax: (419) 245-2484

### Youngstown

Voinovich Government Center  
242 Federal Plaza West, Suite 302  
Youngstown, OH 44503  
Phone: (330) 797-9900  
(800) 443-9271  
Fax: (330) 797-9949

## Auditor's Office Receives National Excellence Award

COLUMBUS - The National White Collar Crime Center is honoring Ohio Auditor of State Mary Taylor's office with the 2008 NW3C Member Agency Award for Excellence. Award recipients are NW3C member agencies whose accomplishments most exemplify support for the organization's goal: providing a nationwide support system for agencies involved in the prevention, investigation and prosecution of economic and high-tech crimes.

"It is an honor to be recognized for our commitment to the prevention and detection of

white collar crimes," Taylor said. "I am pleased to accept this award on behalf of my office's Special Investigations Unit and Special Audit Section which are committed to providing local government officials with additional tools to prevent and detect fraud."

As part of Auditor Taylor's commitment to providing local organizations with the resources needed to combat fraud and improve accountability to Ohio's taxpayers, her office held four unique statewide training seminars aimed at assisting local government entities and law enforcement authorities in the detection, prevention and investigation of white collar crimes.

This training, coupled with the hard work of the Auditor of State's Special Investigations Unit and Special Audit Section, helped bring about outstanding community achievements in the areas of localized training, statewide events and numerous partnerships with agencies at the local, state and national levels.

Rooting out fraud, waste and abuse in government spending is a top priority for Auditor Taylor and she takes great pride in her office's successes thus far.

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

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