

## CHAPTER 4

### ACCOUNTING AND REPORTING

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.<sup>1</sup>

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<sup>1</sup> Ohio Administrative Code (OAC) 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.auditor.state.oh.us](http://www.auditor.state.oh.us) under *Publications*.

A January 2006 revision to the OAC rescinded the charts of accounts from OAC 117 for counties, schools, townships, libraries, and villages. Therefore, some of the charts of account described in the footnote below from the 2006 OCS no longer exist.

The Auditor of State also requires by rules, that certain public offices follow a prescribed uniform chart of accounts and/or establish a fund accounting system to demonstrate legal compliance, financial accountability and to provide management with information for decision making. These rules are in Chapter 117 of the Ohio Administrative Code. 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 internal control condition or reportable noncompliance. Also see Step 4-5 as it relates to accounting systems.

## Section A: Reporting

**4-1 Compliance Requirements:** Ohio Admin. Code Section 117-2-03(B) and Ohio Rev. Code §117.38 and §1724.05: **GAAP** Annual financial reporting.

### Summary of Requirements:

#### ***GAAP Basis Entities***

Ohio Admin. Code Section 117-2-03(B) requires counties, cities, school districts, educational service centers, and community schools must to report annually (but not necessarily account) on a GAAP basis. Ohio Rev. Code 1724.05 requires Community Improvement Corporations established under Ohio Rev. Code Chapter 1724 to report annually (but not necessarily account) on a GAAP basis.

#### ***GAAP Reporting Basis***

Per Ohio Rev. Code §117.38, GAAP-basis entities must file annual reports within 150 days of their fiscal year end (except ORC 1724.05 requires community improvement corporations to file within 120 days of their fiscal year end).<sup>2</sup>

Per AOS Bulletins 2006-02 and 2008-01, annual reports filed with AOS must be *complete* to avoid the application of a penalty of \$25 per day (\$750 maximum) permissible under Ohio Rev. Code §117.38. As such, To be *complete*, GAAP entities must submit the basic financial statements, including the government-wide financial statements, fund financial statements, notes to the basic financial statements, Management's Discussion & Analysis, and any other required supplementary information to be considered a complete filing.<sup>3</sup>

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<sup>2</sup> The ORC does not prescribe a deadline for GAAP mandated governments that file on another accounting basis (OCBOA or AOS basis). However, they still must file annually. We will cite noncompliance if a “GAAP government” files OCBOA or regulatory statements, *regardless* of whether they filed within 60 days. That is, the 60-day requirement is irrelevant to “GAAP governments.” For example, if a county filed OCBOA statements within 60 days of its year end, the following cite would apply:

“Ohio Administrative Code §117-2-03 (B) requires the County to prepare its annual financial report in accordance with generally accepted accounting principles. The County filed financial statements with the Auditor of State, but those statements followed a cash and investments accounting basis rather than generally accepted accounting principles. The accompanying financial statements and notes omit material assets, liabilities, fund equities, and disclosures. The County is subject to fines and various other administrative remedies.”

(For this finding we need not differentiate regulatory vs. OCBOA formatting or list the date the statements were filed, because it is irrelevant.)

<sup>3</sup> Failing to file an annual report could be a symptom of an inadequate accounting system, inadequate training of personnel in understanding the accounting and reporting process, unposted or unreconciled records or other significant issues affecting the control environment, or which may even pose fraud risks.

**Cash Basis Entities**

Per Ohio Rev. Code §117.38, cash-basis entities must file annual reports with the Auditor of State within 60 days of the fiscal year end. ~~GAAP basis entities must file annual reports within 150 days.~~ The Auditor of State may prescribe by rule or guidelines the forms for these reports. However, if the Auditor of State has not prescribed a reporting form, the public office<sup>4</sup> shall submit its report on the form used by the public office. Any public office not filing the report by the required date shall pay a penalty of twenty-five dollars for each day the report remains unfiled, not to exceed seven hundred fifty dollars. The AOS may waive these penalties, upon the filing of the past due financial report.

The report shall contain the amount of: (A) receipts, and amounts due from each source; (B) expenditures for each purpose; (C) income of any public service industry that the entity owns or operates, as well as the costs of ownership or operation; and (D) **public debt** of each taxing district, the purpose of the debt, and how the debt will be repaid.

**Cash and GAAP Basis Entity Requirement**

Public offices must publish notice in a local newspaper stating the financial report is available for public inspection at the office of the chief fiscal officer.<sup>5</sup>

**Note:** We normally would not deem a “somewhat” late filing to constitute “direct and material” noncompliance on the determination of financial statement amounts (i.e. the auditor would normally not report a late filing citation in the GAGAS compliance report.)

Conversely, a significantly late filing may be material (i.e. reportable) GAGAS noncompliance, especially if related to an inability to prepare a complete filing.

Material noncompliance would also normally exist if:

- An entity subject to GAAP did not follow GAAP in its annual report.
- The filing was significantly incomplete (see discussion of complete above).
- The filing was significantly misstated.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals</li> <li>• Knowledge and Training of personnel</li> <li>• Presence of an Effective Accounting System</li> </ul>		

<sup>4</sup> Ohio Rev. Code §117.01(D) states that, as used in Ohio Rev. Code Chapter 117, “public office means any state agency, public institution, political subdivision, or other organized body, office, agency, institution, or entity established by the laws of this state for the exercise of any function of government.” Op. Atty. Gen. No. 89-055 indicates the Auditor of State has discretion to interpret and apply the definition of “public office” used in Ohio Rev. Code §117.01(D). The Auditor of State has therefore determined that charter schools qualify as public offices as defined under this section.

<sup>5</sup> Charter schools should publish notices in the newspapers of the locality where the constituents are located if different from where the office of the chief fiscal officer is located.

<ul style="list-style-type: none"> <li>• Legislative and Management Monitoring</li> <li>• Management's identification of changes in laws and regulations</li> <li>• Management's communication of changes in laws and regulations to employees</li> </ul>		
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#### **Suggested Audit Procedures - Compliance (Substantive) Tests:**

Inquire if the government files its financial reports with the Auditor of State on a GAAP basis. Inspect a copy of the filed report.

Trace selected totals from the annual report to the underlying accounting system. (*If we use the annual report as a trial balance, AOS auditors will satisfy this requirement by completing the mandatory Trial Balance steps from the financial audit program.*) If the report is significantly deficient, we should cite Ohio Rev. Code §117.38 or §1724.05 for filing an incomplete or misleading report, as described in the box above.

Determine whether the filed report includes the statements, disclosures and required supplementary information (if applicable) required by GAAP (i.e. determine if the filing was substantially **complete** as described above).

When opining on non-GAAP presentations for governments required to follow GAAP, auditors should follow this guidance from AOS Bulletin 2005-002:

- If a GAAP-mandated government presents “34 look-alike statements,” include an emphasis of matter paragraph in the financial statement opinion, and report the noncompliance in the GAGAS report.
- If a GAAP-mandated government does not follow GAAP *or* present “34 look-alike statements,” issue an adverse opinion on the financial statements, as well as a GAGAS noncompliance finding. (These governments do not qualify for the “dual opinion.”)

**You can limit the following step to every other audit, unless the prior audit found noncompliance or unless you have other reasons to suspect this may be a compliance issue. The working papers should document whether we tested this in the prior audit.**

Examine the proof of publication for the annual notice.

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):**

**4-2 Compliance Requirements:** GAAP and annual financial reporting for community improvement corporations (CICs)<sup>6</sup> and development corporations (DCs).<sup>7</sup>

**Summary of Requirements: Annual Reporting** (Ohio Rev. Code §1724.05– CICs and §1726.11– DCs)

- Corporations must submit (unaudited) annual GAAP financial reports to the Auditor of State. The corporation must file the annual report within 120 days of fiscal year end.<sup>8</sup> The Ohio Rev. Code does not prescribe a fiscal year end for these corporations.

**Failure to Report/Present Auditable Records** (Ohio Rev. Code §1724.06- CICs and §1726.12- DCs)

- Additionally, the Auditor of State must certify corporations to the Secretary of State in the following two circumstances:
  - If a Corporation files its annual report more than 90 days delinquent (i.e., does not file its annual GAAP financial statement report within 120 days of its fiscal year end).
  - If a Corporation does not present auditable records within 90 days of a determination by the Auditor of State that a corporation is unauditable.
- Upon certification, the Secretary of State is to cancel the Corporation's articles of incorporation until the deficiency is remedied.
- For more information, see AOS Bulletin 2001-003.

**NOTE:** Revisions to audit requirements in Ohio Rev. Code 9.234 per the 2005 budget bill (HB 66) do **not** alter the AOS' statutory requirement to audit CICs or DCs.

In determining how the government ensures	What control procedures address the	W/P
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<sup>6</sup> Being non-profit under chapter 1702 is not enough to be a CIC. To be a CIC requiring an AOS audit, the entity must be incorporated under both 1702 & 1724. (A Development Corp. would only be incorporated under chapter 1726.) Read the articles and see if they refer to chapters 1724 or 1726. Merely entitling an entity as an “improvement” or “development” corporation is not sufficient. The articles of incorporation must support that the entity falls under 1724 or 1726.

<sup>7</sup> We are aware of only four DC, and at least two of them are inactive. Development corporations organized under ORC 1726 are stock-issuing entities.

<sup>8</sup> CIC or DC that do not file GAAP statements and notes (and required supplementary information, if any) within 120 days of its fiscal year end are **not** subject to AOS penalties prescribed in ORC 117.38. “A community improvement corporation is, in essence, a private non-profit corporation which is bound by the general terms of RC Chapter 1702 (non-profit corporations). A privately organized entity that performs a public purpose occupies a status no different from that of countless other non-profit corporations, the private nature of which is indisputable. Nor is a community improvement corporation possessed of powers derived from statute. Although RC 1724.02 provides that a community improvement corporation shall possess certain powers enumerated therein, the ultimate source of its power is not RC 1724.02, but its articles of incorporation and code of regulations.” [Ohio Atty Gen. Op. No. 79-061] Also, auditors should take note that CIC and DC are subject to a 120-day filing requirement rather than the 150-day requirement applicable to other GAAP entities.)

compliance, consider the following:	compliance requirement?	Ref.
<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals</li> <li>• Knowledge and Training of personnel</li> <li>• Presence of an Effective Accounting System</li> <li>• Legislative and Management Monitoring</li> </ul>		

**Suggested Audit Procedures - Compliance (Substantive) Tests:**

Read the corporation's annual report. Determine if it complies with GAAP in material respects. Determine if the corporation filed its report with the AOS within 120 days of fiscal year end.

If a corporation does not file its annual GAAP financial statement report within 210 days of fiscal year end, or does not present auditable records within 90 days of the Auditor of State's determination of unauditability:

- The Chief Auditor will consult with the Chief Deputy Auditor. The Chief Deputy Auditor will determine whether to request the Legal Division to issue a subpoena for the accounting records.
- IPA firms should contact the Regional Chief Auditor regarding these matters

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):**

## Section B: Community School Additional Reporting

**4-3 Compliance Requirements:** Per Ohio Rev. Code § 3314.024: A management company providing services to a community school and charging more than twenty percent of the school's annual gross revenues shall provide a detailed accounting, including the nature and costs of the services it provides to the community school. This information shall be included in the footnotes of the financial statements of the school and be subject to audit during the school's regular financial audit.

**Summary of Requirement:** This footnote should list management company expenses during the year by object codes (e.g., salaries, supplies, etc.). Pursuant to Ohio Rev. Code § 3314.03(A)(8), community schools must use the Uniform Schools' Accounting System (USAS),<sup>9</sup> which requires classifying costs by function and object codes. *Also*, this footnote should differentiate between the direct costs and any overhead costs a management company allocates to a community school.

Since AOS deems this information material, failing to provide an adequate level of audit assurance (as described above) will require the AOS to add an emphasis of a matter paragraph<sup>10</sup> to the opinion for omitting a required disclosure, or will require a scope qualification for an inability to audit the footnote. Finally, AOS will report this as material noncompliance with Ohio Rev. Code § 3314.024.

See Auditor of State Bulletin 2004-009 for more information.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>• Policies and Procedures Manuals</li> <li>• Knowledge and Training of personnel</li> <li>• Presence of an Effective Accounting System</li> <li>• Legislative and Management Monitoring</li> <li>• Management's identification of changes in laws and regulations</li> <li>• Management's communication of changes in laws and regulations to employees</li> </ul>		

### Suggested Audit Procedures - Compliance (Substantive) Tests:

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<sup>9</sup> A 2006 Ohio Administrative Code amendment omitted the requirement for schools (and community schools per 3314.03(A)(8)) to follow USAS. However, the Auditor of State intends to reinstate the USAS requirement. Therefore, we strongly suggest these notes conform to USAS.

<sup>10</sup> While the law requires the auditor to "qualify" the opinion, we believe an emphasis of a matter paragraph is preferable because inadequate disclosure of this matter is not a departure from GAAP.

The management company may elect to have AOS (or contracting IPA's) audit this information at the management company. AOS will examine the books, records, and other supporting documentation prepared and maintained by the management company.

Alternatively, AOS will accept a management company's independently audited financial statements as meeting the requirements of Ohio Rev. Code § 3314.024, provided the audit meets the audit and disclosure requirements set forth in the following paragraph. (IPA's may elect to follow this guidance.):

Where a management company manages more than one community school or has other "lines of business" in addition to managing a community school, AOS will require a statement showing direct and allocated indirect (e.g., overhead) expenses for each school. The companies should present this statement in a combining or consolidating format (i.e., present a column for each school). Additionally, the American Institute of Certified Public Accountant's (AICPA) audit and accounting guide, *Not-for-Profit Organizations*, sections 14.09 and 14.10 permits organizations to present this as supplemental information. Notes to the supplemental information should briefly describe the method used to allocate overhead costs. Since overhead allocations require subjective judgment, their amounts and allocation method should be considered disclosures of higher inherent risk. (An example disclosure is in Appendix A to Bulletin 2004-009.).

Where a management company's sole business is providing services to one community school, the company's audited statements should suffice, if the statements classify expenses in substantial conformance with USAS object codes. (IPA's may elect to follow this guidance.

The ~~community school's management company's~~ audit opinion must extend to the combining or consolidating columns. Auditors of community schools must set their materiality threshold to include assurance the supplemental information for each school is not materially misstated. Opinions that report only on the individual school statement's fair presentation in relation to the management company's basic financial statements do not provide sufficient audit assurance, unless accompanied with an agreed-upon procedures report related to the supplemental information.

### **Agreed Upon Procedures Guidelines**

A management company may decide to issue financial statements for which its independent auditors have only opined on the fair presentation of individual community school expenses by object code in relation to the company's basic statements taken as a whole. As this Bulletin describes, this does not provide AOS with enough assurance to provide an unqualified opinion on a community school's disclosure of management company expenses. However, we can accept this presentation if the auditor provides us an agreed-upon procedures report following these guidelines.

1. The engagement should follow Chapter 2, Agreed-Upon Procedures Engagements, from the AICPA's *Statement on Standards for Attestation Engagements No. 10* (SSAE 10).
2. Per SSAE 10, 2.11, AOS will be a specified party permitted to rely on the report.
3. As a specified party, AOS requires the following procedures:
  - a. Haphazardly or randomly select 100 direct nonpayroll expense transactions (checks, EFTs, etc.) the management company charged to its community schools.

- b. Compare the amount charged to the school to supporting documentation, including a canceled check (or EFT documentation, etc.) and vendor invoice, supporting that the cost:
    - i. Is a direct expense benefiting the school.
    - ii. Is recorded for the proper amount for the proper period in the accounting system.
    - iii. Is charged to a proper object code.
  - c. Haphazardly or randomly select 100 direct payroll expense transactions, including salaries and benefits the management company charged to its community schools.
  - d. Compare the amount charged to the school to supporting documentation, including a canceled check and to personnel files supporting that the cost:
    - i. Is a direct expense paid to an employee for services provided solely to the school
    - ii. Is the cost recorded for the proper amount for the proper period in the accounting system
    - iii. Is the cost charged to a proper object code
  - e. Haphazardly or randomly select 100 expense transactions assigned to any indirect cost pool.
    - i. Compare the transaction to source documentation, such as vendor invoice, personnel file, etc. supporting the cost indirectly benefits the schools or other activities to which it is allocated.
    - ii. Determine the transaction is recorded for the proper amount for the proper period in the accounting system.
    - iii. Obtain an understanding of the method the management company uses to pool and assign indirect costs to individual schools. Recompute selected allocations for conformity with the method.
    - iv. Compare the results from steps e.(i) through e.(iii) with the overhead allocation disclosure in the footnote. Report any material departures from the footnote description in terms of the actual method used and any projected dollar effects of the departure.
4. As stated in SSAE 10, 2.25, auditors should report all instances of noncompliance, such as costs charged to a school where documentation does not support it directly benefited the school, or for which insufficient documentation exists.
5. The community school's auditor must judge whether any deficiencies in the agreed-upon procedures report requires the opinion to be qualified regarding the footnote.

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):**

## Section C: Counties' Electronic (i.e., Internet) Transactions Records

If you are auditing a county, Ohio Rev. Code § 117.111(A) mandates that we complete this step, if a county implemented or significantly updated electronic records or signatures systems related to commercial electronic (i.e. financial internet) transactions. This requirement applies to IPAs auditing counties.

**4-4 Compliance Requirement:** Ohio Rev. Code §117.111(A) Security controls over counties' electronic (i.e. internet) ~~signatures and records~~ transactions

**Summary of Requirement:** The AOS (and IPAs contracting to audit counties) **must** inquire into the method, accuracy and effectiveness of any procedure a county office adopts under Ohio Rev. Code §304.02 to secure electronic signatures or records relating to county business that is conducted electronically under Chapter 1306 of the Revised Code.<sup>11</sup>

Other statutes relevant to this requirement:

**Per Ohio Rev. Code § 304.01:**

(B) "County office" means any officer, department, board, commission, agency, court, or other instrumentality of a county.

(D) "Electronic record" means a record created, generated, sent communicated, received, or stored by electronic means.

(E) "Electronic signature" means an electronic sound, symbol, or process attached to or logically associated with a record and executed or adopted by a person with the intent to sign the record.

► Note: The signature can be by a county employee or a citizen transacting business with a county office.

**Ohio Rev. Code § 304.02:** Prior to a county office using electronic records and electronic signatures, under Chapter 1306 of the Revised Code and except as otherwise provided in Section 955.013 of the Revised Code, a county office shall adopt, in writing, a security procedure to verify that an electronic signature, record, or performance is that of a specific person or for detecting changes or errors in the information in an electronic record. A security procedure includes, but is not limited to, a procedure requiring algorithms or other codes, identifying words or numbers, encryption, or callback or other acknowledgment procedures.

**Ohio Rev. Code § 955.013** permits paying dog and kennel registration fees by financial transaction devices (e.g. credit cards), including via the internet.

**Ohio Rev. Code § 1306.02(A)** provides that Chapter 1306 of the Revised Code, the Uniform Electronic Transactions Act, generally applies to electronic records and electronic signatures relating to a transaction.

**Ohio Rev. Code § 1306.04(B)** provides that sections 1306.01 to 1306.23 of the Revised Code apply only to transactions between parties each of which has agreed to conduct transactions by electronic means.

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<sup>11</sup> Note: Since the legislature has mandated this step, we should deem it to be qualitatively material.

**Ohio Rev. Code § 1306.01(P)** defines “transaction” as an action or set of actions occurring between two or more persons relating to the conduct of business, commercial, or governmental affairs.

**Ohio Rev. Code § 1306.11:** (A) An electronic record of information generally satisfies record retention laws.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>• Accounting system designed to capture the required information</li> <li>• Accounting policies and procedures manuals</li> <li>• Knowledge and training of accounting personnel</li> <li>• Legislative and Management Monitoring</li> </ul>		

#### Suggested Audit Procedures - Compliance (Substantive) Tests:

1. Determine the ~~electronic records and electronic signatures relating to a county office's electronic (i.e. *internet*) transactions use electronic signature or otherwise transacts electronically~~. These include:
  - a. ~~Automated accounting systems;~~
  - b. ~~Payroll and other checks/warrants the county issues with signatures;~~
  - c. Cash receipts where a county office accepts credit/debit cards electronically (i.e, via the *internet*).
  - d. Other types of internet transactions, ~~encompassing everything from dog licenses to direct deposit receipts or payments.~~<sup>12</sup>
2. Obtain and read the *written* security procedure the county office (or its ~~internet transaction service organization~~<sup>13</sup>) adopted to safeguard each type of ~~electronic (i.e. *internet*) records, signatures, and performance~~ transaction. Note: Because the service organization processes most elements of these transactions, it is sufficient if the *service organization* adopts security procedures. If the service organization requires the county office to adopt “user control” security procedures, we should consider whether the county office has implemented these controls. (Often the service organization’s contract or response to a county office’s RFP will describe the security procedures.)

<sup>12</sup> As noted on the previous page, ORC 955.013 separately addresses electronic / *internet* sales of dog licenses. Direct deposits do *not* fall under Ohio Rev. Code 117.111 or Ohio Rev. Code 304.02.

<sup>13</sup> Companies providing *internet transaction services* may be *service organizations*. We should consider service organization implications per AU 324 depending upon the materiality of the transactions.

- a. Retain a copy or summary of the procedure in the permanent file.
- b. Update systems' documentation as needed.<sup>14</sup>
3. Assess the effectiveness of the design of controls and determine that they have been "placed in operation." (AOS staff can refer to ~~AOSAM 30500.45 & .46~~ AOSAM 30500.54-.58.)
4. If ~~these transactions are subject to audit (exceed tolerable error, etc.)~~ and we assess CR at less than the maximum level or low, test monitoring or application controls related to electronic (i.e. internet) transactions and signatures.
5. Determine whether results from the steps above regarding the design and operation of controls related to securing electronic signatures and ~~electronic records relating to internet~~ transactions result in any management comments, ~~reportable conditions significant deficiencies~~ or material weaknesses. We must also report as a noncompliance finding. Since the statute explicitly refers to a ~~written~~ security procedure ~~policy~~ adopted in writing, we should report the absence of a security procedure adopted in writing. ~~written security policy~~.

**Audit Implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):**

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<sup>14</sup> AOS staff should update the RCEC where needed to incorporate electronic (i.e. internet) transactions, including controls and procedures designed to safeguard electronic transactions. Also, consider the appropriate degree of ISA involvement. AOS audit staff must consult with ISA when a government has a complex IT environment (AOSAM 30500.41 49). Also consider that the nature of electronic transactions and signatures subject to this law may require ISA assistance.

## Section D: Accounting requirements applicable to all public offices

**4-5 Compliance Requirements:** Ohio Admin. Code Sections 117-2-02(D) and (E)  
Accounting records

### Summary of Requirement:

All local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors. Such records **should** include the following:

- (1) Cash journal, which typically contains the following information: The amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
- (2) Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of the payor, purpose, receipt number, and other information required for the transactions can be recorded on this ledger.
- (3) Appropriation ledger, which may assemble and classify disbursements or expenditure/expenses into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, and any other information required may be entered in the appropriate columns.
- (4) In addition, all local public offices should maintain or provide a report similar to the following accounting records:
  - a. Payroll records including:
    - i. W-2's, W-4's and other withholding records and authorizations;
    - ii. Payroll journal that records, assembles and classifies by pay period the name of employee, social security number, hours worked, wage rates, pay date, withholdings by type, net pay and other compensation paid to an employee (such as a termination payment), and the fund and account charged for the payments;
    - iii. Check register that includes, in numerical sequence, the check number, payee, net amount, and the date;
    - iv. Information regarding nonmonetary benefits such as car usage and life insurance; and
    - v. Information, by employee, regarding leave balances and usage;
  - b. Utilities billing records including:

- i. Master file of service address, account numbers, billing address, type of services provided, and billing rates;
- ii. Accounts receivable ledger for each service type, including for each customer account, the outstanding balance due as of the end of each billing period (with an aging schedule for past due amounts), current usage and billing amount, delinquent or late fees due, payments received and noncash adjustments, each maintained by date and amount;
- iii. Cash receipts records, recording cash received and date received on each account. This information should be used to post payments to individual accounts in the accounts receivable ledger described above
- c. Capital asset records\* including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number. Local governments preparing financial statements using generally accepted accounting principles will want to maintain additional data. Fixed assets are tangible assets that normally do not change form with use and should be distinguished from repair parts and supply items.

Ohio Admin. Code Section 117-2-02(E) states that each local public office should establish a capitalization threshold\* so that, at a minimum, eighty per cent of the local public office's non-infrastructure assets are identified, classified, and recorded on the local public office's financial records.

\* These capital asset (fixed asset) record requirements apply to GAAP and non-GAAP mandated public offices. All public offices should have record of significant capital assets owned sufficient to manage their operations.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> <li>• Accounting system designed to capture the required information</li> <li>• Accounting policies and procedures manuals</li> <li>• Knowledge and training of accounting personnel</li> <li>• Legislative and Management Monitoring</li> </ul>		

#### Suggested Audit Procedures - Compliance (Substantive) Tests:

Based on our systems documentation, results of inquiries and other audit procedures, assess whether the accounting system generally complies with the aforementioned requirements.<sup>15</sup>

<sup>15</sup> Note: The following underlined language amends the 2006 OCS note (appearing in strikeout font below):

**Audit Implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):**

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Statement on Auditing Standards No. 112 (SAS 112), effective for audits of financial reporting periods ending on or after December 15, 2006, lowered the threshold for reporting control deficiencies. Section 4.28 in the AICPA's *Government Auditing Standards and Circular A-133 Audits* requires auditors to report noncompliance findings (e.g. OAC 117-2-02(D)) that also relate to control deficiencies in both (1) the internal control and (2) the compliance sections of the GAGAS report. Auditors should refer to Advisory Memo 2007-07, *Reporting Control Deficiencies Under Auditing Standard No. 112*, to determine how and where to report control deficiencies **and** noncompliance with OAC 117-2-02(D) requirements.

We would not deem deficiencies with meeting these requirements as reportable GAGAS noncompliance unless a deficiency is also a material weakness. We would normally deem these matters to be material weaknesses only if the matter (1) caused an opinion qualification (including a scope restriction), (2) contributed significantly to other material noncompliance or fraud, (3) resulted in an unauditible condition, (4) required records reconstructions, or (5) other serious condition. We would also describe the finding as a material weakness in the internal control section of the GAGAS report.

If the deficiency was not as severe as the above circumstances, but nevertheless constituted a "significant deficiency in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the government's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements," we would issue a reportable condition without citing this OAC section.