

IMPLEMENTATION GUIDE FOR LEGAL COMPLIANCE AUDITING IN OHIO

Table of Contents

IMPLEMENTATION GUIDE FOR LEGAL COMPLIANCE AUDITING IN OHIO 1

 Introduction 2

 Compliance Risk and Controls 7

 Organization of the OCS 10

 Home Rule Powers 12

 Reporting 15

 Audit Findings 18

 Noncompliance Citations 18

 Auditee Responses to Findings 19

 Findings for Adjustment 20

 Findings for Recovery 26

 Additional Policies for Findings for Recovery for Auditor of State Audits 30

 Finding for Recovery Procedures for Independent Public Accountants (IPA) 36

 Findings for Waste or Abuse 41

 Referring Audit Reports 43

 Referrals to the Ethics Commission, Other State Agencies, and the IRS 44

 Appendix A – Budgetary and Certain Related Requirements (Applies to Chapter 1 Section A) 46

 APPENDIX A-1 Transfers and Advances (Applies to Chapter 1 Section A) 48

 APPENDIX A-2 Direct Charges (Applies to Chapter 1 Section A) 52

 APPENDIX B – Contracts and Expenditures (Applies to Chapter 2 Section B) 54

 APPENDIX C – Debt (Applies to Chapter 1 Section C) 55

 APPENDIX C-1 Tax and Revenue Anticipation Notes (Applies to Chapter 1 Section C) 56

 APPENDIX D – Reporting (Applies to Chapters 1 & 2 Section D) 67

 APPENDIX E – Deposits and Investments (Applies to Chapter 2 Section E) 68

 APPENDIX E-1 Federal Agencies (Applies to Chapter 2 Section E) 69

 APPENDIX E-2 GASB No. 40 (Applies to Chapter 2 Section E) 70

 Exhibit 1 – Citation Format 73

 Exhibit 2 – Public Officers’ Bond 77

 Exhibit 3 – Compliance ACE Form 83

 Exhibit 4 – Elected Officials’ Compensation 87

 Exhibit 5 – Legal Matrix 89

 Exhibit 6 – Entities Not Included 90

 Questions and Comments 91

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

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.

- 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* (AAG SLG), 4.11 states:

In accordance with paragraph AU-C 250.03, 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, AAG SLG 4.21 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 guidance 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, the *OMB Compliance Supplement*,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.
- Review the discussions of compliance requirements applicable to specific industries, as found in this guide and other relevant AICPA Audit and Accounting Guides.

² The internal controls AAG SLG 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: <http://www.ohioauditor.gov/references/practiceaids/facrs.html>.

- 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 AAG SLG 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 AAG SLG 4.13 for guidance.
 - See table below in this Implementation Guide.

AAG SLG 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 GASB 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, Cod. 2400. 103 GASB Cod. 2400.702-18
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. I50.150
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
<p><u>Note: Disclosure should only be as detailed as needed to inform users of ‘significant’ violations. The GASB Comprehensive Implementation Guide, Question 1.8.1, explains that the determination of “significant” violation is a matter of judgment. Therefore, disclosures may not be necessary for every instance of noncompliance.</u></p>	

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	
Compliance requirements <i>directly</i> and often <i>materially</i> affecting the determination of financial statement amounts.	<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 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	
Compliance requirements with indirect but potentially material financial statement effects	<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 <u>2011 GAGAS 4.25(a) / 2018 GAGAS 6.41(a) (fiscal periods ending 6/30/20 and later)</u>. ○ 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 financial statement opinion. <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.
Audit tests mandated by law.	<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.
Chapter 3	
Stewardship requirements ⁴	<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

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

2011: 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, contracts 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.

2011: 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.

2018: 6.41 (fiscal periods ending 6/30/20 and later) 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:

- b. ~~fraud and noncompliance with provisions of laws, or regulations, contracts or grant agreements~~ 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***;
- c. fraud that is material, either quantitatively or qualitatively, to the financial statements or other financial data significant to the audit objectives.
- d. ~~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~~
- e. ~~abuse that is material, either quantitatively or qualitatively.~~

Reporting Immaterial Violations

2011 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.

2018: 6.44 (fiscal periods ending 6/30/20 and later) Auditors should communicate in writing⁵ to audited entity officials when:

a. identified or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements comes to the auditor's attention during the course of an audit that has an effect on the financial statements or other financial data significant to the audit objectives that is *less than material but warrants the attention of those charged with governance* or

b. the auditor has obtained evidence of identified or suspected instances of fraud 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*.

2018: 6.48 (fiscal periods ending 6/30/20 and later) When identified or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements that does not warrant the attention of those charged with governance comes to the auditor's attention during the course of the audit, the auditors' determination of how to communicate such instances to audited entity officials is a matter of professional judgment. When identified or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements is clearly *inconsequential*, the auditors' determination of whether and how to communicate such instances to audited entity officials is a matter of professional judgment.

(Determining *inconsequential* requires auditor judgment. Absent qualitative considerations, it may equate to *trivial*, as described in footnote 9)

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.)

⁵ Auditors can satisfy the "in writing" requirement by reporting the noncompliance in the management letter.

Noncompliance Reporting Examples

Noncompliance	Example Evaluation	Reporting
The auditee records premiums received with a debt issuance in a capital project fund.	<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>
Total fund “X” budget expenditures exceed appropriations.	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, ⁶ significant over-expenditure of appropriation could endanger the program’s sustainability, so the noncompliance warrants management’s attention.	Report a finding in the GAGAS report.
The government purchased a speculative hedging instrument.	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.	Report a finding in the GAGAS report.
Internet- or computer-based community school contracts with a nonpublic school for instructional facility space.	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.	Report a finding in the GAGAS report.

⁶ 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 ~~four~~ categories⁷:

- 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 / 2018 GAGAS 6.25 (fiscal periods ending 6/30/20 and later) 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*.⁸

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 laws and regulations (fiscal periods ending 6/30/20 and later) and provisions of contracts or grant agreements.

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

⁷ *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.

⁸ 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.

2011 / 2018 GAGAS defines the elements of a finding to include:

4.11 / 6.25 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. In a financial audit, the applicable financial reporting framework, such as generally accepted accounting principles, represents one set of criteria.

4.12 / 6.26 Condition: Condition is a situation that exists. The condition is determined and documented during the audit.

4.13 / 6.27 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 / 6.28 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. The effect or potential effect is the outcome or consequence resulting from the difference between the condition and the criteria.~~ 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 / 6.52 Along with assisting management or oversight officials of the audited entity in understanding the need for corrective action, clearly developed findings assist auditors in making recommendations for corrective action. If auditors sufficiently develop the elements of a finding, they may provide recommendations for corrective action.

Auditee Responses to Findings

2011 GAGAS 4.33 – 4.39 / 2018 GAGAS 6.57 – 6.62 (fiscal periods ending 6/30/2020 and later) establish requirements for obtaining and reporting the auditee’s responses to findings. 2011 GAGAS 4.33 / 2018 GAGAS 6.57 (fiscal periods ending 6/30/2020 and later) 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.” 2011 GAGAS 4.35 / 2018 GAGAS 6.58 (fiscal periods ending 6/30/2020 and later) 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 exit 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.

2011 GAGAS 4.38 / 2018 GAGAS 6.59 (fiscal periods ending 6/30/2020 and later) 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. (*Note:* 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 2011 GAGAS 4.38 / 2018 GAGAS 6.59 (fiscal periods ending 6/30/2020 and later). 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 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, trivial⁹, 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.

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, 2011 GAGAS 4.25 / 2018 GAGAS 6.41 -- 6.44 (fiscal periods ending 6/30/2020 and later) 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 Trivial⁹

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

⁹ **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.

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 2011 GAGAS 4.25 / 2018 GAGAS 6.44 (fiscal periods ending 6/30/2020 and later).

- 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 Identified Misstatements (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 will be reflected in the management	Not reported in the management letter. Document in the working papers only.

	<u>Material</u> (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:	<u>Material</u> (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:	<u>Quantitatively Immaterial</u> adjustments which are more than trivial (including those immaterial to opinion units, but material to one or more individual funds):	Adjustments which are trivial:
			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 . . .").¹⁰ 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.

¹⁰ 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 Recovery¹¹

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 the 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.

¹¹ Ohio Rev. Code § 3313.25, 3313.31, and 3319.36 impact school treasurer and superintendent liability. These statutes protect from liability for loss of public funds for payments made to a teacher, unless the loss results from the negligence or wrongfulness of that treasurer or superintendent. The statutes additionally protect from liability for loss of public funds a school district or educational service center treasurer whose official duties have been performed without negligence or wrongfulness. While these statutory changes limits some liabilities for these school administrators, any determination as to when liabilities may be limited respective to a potential FFR should be determined through consultation with AOS legal.

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 (1951), 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 2014-003¹².)

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~~ paid late fees, penalties, and/or interest charges because of a public officer's *gross negligence* by failing to properly remit, the amount

¹² 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.

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.

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*¹³ 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 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.

¹³ See the discussion of *strict liability* later in this Implementation Guide.

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 Noteworthy Memorandum that includes referral to the AOS Special Investigations Unit 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.

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 Special Investigations Unit 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 Special Investigations Unit (SIU) identifies a finding for recovery while conducting special audit testing as part of the regular financial audit:

- SIU will be responsible for ensuring the required CFAE and Legal consultations are obtained, and
- SIU will prepare and send the *Notice of Proposed Finding for Recovery*.
 - In appropriate situations, SIU may base a Finding for Recovery upon a court's restitution order. Ohio Rev. Code §2929.18 empowers Ohio courts to order a defendant to pay monetary restitution to a crime victim. Ohio courts sometimes order defendants found guilty of theft in office and related crimes against a public office to pay restitution to a public office. A court's restitution order has a "res judicata" or final judgment effect. A court's order of restitution, therefore, is a valid basis upon which AOS may issue a Finding for Recovery for the purpose of reimbursing a public office for public property that the defendant converted or misappropriated. Additionally, AOS will send only a Final Notice of Finding to the defendant since the court's Order is final. AOS does not need to send a Proposed Notice of Finding since the defendant's due process rights were protected (i.e., the defendant had the chance to produce evidence or otherwise respond in court before the restitution order was issued). AOS will modify the Sample Notice of Finding in this Supplement to include the date, unpaid restitution amount, a brief description of the trial court's finding, and a reference to the date of the court's journal entry.

In instances where the region has been requested to conduct the special audit testing as part of the regular financial audit, and SIU is serving as a concurring reviewer for the work:

- Regional auditors will remain responsible for ensuring the required CFAE and Legal consultations are obtained, and

- Regional auditors will also prepare and send the *Notice of Proposed/Final Finding for Recovery*. In these instances, the region must obtain approval from SIU before sending out the *Notice of Proposed/Final Finding for Recovery*.
- In the event that a Finding for Recovery is based solely upon a court's Order of restitution, the region will send only a Final Notice of Finding to the defendant since the court's Order is final. AOS does not need to send a Proposed Notice of Finding since the defendant's due process rights were protected (i.e., the defendant had the chance to produce evidence or otherwise respond in court before the restitution order was issued). AOS will modify the Sample Notice of Finding in this Supplement to include the date, unpaid restitution amount, a brief description of the trial court's finding, and a reference to the date of the court's journal entry.

Finding for Recovery Process:

- 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 counsel¹⁴, 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, draft GAGAS findings should be sent 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.
- 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 either the region or directly by SIU, the auditor should send the *Notice of*

¹⁴ Statutory legal counsel may not be who you would expect, so confirm with your entity. In the event statute, resolution or ordinance 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 that outside counsel has not been retained to fulfill that role via resolution or ordinance.

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 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 special audit testing, 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 recover 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.

Exit 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 exit conference may be held. Under Ohio Rev. Code § 121.22(D)(2), 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 exit conference have some discretion as to who may attend it. For example, auditors would have discretion not to conduct an exit 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 an exit 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 an exit 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 exit 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 exit 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*¹⁵ to each individual named in the Finding for Recovery¹⁵ and the bonding company(ies) and documentation should be maintained for how 'those charged with governance' were notified as well. 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.

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. Auditors should provide it to clients whenever possible and share the completed plan with the AOS attorney when the client finalizes it.)

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.

¹⁵ IPAs follow different procedures. See the *Finding for Recovery Procedures for Independent Public Accountants (IPA)* discussion later in the Implementation Guide.

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 (or other public office) 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

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).

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~~ audit 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.
 - 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.
- AOS's goal is for the client to be made whole, so in situations where an entity's insurance company covers a loss, a Finding for Recovery should still be issued against the individual(s) for the deductible amount not covered by the insurance company. Auditors should consult with their regional legal counsel.
- If a Finding for Recovery is issued because of a payroll overpayment, the amount to be recovered from the individual should be calculated at the Gross Pay amount.
- 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

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

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.
- 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. Additionally, the Center for Audit Excellence will verify the Proposed and Final Notices of Finding were appropriately sent.
- 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 for 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, except for special audits conducted by either the region or directly by SIU, the regional chief auditor or his/her designee will obtain the limited waiver from the IPA¹⁹ and, send the *Notice of Proposed Finding* to each individual named in the Finding for Recovery and the bonding company(ies).

¹⁸This 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.”

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

- In the case of special audit testing, it may be necessary to delay notice to individuals about proposed findings until law enforcement or prosecuting officials approve release of this information.
- In the case of a Finding for Recovery that the Special Investigations Unit (SIU) identifies while conducting special audit testing as part of the regular financial audit being conducted by an IPA, SIU will prepare and send the *Notice of Proposed Finding for Recovery*. However, prior to sending the notice, SIU is responsible for ensuring the required CFAE and Legal consultations are obtained.
- In instances where the region has been requested to conduct the special audit testing as part of the regular financial audit being conducted by an IPA, and SIU is serving as a concurring reviewer for the work, the regional auditors will remain responsible for ensuring the required CFAE and Legal consultations are obtained. The regional auditors will also prepare and send the *Notice of Proposed Finding for Recovery*. The region must obtain approval from the SIU concurring reviewer before sending the *Notice of Proposed Findings*.
- Finally, there are cases where the IPA firm may be asked to perform the special audit testing. Once the work is completed the region is responsible for submitting to SIU for review and completing any FFRs and/or notices. They should be reviewed by SIU prior to being sent.
- 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 notify the Chief of Quality Assurance that the Proposed and Final Notices of Finding were sent and provide copies of each for inclusion in the Quality Assurance files for the audit.
- 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. The Center for Audit Excellence must verify that the Notice of Finding was sent by the region and include a copy in the Quality Assurance files for the audit.
- AOS Legal Division will send both the statutory legal counsel letters and the Attorney General letters.

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.

IPAs should refer any matters involving possible criminal activities to the regional chief auditor and to the Director of the Auditor of State's Special Investigations Unit.

In addition, independent public accountants are to make an immediate, written report of all 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.²⁰

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:

²⁰ HB 491, enacted by the General Assembly in 2018, amended Ohio Rev. Code §§ 3313.25, 3313.31 and 3319.36 which appear to limit the liability of a school district or ESC treasurer, and a school district or ESC superintendent from strict liability in some instances.

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. 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 to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. See 1980 Op. Att'y. 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.

Findings for Waste or Abuse

The guidance in this section is for 12/31/19 and subsequent fiscal year ends based on the 2018 revisions of *Government Auditing Standards* (GAGAS / Yellow Book). For fiscal year ends prior to 6/30/2020, auditors should refer to 2011 GAGAS 4.07 and the 2019 OCS Implementation Guide, *Findings for Abuse* section guidance.

The 2018 Yellow Book transitions the discussion of abuse to application guidance and adds the perspective of waste, which is also defined. The new guidance (GAGAS 6.20) states that evaluating internal control in a government environment may also include considering internal control deficiencies that result in waste or abuse but that auditors are not required to perform specific procedures to detect waste or abuse in financial audits. Auditors may consider whether and how to communicate such matters if they become aware of them. Auditors may also discover that waste or abuse are indicative of fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements. Examples of waste and abuse are also provided.

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.

If auditors determine that a finding should be issued, they should follow the guidance below.

AOS Policies for Reporting Findings for Waste or 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 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 Waste or 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 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 waste or 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 for Waste or 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 waste or abuse.

IPA Policies for Reporting Findings for Waste or Abuse

Independent Public Accountants (IPAs) must also provide written notification of potential waste or 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 waste or 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 exit conference so he or she has time to respond.
- IPAs are responsible for determining their own process for evaluating responses and reporting waste or abuse.
- IPAs must notify the Regional Office when a potential waste or abuse issue is identified and then again, whether or not the comment will be issued in the audit report.

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

Pursuant to Ohio Rev. Code §§ 117.28 and 117.30 where a Finding for Recovery is made and remains unpaid at the time the audit is released, requires the Auditor of State to notify sends the audit report and notifies the Attorney General of Findings for Recovery, whether or not repaid before the audit report's release. Audit reports are sent by the Auditor of State when Findings for Recovery are reported.

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

IRS, Ohio Department of Taxation, STRS, SERS, OP&F Retirement System and OPERS Comments

The Internal Revenue Service²¹, the Ohio Department of Taxation²¹, School Teachers Retirement System, School Employees Retirement System, Ohio Police and Fire Retirement System, Ohio Public Employees Retirement System, and Ohio Department of Education have requested notification when local government audits have comments or findings pertaining to their respective agencies. The Auditor of State has agreed to these requests.²²

Additionally, Ohio Rev. Code §§117.105 and 3314.019 require the Auditor of State to provide written notice to sponsors of community schools regarding any action taken against a community school as part of an audit. We interpret this to mean the Auditor of State has a legal responsibility to provide copies of community school audit reports to sponsors.

Ethics 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 for consultation on determining how or if the region is to report this matter. After review, the Auditor of State Legal Division will make appropriate referrals.

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~~ consult with the Auditor of State's Legal Division of the referral prior to release of the audit report and sending the referral. 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.²³

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).

²¹ When available, please include the Employee Identification Number (EIN) when submitting referrals to the AOS referral box. In lieu of this information, provide the client contact and address.

²² When drafting comments please be as specific as we can as to the amounts that are due to the various agencies as this information is provided to the outside agencies and provides users of the report a perspective on the issues noted in the audit. Also, if the auditor is certain the outside agency already knows of the issue we have noted i.e., they have already assessed the entity penalties and interest then it is not necessary to refer to them. An internal control regarding the issue found will suffice.

²³ ODE's compliance officer 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.

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 unauditable 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).

If a corporation is declared unauditable 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 Ohio Rev. Code Chapters 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.

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 Cod. 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, unsupported 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 5705.46²⁴ 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.)

²⁴ 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</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
		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, 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
§ 306.49. Annual tax levy; purpose	Current expenses (§	§ 306.49(A) States in part: “[t]he regional transit authority may	§ 306.49(A) also states, in part, “. . . the regional transit authority may

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
Regional Transit Authority	133.10) or Permanent improvements (§ 133.24)	borrow money in anticipation of the collection of current revenues as provided in § 133.10 of the Ohio Rev. Code.”	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 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 Ohio Rev. Code § 1545.041, the board of park commissioners may issue bonds ²⁵ 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	No

²⁵ 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
		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.”	
§ 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) <i>also</i> 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 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>§ 4582.14. Tax levy; anticipatory notes</p> <p>Port Authority</p>	<p>Any allowable port authority expense including debt charges.</p>	<p>§ 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.”</p>	<p>§ 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.”</p>
<p>§ 4582.40. Tax levy to provide necessary funds</p> <p>Newly created port authorities</p>	<p>Any allowable port authority expense including debt charges.</p>	<p>§ 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.”</p>	<p>§ 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.”</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>§ 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</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>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 mature by December 31 of the 5th year after the levy’s passage.</p>
<p>§ 5705.21. Special election on additional school levy School District</p>	<p>Permanent improvements</p>	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</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>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> <p>School District</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 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</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>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>	<p>Current expenses or for constructing specific permanent improvements</p>	<p>No</p>	<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 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</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>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.²⁶

As a matter of accountability and internal control, each public office should account for financial activities using an accounting system which demonstrates 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.

²⁶ 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.^{27 28} (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.

²⁷ 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.”

²⁸ 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 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:

<u>Risk</u>	<u>Deposits</u>	<u>Investments</u>
Credit		√
Custodial credit	√	√
Concentration of credit		√
Interest rate		√
Foreign currency	√	√

The 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 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. 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 40% 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 established by at least two nationally recognized standard rating services, aggregate value does not exceed 10% of 	Interest rate Concentrations of credit

		outstanding commercial paper of the issuing corporation and mature not later than 270 days after purchase. The investment in commercial paper notes of a single issuer shall not exceed in the aggregate five per cent of interim moneys available for investment at the time of purchase. (Ohio Rev. Code § 135.35(A)(8)(a)(iv)).	
§ 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. ²⁹ 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 ³⁰ § 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 three 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 three highest categories by 2 ratings organizations.	Credit
§ 135.35(A)(10)	2-10 ³¹	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 2% of its investment portfolio	Concentrations of credit

²⁹ 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.

³⁰ This section is only applicable if the financial institution was issued an extension by the Treasurer of State.

³¹ *Foreign currency risk* should not apply because the statute requires "all interest and principal shall be denominated and payable in United States funds."

§ 135.35(A)(10)	2-10	A county’s foreign debt investments must be rated in 1 of the 3 highest categories by 2 ratings organizations.	Credit
§ 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 Cod. 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 §§ 117.115, 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 §§ 117.115, 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. Att’y. 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 117-02-02

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, Oeola, 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

Revised: HB 291, 132 GA
Effective: 3/20/19

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. In the alternative to a surety bond, a political subdivision as defined in Ohio Rev. Code § 3.061, may now, by ordinance or resolution, allow for the use of an employee dishonesty and faithful performance of duty policy, rather than a surety bond for, some officers, employees, or appointees (those positions highlighted in yellow in the following tables may utilize these policies³²) that would otherwise be required to give an individual surety bond. The policy must be in:
 - effect and apply to the officer, employee, or appointee before the beginning of the individual's term of office or employment.
 - an amount equal to or greater than the maximum amount of the bond otherwise required by law. If no amount, or only a minimum amount, of coverage is specified in law for the particular officer, employee, or appointee, the amount of coverage shall be an amount agreed upon by the legislative authority.

Note: Ohio Rev. Code § 3.30 now states, “Except as otherwise provided in section 3.061 of the Revised Code, 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 the person by his the person’s 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 the person was elected or appointed. Such office shall be considered vacant and shall be filled as provided by law.”

A person subject to a policy adopted under section 3.061 of the Revised Code, is deemed to have refused to accept the office or employment when the person fails to take, certify, and file the oath of office as required by law or fails to document proof of insurance coverage as provided in division (B) of section 3.061 of the Revised Code and the office shall be considered vacant and shall be filled as provided by law.”

2. **Blanket bonds and/or Insurance in lieu of Surety Bonds³³:** 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 (if their legislative authority has not elected to obtain an employee dishonesty and faithful performance of duty policy in lieu of the surety requirement). ~~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~~

³² Charter governments may have additional surety bond requirements, consult with AOS Legal to determine whether employee dishonesty and faithful performance of duty policies are a permissible alternative.

³³ HB 291, effective 3/20/19, authorizes insurance in lieu of surety bonds. Changes would apply to newly appointed/elected officials.

~~blanket bond to satisfy the bonding requirement. (See Ohio Rev. Code § 3.06 and/or 1965 Op. Att’y. Gen. No. 1965-087). Note: While blanket bonds generally satisfy some bonding requirements, insurance policies do not. Various types of Insurance policies and surety bonds 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.

See additional information on the related FAQ document available on the AOS website at: [www.ohioauditor.gov/references/ORC 3.061 Dishonesty and Faithful Performance of Duty Policy FAQs.pdf](http://www.ohioauditor.gov/references/ORC_3.061_Dishonesty_and_Faithful_Performance_of_Duty_Policy_FAQs.pdf)

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.	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.
	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.	
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.	In theory, insurance could cover everything that the bond covers.
	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.	

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
	1907.20(A)	Clerk of County Court	\$5,000
	2101.03	Probate Judge	\$5,000
	2153.10	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
5593.05	Bridge Commissioner	\$5,000	
Sanitary Districts	6115.57	County Treasurer	not less than probable amount of levy(s)
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	2151.70	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	940.05	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	
Park District	1545.13	Park law enforcement officer	
Port Authorities	4582.15	Secretary	
	4582.41	Secretary	
County	153.24	Building Commissioner	
	321.02	Treasurer	
	329.01	CDJFS director	
	2151.12	Judge/clerk of Juvenile Court	
	2301.12(C)	Chief Court Constable	
	5155.04	Superintendent of County Home	
Township	507.02	Deputy Fiscal Officer	
	511.232	Township Park Law Enforcement	
City	705.27	Treasurer/Auditor	
	705.60	City Manager	
	733.65	Sealer of Weights and measures	
	739.02	Trustees of Municipal Sinking Fund	
	747.01	Rapid Transit Commissioner	
	5593.05	Bridge Commissioner	
Traditional school districts	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	*
City	507.021(C)	Fiscal Officer Assistants	*
	733.69	Various (“additional bonds”)	*
	705.27	Various	*
	735.03	Public Utility Board Member	*
	1901.31(H)	Deputy clerk of Muni Court	\$3,000
Lake Facilities Authority	1901.311	Special deputy clerk of Muni Court	\$3,000
Any entity	353.03	Any	*
	3.06**	Deputies, Clerks	*

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

** = Yellow highlight in this cell indicates any deputy or clerk appointed/employed by a “political subdivision” as defined in ORC 3.061 could be covered by an employee dishonesty and faithful performance of duty policy in place of the bond.

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

As a general principle, the Ohio Const. Art. II, Section 20 provides a general prohibition on in-term compensation changes for public officers, both increases and decreases; however, reviewing elected officials’ compensation can be very complicated because a complete review of whether an elected official received the proper compensation may require analysis of several Ohio statutes (including the Ohio ethics laws), the Ohio Constitution, a charter (if applicable), case law, and Ohio Attorney General Opinions.

2000 Op. Att’y. Gen. No 2000-043 details the specific requirements for township trustees to receive in-term salary increases³⁴ 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. Att’y. 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.

County Official Tables

See the new county officials’ compensation charts for compensation rates through 2019 at: <https://caao.org/wp-content/uploads/County-Official-Compensation-Advisory-Bulletin-Updated-September-24-2019.pdf>.

³⁴ Auditors, whenever possible, should obtain a legal consult for questions of in-term changes in compensation.

Township Official Tables

For 2016 and 2017, Ohio Rev. Code §§ 505.24 and 507.09 permit a cost of living increase for township officials compensation. Compensation remained the same for 2018. Beginning in 2019 through 2028, fiscal officers will receive an annual increase of one and three-quarters per cent.

Note: For the compensation charts (A-15 and A-32) and more information regarding township trustee and fiscal officer compensation, see the [Ohio Township Handbook](#).

Exhibit 5 – Legal Matrix

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

The three legal matrices from the 2019 Implementation Guide have been combined into one and are now depicted in a separate Excel file: [Legal Matrix.xlsx](#). Entities are included alphabetically in the tab titled “OCS – Exhibit 5”.

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.

This exhibit from the 2019 Implementation Guide is now depicted in a separate Excel file: [Legal Matrix.xlsx](#). See tab titled “OCS – Exhibit 6”.

Questions and Comments

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

<http://www.ohioauditor.gov/Contact/Default.htm>