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Basic Policies for Small Governments

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Basic Policies for Small Governments

What is a policy?

- Difference between a policy and procedure
- Policies:
 - Communicate an organization's culture, values, and philosophy.
 - Lay the groundwork for the work culture.
- What is in a good policy?

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What is a procedure?

- Policies show the "why."
- Procedures tell the "how."
- Procedures outline:
 - Who is responsible for each task
 - What steps they need to take
 - Who they need to report to

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Example for requesting vacation time:

- Difference between a policy and a procedure:
 - Policies determine how much time an employee can take.
 - Procedures ensure that employees know what to do.

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Why do policies and procedures matter:

- Improve communities and interacting with citizens
- Carry out federal and state programs and laws
- Maintain accurate records
- Ensure employees abide by regulations
- Communicate clear goals and expectations
- Ensure employees know policies and procedures
- Promote consistency across organizations

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Sample policies:

- Credit Cards
- Travel Expenses
- Cash Management
- Personnel
- Personal Information
 - Note: This is not an all-inclusive list of policies.

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Credit Card Policies

- **General Provisions - Enacted HB 312 / ORC § 9.21**
 - Effective date: November 2, 2018
 - By February 2, 2019 each entity must adopt a written policy for the use of credit card accounts
 - If your entity currently does not use credit cards, you must adopt a policy prior to using or opening a credit card account
 - Due to the increased risk and ability to conduct ATM transactions via debit card, HB 312 prohibits the use of a debit card except for law enforcement purposes and debit/gift cards which are tied to grant moneys.

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Credit Card Policies (continued)

- **Policy Requirements:**
 - Appointment of compliance officer
 - Authorized users
 - Types of expenses
 - Acquisition, use and management of credit card
 - Submitting itemized receipts
 - Issuance, reissuance, cancellation and lost or stolen credit cards
 - Maximum credit limit or limits
 - Actions or omissions that qualify as misuse of a credit card account

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Credit Card Policies (continued)

- **Additional Resources:**
 - AOS Bulletin 2016-004 - "Credit Card Cash Withdrawals and Credit Card Controls in General"
 - AOS Best Practices December 2017 - "How to Minimize the Risk of Credit Card Abuse"
 - AOS Bulletin 2018-003 - "House Bill 312 Amendments to Regulate the Usage of Credit and Debit Cards"

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Travel Expense Policies

- Adopt formal policies and procedures for the reimbursing of travel expenses for employees. This policy should include, at a minimum:
 - an amount to be paid for mileage;
 - maximum amounts to be paid for meals and overnight stays;
 - and documentation required to be submitted to the Fiscal Officer for reimbursement.
- Updates from the IRS:
 - The standard mileage rates for car, van, pickup or panel truck are updated each year.
 - The standard mileage rate for business is based on an annual study of the fixed and variable costs of operating an automobile.

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Cash Management Policies

- Need to have policies addressing
 - Investments – very complicated
 - Cash on hand – how long to hold?
 - Petty cash – replenishment & receipts
 - Fund balance requirements – 1 month or more?
 - Collateral with banks.

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Personnel Policies

- Formal leave (sick/vacation/personal) policies and accrual rates
- Working hours & breaks
- Compensation rates
- Evaluations
 - *Note: This can be complex and might require the use of an expert in human resource management.*

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Personal Information Policies

- Includes: Personally identifiable information, SSN & other information.
- Ohio Rev. Code Section 1347.05 states every state or local agency that maintains a personal information system shall:
 - Appoint a responsible individual
 - Adopt and implement rules
 - Inform each of its employees
 - Specify disciplinary measures
 - Inform a person
 - Develop procedures
 - Take reasonable precautions
 - Collect, maintain, and use
- Further, Ohio Revised Code Section 1347.07 states a state or local agency shall only use the personal information in a personal information system in a manner that is consistent with the purposes of the system.

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**Ohio Compliance Supplement
- Implementation Guide,
Chapters and Determining
Applicable Requirements**

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Agenda

- Ohio Compliance Supplement Implementation Guide
- Chapter 1 Direct Laws
- Chapter 2 Indirect Laws & Statutorily Mandated Test
- Chapter 3 Stewardship

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**Ohio Compliance Supplement
Implementation Guide**

- This includes:
 - Introduction
 - Compliance Risk and Controls
 - Organization of OCS
 - Reporting
 - **Audit Findings**
 - Referrals to the Ethics Commission, Other State Agencies, and the IRS
 - **Appendixes**
 - **Exhibits**
 - Question and Comments

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Audit Findings

- Noncompliance Citations
- Auditee Responses to Findings
- Findings for Abuse
- Findings for Adjustment
- Findings for Recovery
- Additional Policies for Findings for Recovery for Auditor of State Audits
- Sample NOTICE OF (PROPOSED) FINDING
- Finding for Recovery Procedures for Independent Public Accountants (IPA) Referring Audit Reports

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Appendixes

- **APPENDIX A – Budgetary and Certain Related Requirements**
 - APPENDIX A-1 Transfers and Advances
 - APPENDIX A-2 Direct Charges
- 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.

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Appendixes

- **APPENDIX B – Contracts and Expenditures**
 - 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.

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Appendixes

- **APPENDIX C – Debt**
 - APPENDIX C-1 Tax and Revenue Anticipation Notes

- 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.

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Appendixes

- **APPENDIX D – Reporting**

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

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Appendixes

- **APPENDIX E – Deposits and Investments**
 - APPENDIX E-1 Federal Agencies
 - APPENDIX E-2 GASB No. 40

- 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.

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Exhibits

- Exhibit 1 – Citation Format
- Exhibit 2 – Public Officers' Bond
- Exhibit 4 – Elected Officials' Compensation
- **Exhibit 5 – Legal Matrices**
- **Exhibit 6 – Entities Not Included**



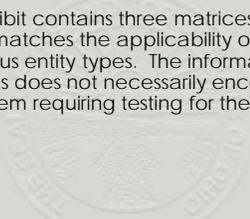
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Exhibits

- **Exhibit 5 – Legal Matrices**

- This exhibit contains three matrices. Each matrix matches the applicability of OCS steps to various entity types. The information in the matrices does not necessarily encompass every item requiring testing for these entities.



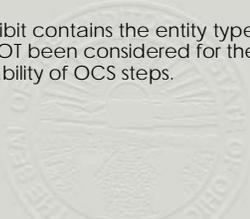
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Exhibits

- **Exhibit 6 – Entities Not Included**

- This exhibit contains the entity types which have NOT been considered for the applicability of OCS steps.



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Chapter 1 Direct Laws

- “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. 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.

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Chapter 1 Direct Laws

- This includes “direct laws”:

 - **Budgetary Requirements**
 - Annual appropriation measures – classification
 - Establishing funds and Permission to establish special funds
 - **Debt**
 - Foundation anticipation notes
 - Governments investing in their own securities
 - **Accounting and Reporting**
 - Annual financial reporting
 - **Other Laws and Regulations**
 - Liability Self Insurance
 - Allocating township trustee and fiscal officer compensation
 - **Appendix A: Agriculture Society Compliance Supplement**

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Chapter 2 Indirect Laws & Statutorily Mandated Test

- 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.

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Chapter 2 Indirect Laws & Statutorily Mandated Test

- This includes “indirect laws” :
 - **Budgetary Requirements**
 - Appropriations limited by estimated revenue
 - Restrictions on appropriating and expending money
 - **Contracts and Expenditures**
 - Internet- or computer-based community school cannot contract with a nonpublic school for instructional facility space
 - **Accounting and Reporting**
 - Required accounting records
 - Accounting for management company expenses

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Chapter 2 Indirect Laws & Statutorily Mandated Test

- **Deposits and Investments**
 - Eligible investments for interim monies; inactive deposits and maturities
 - Other allowable investments for subdivisions other than counties
- **Other Laws and Regulations**
 - Sponsor monitoring of community school
 - Disposition of fines and other moneys for mayor’s court

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Chapter 2 Indirect Laws & Statutorily Mandated Test

- **Statutorily Mandated Tests**
 - **Contracts and Expenditures**
 - Force accounts - Counties
 - **Accounting and Reporting**
 - Security controls over counties’ electronic (i.e. internet) transactions
 - **Other Laws and Regulations**
 - Various ORC Sections: Fraud and Abuse; Conflict of Interest; Ethics
 - Anti-Bullying Provisions

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Chapter 3 Stewardship

- This Ohio Compliance Supplement chapter provides a simplified process for assessing the government's compliance with these requirements.



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Chapter 3 Stewardship

- This includes:
 - **General**
 - Deposits of public money
 - Political activities prohibited
 - **Community Schools**
 - Dropout Prevention and Recovery School Eligibility Requirements
 - **Commissaries**
 - Establishment and accounting treatment for commissaries
 - **Courts**
 - Disposition of unclaimed fees and costs
 - Municipal court records

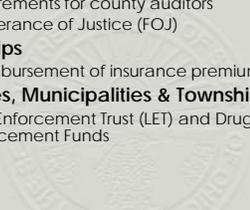


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Chapter 3 Stewardship

- **Counties and County Hospitals**
 - Mandates training and continuing education requirements for county auditors
 - Furtherance of Justice (FOJ)
- **Townships**
 - Reimbursement of insurance premiums
- **Counties, Municipalities & Townships**
 - Law Enforcement Trust (LET) and Drug Law Enforcement Funds



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Segregation of Duties

Key Element to
Implementing
Internal Controls

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What is Segregation of Duties?

Management divides or segregates key duties and responsibilities

Important characteristic of the Internal Control process

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How Does Implementing Segregation of Duties Help Us?

- Assists in preventing errors, misuse, and fraud
- More difficult for any one person to steal and then cover it up
- Would require the collusion of two or more persons to commit fraud

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What does Segregation of Duties look like for us?

Segregation of duties

Not allowing one person to handle every aspect of a transaction

↓

Responsibilities

Split among several individuals

↓

Separating duties so that 1 person does not have responsibility over all 3 duties:

Authorization	Recording	Safekeeping
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Segregation of Duties for Receipts and Disbursements



Cash Receipts
No single person should:

- Prepare bills
- Receive money
- Record receipts
- Deposit money
- Reconcile the bank accounts

Cash Disbursements
No single person should:

- Authorize payments
- Disburse funds
- Reconcile the bank accounts



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Segregation of Duties for Small Entities

Smaller Entity	Overcoming Limitations
<ul style="list-style-type: none"> • May not have employees (only elected officials) • May only have small number of employees • Faces greater challenges in implementing segregating duties • Example: Township 	<ul style="list-style-type: none"> • Additional levels of review • Reviewing randomly selected transactions • Periodic asset counts • Reviewing reconciliations

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Lessons Learned

City	County	County	School
<ul style="list-style-type: none"> • Payroll Clerk • Stole almost \$68,000 • Writing additional payroll checks to herself 	<ul style="list-style-type: none"> • Utility Clerk • Stole nearly \$15,000 • Adjusting and voiding customer accounts and pocketing cash payments 	<ul style="list-style-type: none"> • Clerk of Courts • Stole over \$17,000 • Used various schemes, including reversing deposits, altering deposit slips, and pocketing cash payments paid to the Court 	<ul style="list-style-type: none"> • Account Clerk • Stole over \$500,000 • Used various schemes, including issuing checks to himself, using the District's credit card to make personal purchases, and pocketing cash from athletic events and student fees

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How do we get started?

```

graph TD
    A[Identify Steps in the Internal Control Processes] --> B[Analyze Risks]
    B --> C[Assign Responsibility]
    C --> D[Communicate and Document]
    D --> A
    E[Periodically Repeat] -.-> A
  
```

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Proactive vs. Reactive

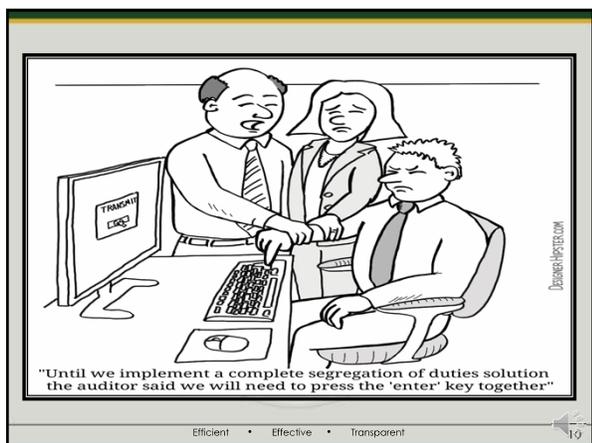
Proactive

- Attitude
- Commit
- Understand Importance
- Fraud can happen to every entity

Reactive

- Aftermath
- Most entities are surprised
- Don't be the next news headline!

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Preparing for an Audit

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What We Will Be Covering

- Definition and Purpose of an Audit
- Audit Frequency
- Audit Where, When, and Who
- How to Prepare for an Audit



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What is an Audit and Why do I Have to Have one?

An Audit is...

Evaluation of the Financial Statements	Evaluation of Internal Control and Compliance
--	---

↓

Purpose of an Audit...

Gain Assurance over Financial Statements	Add Credibility to Financial Statements	Express an Independent Opinion
--	---	--------------------------------

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How Often Do I Need An Audit?

Ohio Law-
biennial

Federal
Single Audit -
\$750,000 in
Federal
Expenditures

Anytime –
Public Office
Request or
AOS
Initiative

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Where and When Will the Audit Take Place?

Where

- Client Location
- Regional Office
- Another Audit Site

When

- Many Factors:
 - Client Availability
 - Auditor Availability
 - Condition of records

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Who Will be Doing the Audit?



Auditor of State



Independent
Public
Accountant

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Preparing for an Audit

```

    graph TD
      A[Reconcile] --> B[File Annual Report]
      B --> C[Maintain Public Records]
  
```

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Potential Records Needed for an Audit

Financial Statements	Ledgers/Transaction Logs	Minutes
Resolutions/Ordinances	List of Officials/Employees	Policies/Policy Manual

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Potential Records Needed for an Audit

Cycle Narratives	Bank Reconciliations	Bank Statements
Receipts/Pay-ins	Vouchers/Invoices	Payroll Documents

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Potential Records Needed for an Audit

Contracts including Insurance and Bonds	Debt Agreements/Documents	Grant Award Letters
Budgetary Documents	Court Records	Capital Asset Records

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Caution: This is not an all inclusive list. There may be additional documents that are needed to support transactions or other items.



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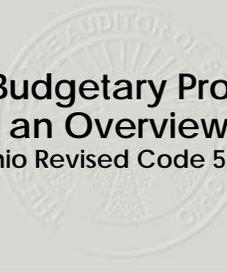
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The Budgetary Process, an Overview

(Ohio Revised Code 5705)

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Purpose of Budgeting



Compliance Planning Monitoring

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Budgetary Process



Tax Budget Available from All Sources Amended Certificate Modification to Appropriation & Certificates

Amounts and Rates Certificate of Estimated Resources Appropriation Resolutions Does not Exceed Certificate

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Tax Budget

Ohio Revised Code Section 5705.28

(A) taxing authority of each subdivision or other taxing unit shall adopt a tax budget for the next succeeding fiscal year

(1) On or before the fifteenth day of January in the case of FYE 6/30 entities

(2) On or before the fifteenth day of July in the case of FYE 12/31 entities

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Tax Levies and Rates

Ohio Revised Code Section 5705.34

- Based on the tax budget the budget commission will certify its actions to the taxing authority and each taxing authority, by ordinance or resolution, shall authorize the necessary tax levies and certify them to the county auditor
- before the first day of October in each year for FYE 12/31 entities
- before the first day of April in each year for FYE 6/30 entities

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Available Resources

Ohio Revised Code Section 5705.36

On or about the first day of each Fiscal Year, the fiscal officer of each subdivision and other taxing unit shall certify to the county auditor the total amount from all sources available for expenditures from each fund.

The amount certified shall include any unencumbered balances that existed at the end of the preceding year, excluding certain reserve or nonexpendable trusts balances.

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Appropriation Resolution

Ohio Revised Code Section
5705.38

<p>6/30 FYE Entities: By October 1st of each fiscal year, the entity shall pass an appropriation measure at the appropriate legal level of control.</p>	<p>12/31 FYE Entities: On or about the first day of each fiscal year, the taxing authority of each subdivision shall pass an appropriation measure at the appropriate legal level of control.</p>
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Appropriations vs. Available Resources

Ohio Revised Code Section
5705.39

- Total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure, as certified by the budget commission on the Amended Certificate of Estimated Resources

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Modifications

Ohio Revised Code Section
5705.40

Amending or Supplementing Appropriations

Ohio Revised Code Section
5705.36

Amending Anticipated Resources

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Certification of Expenditures

Ohio Revised Code Section 5705.41D

All Expenditures require a Certificate of the Fiscal Officer

- Amount of Monies are Available
- Amount is Lawfully Appropriated
- Signed by the Fiscal Officer

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Appropriations vs. Expenditures

Ohio Revised Code Section 5705.41B

Appropriations

Expenditures
(Expenditures Cannot Exceed Appropriations)

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Ohio Compliance Supplement (OCS)

- Location: <http://www.ohioauditor.gov/references/compliancemanuals.html>
- Updated annually based on guidance and legislation
- Organized into Chapters 1-3, Optional Procedures Manual, and Implementation Guide

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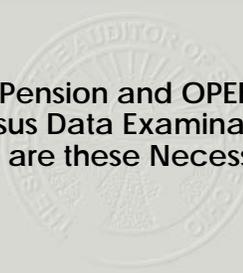
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**Pension and OPEB
Census Data Examinations:
Why are these Necessary?**

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**Agenda
Census Data**

<p>Census Data:</p> <ul style="list-style-type: none"> What is it? Where does it come from? Why is it Important? Who Uses it? 	<p>Process used in Ohio to provide assurance</p> <ul style="list-style-type: none"> Employer Sample Selection Examination Engagements
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Pension & OPEB in Ohio

Focus: Ohio's Cost-Sharing, Multiple Employer Plans administered by the State Retirement Systems:

Ohio Public Employees Retirement System (OPERS)	Ohio Police & Fire Pension Fund (OP&F)	State Teachers Retirement System (STRS)	School Employees Retirement System (SERS)
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Census Data What is it?

Census Data – Plan members' demographic data

- Date of Birth (age)
- Date of Hire (years of service)
- Gender
- Marital Status
- Eligible Compensation (Pensionable Wages)
- Service Credits
- Class of Employee
- Date of Termination / Retirement
- Spouse Date of Birth
- Employment Status (Active, Inactive, Retired)

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Census Data Where does it come from?

```

    graph TD
      A[Enrollment process when hired] --> B[Employer and/or Member]
      C[Regular reporting of earnings and contributions] --> B
      D[Termination / Retirement] --> B
      E[Name Changes] --> B
  
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Census Data Why is it important?

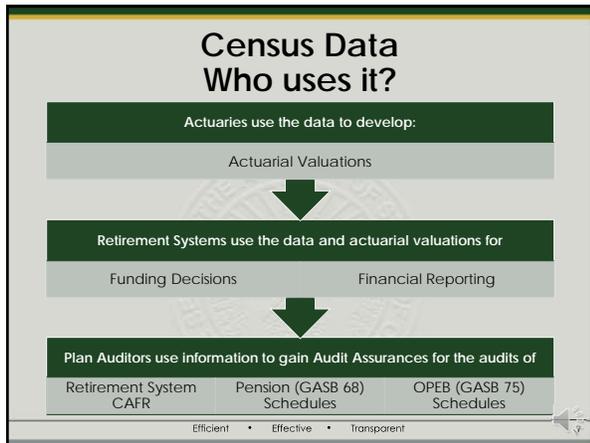
Actuaries use the Census Data file along with assumptions, the plan document, etc. to develop estimates (valuations) of liabilities, etc.

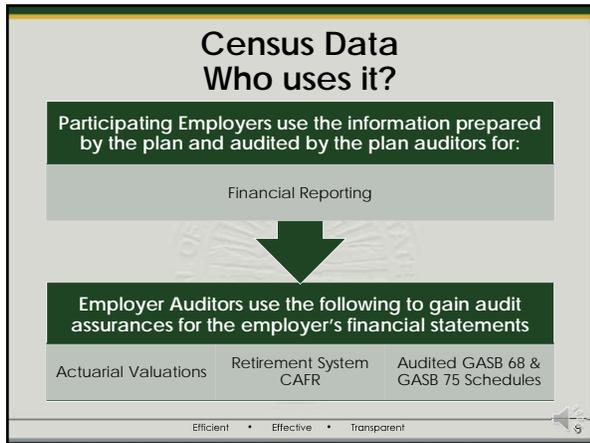
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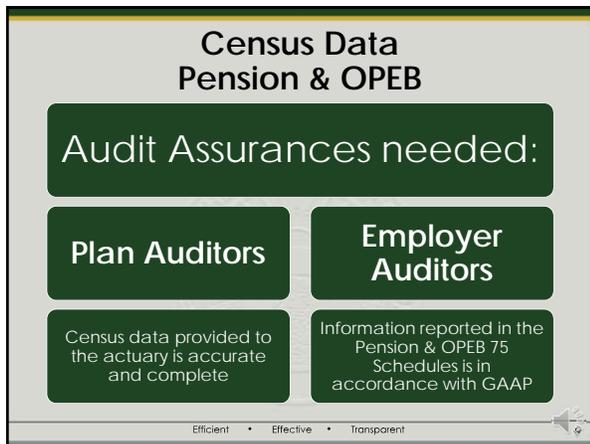
The actuarial estimates (valuations) are used for:

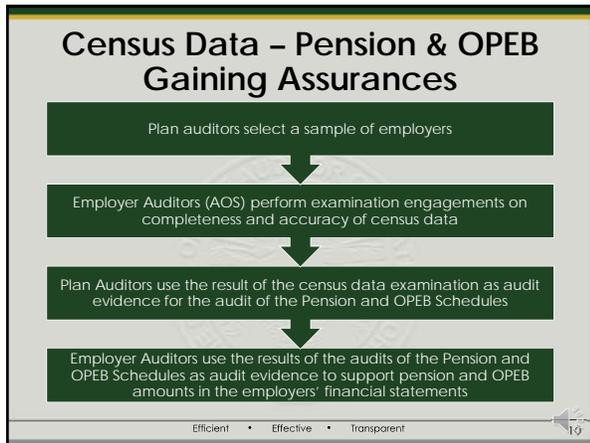
Funding Decisions	Financial Reporting by the Plans	Financial Reporting by the participating Employers
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Census Data Examination Engagements

Why are these engagements necessary?

Ultimately provide audit
assurance for the employers'
financial statements

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