



Auditor of State
Dave Yost



2014 Combined IPA Conference

August 22, 2014

Hilton Columbus at Easton
3900 Chagrin Drive
Columbus, Ohio 43219



Auditor of State
Dave Yost



2014 Combined IPA Conference Agenda

Friday, August 22, 2014

7:30 - 8:00 a.m. Registration

8:00 - 8:10 a.m. Conference Welcome/Housekeeping Comments

8:10 - 9:00 a.m. Balancing Risk and Control Within Government Organizations

Joe Bell, OBM

Course Description: Auditors often move immediately to the testing of controls but must first understand the correlation between risk and control, as well as management's response to risk. When auditors advise clients or evaluate internal control frameworks which one should auditors choose? A high-level discussion will include the COSO framework, its objectives, and warning signs of potential control weaknesses. Trends in internal control weaknesses being reported by auditors will also be highlighted.

You Will:

1. Learn how to recognize the importance between risk and control
2. Understand internal control frameworks
3. Learn how to identify effective internal controls and red flags in internal controls
4. Learn how to evaluate coordination of auditors and other assurance providers

Level: Beginner

Field of Study: Accounting and Auditing

9:00 - 10:15 a.m. A-133 Update and Supercircular

Kelly Berger - Davis, Auditor of State's Office

Course Description: On December 26, 2013 the Office of Management and Budget (OMB) issued their final guidance on "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards", also known as the Super Circular. This final guidance supersedes and streamlines requirements from OMB Circulars A-87, A-102, A-133, as well as others. This session will give an overview of the significant changes made, and the effective dates.

You Will:

1. Learn an overview of the significant changes made, and the effective dates of such.

Level: Intermediate

Field of Study: Auditing-Single Audit

10:15 - 10:25 a.m. Break

10:25 - 11:40 a.m. GASB 68 Update

Brad Blake & Tracie McCreary, Auditor of State's Office

Course Description: The hottest topic in the governmental accounting world this year is GASB 68. The Governmental Accounting Standards Board (GASB) approved a new reporting standard that will significantly change how governments will report pension liabilities. Effective for fiscal years beginning after June 15, 2014, governmental entities will be required to report a "net pension liability" in their financial statements. Clearly, under GASB 68 these amounts have the potential of being large and may impact a government's GAAP basis net position. The Auditor of State's Office fields questions on GASB 68 daily and we're excited to share our knowledge on the subject.

You Will:

1. Learn how the new GASB reporting standards will significantly change how governments report pension liabilities
2. Learn how a "net pension liability" in financial statements have the potential of being large and may impact a government's GAAP basis net position.

Level: Intermediate

Field of Study: Health Benefit Plan Compliance

11:40 - 12:40 p.m. Lunch



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2014 Combined IPA Conference Agenda

Friday, August 22, 2014

12:40 - 1:40 p.m. The Affordable Care Act - The Impact on Employers

Caroline Fraker, MedBen

Course Description: With most of the Affordable Care Act's provisions in place, employers find themselves with compliance burdens and unanswered questions. This presentation will review the basic employer compliance requirements pertinent to employers.

You Will:

1. Review of the 2014 and 2015 health plan compliance requirements
2. Examine upcoming data reporting and submission requirements
3. Consider open issues and questions related to employer health benefit plans

Level: Beginner

Field of Study: Health Benefit Plan Compliance

1:40 - 2:10 p.m. TeamMate Reader

Michele Porter, Auditor of State's Office

Course Description: A walkthrough demonstration of TeamMate Reader. TeamMate Reader is a read only version of the software AOS uses to prepare and document audit work.

You Will:

1. Learn how to use TeamMate reader to view Auditor of State working papers

Level: Beginner

Field of Study: Accounting and Auditing

2:10 - 2:20 p.m. Break

2:20 - 2:50 p.m. Annual Financial Data Reporting System

Leanna Abele, Auditor of State's Office

Course Description: This session will provide basic information regarding the Annual Financial Data Reporting System (AFDRS), as well as serve as a reference tool by providing a listing of resources available for utilizing the AFDRS and common inquiries received with responses from the Auditor of State.

You Will:

1. Become knowledgeable with what the Annual Financial Data Reporting System (AFDRS) is
2. Become knowledgeable with how the AFDRS was developed and is being implemented; anticipated uses of information obtained from the
3. Become knowledgeable of anticipated uses of information obtained from the AFDRS
4. Learn how to report information via the AFDRS
5. Become knowledgeable of available resources and frequently asked questions to assist with the implementation and use of the AFDRS

Level: Beginner

Field of Study: Annual Financial Reporting

2:50 - 3:50 p.m. Common Fraud Schemes

Bill Acuff, CPA, Director of Forensic and Internal Audit Services

Course Description: Fraud continues to be a growing problem in our world and instead of waiting to be a victim, organizations should arm themselves with knowledge that will help prevent and detect fraud.

You Will:

1. Learn how common fraud schemes are perpetrated
2. Learn strategies to prevent and detect common fraud schemes
3. Learn steps to take if you suspect fraud

Level: Intermediate

Field of Study: Auditing-Governmental

3:50 p.m. Adjourn



BALANCING RISK AND CONTROL

Within Government Organizations



Objectives

- Recognize the importance between risk and control
- Understand internal control frameworks
- Identify effective internal controls and red flags in internal controls
- Evaluate coordination of auditors and other assurance providers
- Earn 1 hour of CPE!!!!





Risk



What is Risk?

- The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Likelihood	Impact				
	Insignificant	Minor	Moderate	Major	Severe
Almost certain	Moderate	High	High	Extreme	Extreme
Likely	Moderate	Moderate	High	High	Extreme
Possible	Low	Moderate	Moderate	High	Extreme
Unlikely	Low	Moderate	Moderate	Moderate	High
Rare	Low	Low	Moderate	Moderate	High

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Types of Organizational Risks



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What is Risk Management?

A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance the organization's objectives will be achieved.



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Risk vs. Control



The first image shows a young girl riding a blue bicycle. The second image shows a young boy riding a red tricycle. The third image shows a person in a white protective suit and helmet, possibly a scientist or a worker in a hazardous environment.

Risk Appetite/Tolerance

The level of risk that an organization is willing to accept.



The diagram shows a central circle labeled 'Risk' with four surrounding circles: 'Accept' (top-left), 'Avoid' (top-right), 'Reduce' (bottom-left), and 'Transfer' (bottom-right). A woman with blonde hair is pointing at the 'Risk' circle with a black marker.

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Assume Risk – Really????

- Too much control can become overly burdensome and stifle responsiveness and innovative solutions.
- 100% oversight is not realistic and can be very costly, particularly given resource constraints...apply a risk-based approach.



The image shows a man in a dark suit and glasses falling off a ledge. He has a look of surprise or concern on his face.

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Internal Controls



Internal Controls

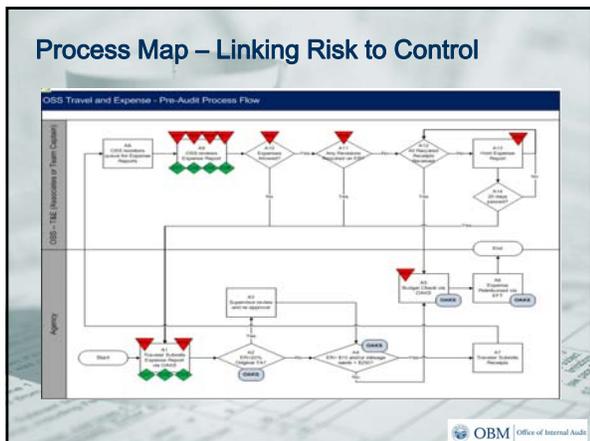
An action taken by management and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable (not absolute) assurance that objectives and goals will be achieved.



Purpose of Internal Controls

- Safeguards over assets and a means to prevent and detect errors and fraud.
- Provides **reasonable assurance** that the following objectives are achieved:
 - ✓ Effectiveness and efficiency of operations
 - ✓ Reliability of financial reporting, and
 - ✓ Compliance with applicable laws and regulations





Internal Control Frameworks

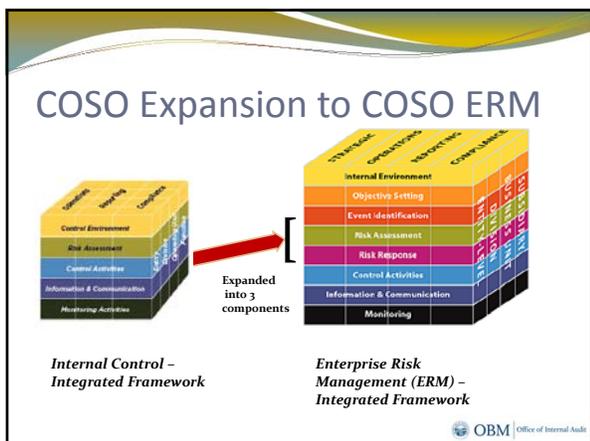
- *Committee of Sponsoring Organizations (COSO)*
- *US Government Accountability Office (GAO) – Green Book*
- *Information Systems Audit and Control Assoc. (ISACA) – COBIT*
- *National Institute of Standards and Technology (NIST) – IT Security*

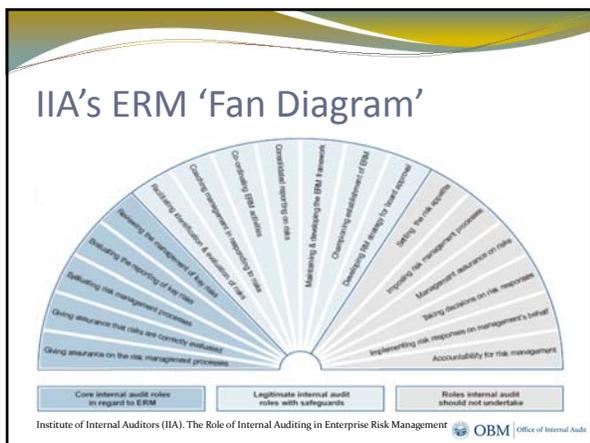
Figure 1: COSO ERM Framework

COSO

- First published in 1992, supported by five organizations:
 - American Institute Certified Public Accountants (AICPA),
 - Institute of Internal Auditors (IIA),
 - Institute of Management Accountants (IMA),
 - American Accounting Association (AAA), and
 - Financial Executives International (FEI).
- Gained wide acceptance following financial control failures in 2000's (i.e. Enron)
- Most widely used framework in U.S.; accepted globally

The OBM logo is in the bottom right corner.

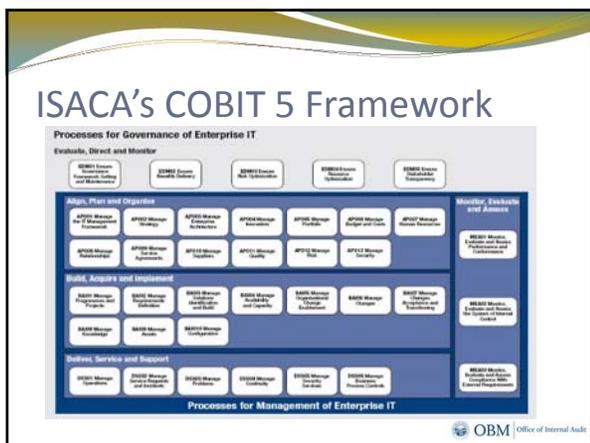




GAO 'Green Book'

- GAO's **Standards** for Internal Control in the **Federal Government**, known as the Green Book, sets these standards for federal agencies.
- Internal control refers to the plans, methods, policies, and procedures an organization employs to ensure effective resource use in fulfilling its mission, goals, objectives, and strategic plan.
- Last issued in 1999 (**2013 Draft**)– adapting to global, complex, and technological changes – **aligned with updated COSO**.

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- ## ISACA's COBIT 5 Framework
- **Control Objectives for Information and Related Technology (COBIT)** is a framework for IT management and IT governance. Bridges gap between control requirements, technical issues and business risks.
 - COBIT 5 shifted to a **process-based model** (common references for IT and business managers). Represents processes normally found in an enterprise relating to IT activities.
 - Process Areas, Governance and Management, have 5 domains and 37 processes
 - Governance of Enterprise IT
 - Evaluate, Direct and Monitor (EDM) - 5 processes
 - Management of Enterprise IT
 - Align, Plan and Organize (APO) - 13 processes
 - Build, Acquire and Implement (BAI) - 10 processes
 - Deliver, Service and Support (DSS) - 6 processes
 - Monitor, Evaluate and Assess (MEA) - 3 processes
 - Business and IT roles are identified for each sub-process in a RACI chart format.
 - R - Responsible, A - Accountable, C - Consulted, I - Informed
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- ## NIST - Special Publication #800-53
- Risk management framework addresses security control selection for federal information systems.
 - Security rules cover 17 areas including access control, incident response, business continuity, and disaster recoverability.
 - Management performs an initial security assessment (H, M, L) for an IT system (infrastructure, code, data, etc.) and #800-53 identifies a baseline set of controls.
 - The State of Ohio adopted NIST #800-53 in 2011.
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COSO Elements of Internal Control

Risks and Red Flags
by Objective



COSO – Control Environment

- Sets **tone** of organization - influencing control consciousness of its people;
- Factors include integrity, ethical values, competence, authority, responsibility; and
- **Foundation** for all other components of control.

Red Flags:

- Management does not address indicators of problems.
- Employees do not understand what behavior is acceptable or unacceptable, or are generally disgruntled.
- Top management is unaware of actions taken at the lower level of the organization.
- Organizational structure is inefficient or dysfunctional.




COSO - Risk Assessment

- Risk assessment is the **identification and analysis of relevant risks** to achieving the entity's objectives
- Forms the **basis** for determining **control activities**.

Red flags include when an organization does not have:

- Well-designed objectives
- Adequate performance measures
- An adequate strategic plan




COSO - Control Activities

- **Policies/procedures** that ensure management directives are carried out; and
- Range of activities including approvals, authorizations, verifications, recommendations, performance reviews, asset security and segregation of duties.

Red flags:

- The agency or program has recently undergone a major reorganization, cuts in funding, expansion of programs, changes in management.
- Agency or program is understaffed and/or workload has drastically increased, and staff are having difficulties handling operational workload.
- There have been previous issues with fraud, waste, or abuse.
- Employees are unaware of policies and procedures, but do things the way "they have always been done."




COSO - Information & Communication

- **Pertinent information identified, captured and communicated in a timely manner;**
- Access to internal and externally generated information; and
- Flow of information that allows for successful control actions from instructions on responsibilities to summary of findings for management action.

Red flags:

- When top management needs information, there is a mad scramble to assemble the information, or the process is handled through ad hoc mechanisms.
- Key information requests for basic information on the status of operations are difficult for the agency to respond to and require extra resources or special efforts.
- Management is using poor quality information or outdated information for making decisions.
- Staff are frustrated by requests for information because it is time consuming and difficult to provide the information.




COSO - Monitoring

- Assessment of a control **system's performance over time;**
- Combination of ongoing and separate evaluation;
- Management and **supervisory activities;** and
- **Internal audit** activities.

Red Flags

- Significant problems exist in controls and management was not aware of those problems until a big problem occurred or until another outside party brought it to their attention (e.g. an external audit).
- There are problems with the other control elements: control environment, risk assessment, control activities, information and communications.
- Previous audit findings are not being resolved adequately or timely.
- Program is in general chaos.




Coordination Between Auditors



IIA's Three Lines of Defense

The Three Lines of Defense Model



Adapted from ECIIA/FERMA Guidance on the 8th EU Company Law Directive, article 41

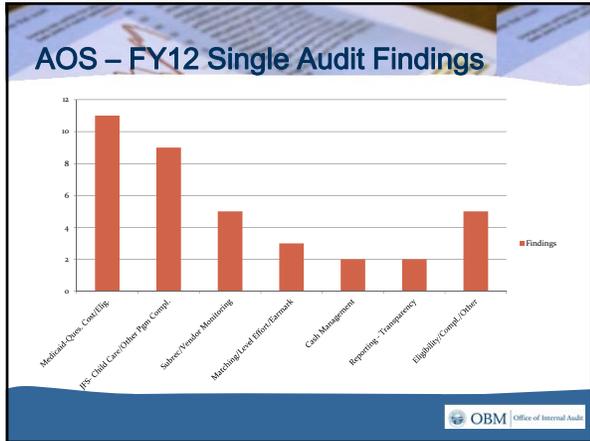
WHAT TRENDS ARE AUDITORS REPORTING?

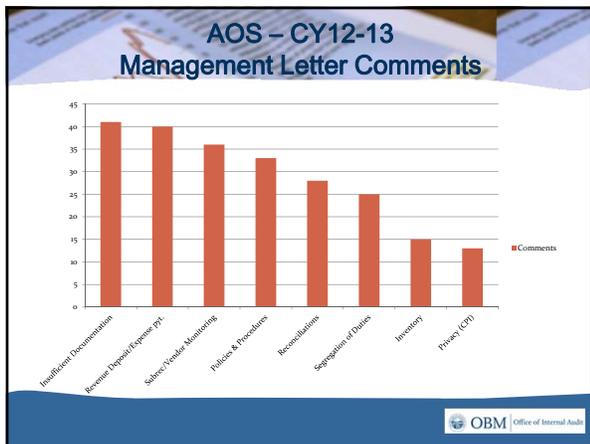


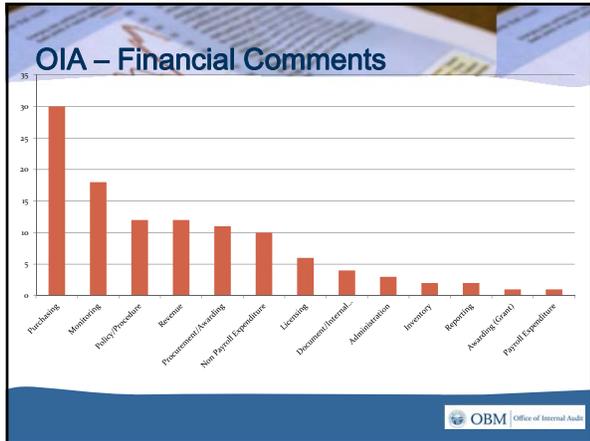
Trend Reporting of Audit Weaknesses

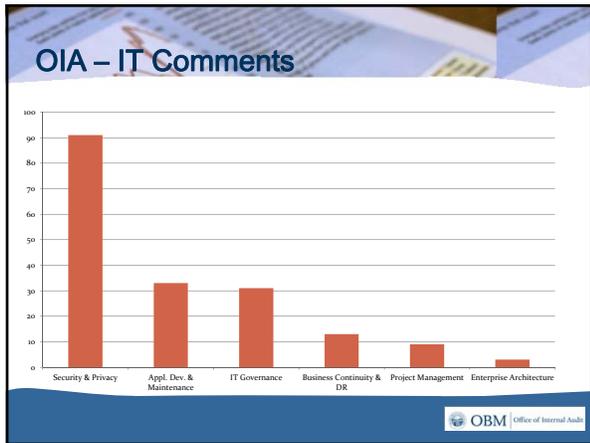
- Auditor of State – Material Comments, Findings & Questioned Costs
- Auditor of State – Management Letter Comments
- Office of Internal Audit – Financial and IT Comments







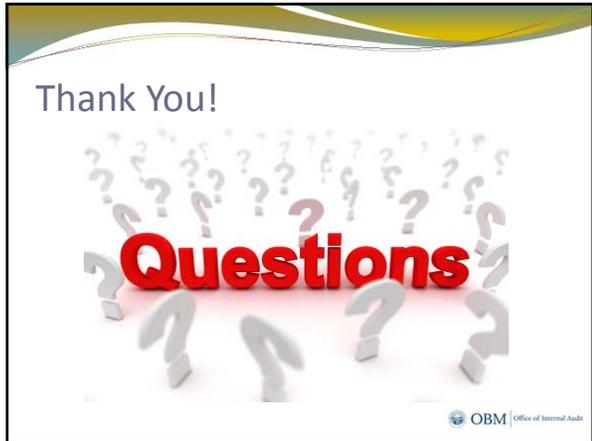


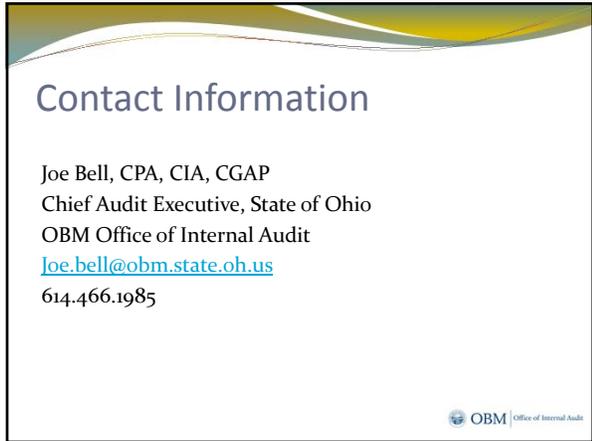


Summary Points

- Knowledge of internal control frameworks
- Importance of risks to controls relationship
- Awareness of effective internal controls and red flags in internal controls
- Effective coordination of various auditors and other assurance providers
- Earned 1 hour of CPE!!!

OIA – Financial Comments







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IPA Conference

Changes to Single Audits
The New OMB Super-Circular
(A-87, A-122, A-21,
A-102, A-110, A-89,
A-133 & A-50)

Presented by:
Kelly Berger-Davis, CFAE

Ohio Auditor of State
Dave Yost
www.ohioauditor.gov

Presenter

Kelly Berger-Davis
Quality Assurance & Technical Specialist
Center for Audit Excellence
Ohio Auditor of States Office



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Agenda

- Background & General Information
- Roadmap of New and Old Requirements
- Specific Changes
- What To Do NOW!!!
- Straight A Grant – STATE grant



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Background

- President Obama's Administration launched its Campaign to Cut Waste and go after unnecessary, inefficient, or ineffective government spending on June 13, 2011.
- Also on June 13, 2011 President Obama issued an Executive Order on Delivering an Efficient, Effective, and Accountable Government.



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Background

- OMB therefore created a Council on Financial Assistance Reform (COFAR) on October 27, 2011 to provide recommendations to OMB on policies and actions necessary to effectively deliver, oversee, and report on grants and cooperative agreements.
 - In addition to other items, COFAR was also tasked with streamlining and simplifying the financial assistance process by eliminating unnecessary regulatory, reporting, and grant-agreement requirements and by increasing flexibilities for satisfying grant requirements.



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Background

OMB Reform was issued in 3 parts

“Advance Notice of Grants Reform”
• Issued Feb. 2012

“Proposed OMB Uniform Guidance”
• Issued Jan. 2013

Final “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards”
• Issued Dec. 26, 2013

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General Information

What is this called?

2 CFR Chapter II, Part 200

Omni-Circular

Super-Circular

Grants Reform

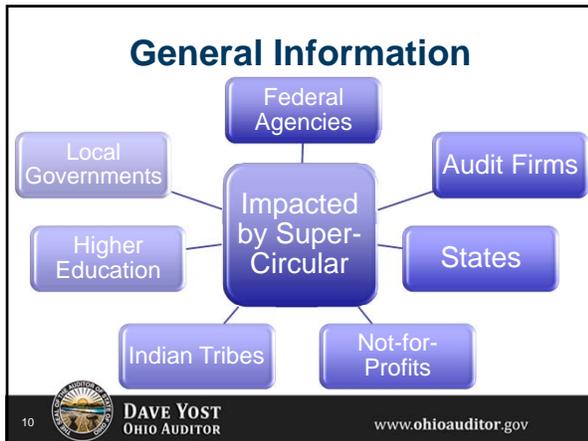
Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

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General Information

- Where can I find the Super-Circular?
– http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl
- Does this apply to me?

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General Information

- What is the effective date?
 - Federal Agencies must adopt the guidance and implement the requirements to be effective by 12/26/14
 - All Federal Agencies are expected to implement the guidance in unison to provide for a smooth transition for entities that are required to comply

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General Information

- What is the effective date? (cont'd)
 - Non-Federal entities: *Administrative requirements and cost principles* will apply to new awards and to additional funding to existing awards (funding increments) made after 12/26/14
 - This does not retroactively change the terms and conditions for funds a non-Federal entity has already received.
 - Existing Federal awards will continue to be governed by the terms and conditions of the Federal award

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General Information

- What is the effective date? (cont'd)
 - **Important note** – OMB clarified in their 2/12/14 FAQ's:
 - "We would anticipate that for many of the changes, non-federal entities with both old and new awards may make changes to their entity-wide policies (for example to payroll or procurement systems)."
 - "Non-Federal entities wishing to implement entity-wide system changes to comply with the uniform guidance after the effective date of 12/26/14 will not be penalized for doing so."



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General Information

- What is the effective date? (cont'd)
 - Non-Federal Entities - *Audit Requirements* are effective for fiscal years beginning on or after 12/26/14
 - For fye 12/31 entities, audit requirements would be effective for the 1/1/15 – 12/31/15 fiscal year
 - For fye 6/30 entities, audit requirements would be effective for the 7/1/15 – 6/30/16 fiscal year
 - Audit requirements cannot be early implemented



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General Information

- Non-Federal Entities:
 - 6/30/14, 9/30/14, & 12/31/14 FYE's – No impact
 - 3/31/15, 6/30/15, & 9/30/15 FYE's –
 - Super-Circular *administrative requirements & cost principles* apply to new federal awards and additional funding to existing awards
 - Old (current) A-133 *audit* requirements in effect
 - 12/31/15 FYE and beyond –
 - New administrative requirements, cost principles and single audit requirements all apply



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General Information

Subpart F - Audit Requirement Timeline

12/26/13 Final Guidance issued

Subpart F Audit Guidance effective for non-Federal entities with fiscal years beginning on or after 12/26/14

Early Implementation Is NOT Permitted

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General Information

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General Information

- OMB's purpose is to help reduce the administrative burden and strengthen oversight of federal funds to reduce the risk of fraud, waste and abuse.
 - This guidance makes grant requirements similar across all types of grant recipients and all federal agencies.
 - Aims to eliminate duplicative language, and to clarify where grant policies are different across entity types.

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Roadmap of OLD (current) OMB Circulars and NEW Super-Circular



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Roadmap – OLD (current) A-133

- Subpart A – General Info
 - .100 Purpose
 - .105 Definitions
- Subpart B – Audits
 - .200 Audit requirements
 - .205 Basis for determining Federal awards expended
 - .210 Subrecipient and vendor determinations
 - .215 Relation to other audit requirements
 - .220 Frequency of audits
 - .225 Sanctions
 - .230 Audit costs
 - .235 Program-specific audits



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Roadmap – OLD (current) A-133

- Subpart C – Auditees
 - .300 Auditee responsibilities
 - .305 Auditor selection
 - .310 Financial statements
 - .315 Audit findings follow-up
 - .320 Report submission
- Subpart D – Federal Agencies & Pass-Through Entities
 - .400 Responsibilities
 - .405 Management decision



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Roadmap – OLD (current) A-133

- Subpart E – Auditors
 - .500 Scope of audit
 - .505 Audit reporting
 - .510 Audit findings
 - .515 Audit working papers
 - .520 Major program determination
 - .525 Criteria for Federal program risk
 - .530 Criteria for a low-risk auditee

Roadmap – OLD (current) A-87

- A-87 (cost principles) was codified in 2 CFR 225:
 - Appendix A - General Principles for Determining Allowable Costs
 - Appendix B - Selected Items of Cost
 - Appendix C - State/Local-Wide Central Service Cost Allocation Plans
 - Appendix D - Public Assistance Cost Allocation Plans
 - Appendix E - State and Local Indirect Cost Rate Proposals

Roadmap – OLD (current) A-102

- Each federal agency codified A-102 (Administrative Requirements) in their own section of the CFR:
 - US Department of Education – 34 CFR 80
 - US Department of Agriculture – 7 CFR 3016
 - Complete listing of US Dept's is available at http://www.whitehouse.gov/omb/grants_chart
- A-102:
 - Section 1 – Pre-Award Policies
 - Section 2 - Post-Award Policies
 - Section 3 – After-The-Grant Policies

Roadmap – New Super-Circular
 Federal Register / Vol. 78, No. 248 / Thursday, December 26, 2013 / Rules and Regulations



FEDERAL REGISTER

Vol. 78 Thursday,
 No. 248 December 26, 2013

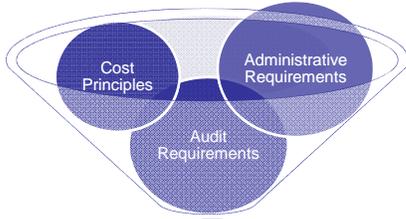
Part III

Office of Management and Budget

2 CFR Chapter I, Chapter II, Part 200, et al.
 Uniform Administrative Requirements, Cost Principles, and Audit
 Requirements for Federal Awards; Final Rule

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Roadmap – New Super-Circular



Super-Circular

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Roadmap – New Super-Circular

- Part II – Major Policy Reforms
 - Chapter II – OMB Guidance
 - Part 200
 - Subpart A – 200.0 – 200.99 - Acronyms & Definitions
 - Subpart B – 200.100 – 200.113 - General Provisions
 - » i.e. authorities, effective/applicability date, conflict of interest
 - Subpart C – 200.200 – 200.211 - Pre-Federal Award Requirements and Contents of Federal Awards
 - » i.e. use of grant agreements, cooperative agreements and contracts, special conditions, public access to federal award information

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Roadmap – New Super-Circular

- Part II – Major Policy Reforms
 - Chapter II – OMB Guidance
 - Part 200 (cont'd)
 - Subpart D – 200.301 – 200.345 - Post Federal Award Requirements
 - » i.e. standards for financial and program management; property standards; procurement standards; performance and financial monitoring and reporting; subrecipient monitoring and management; record retention and access; remedies for noncompliance; closeout; post-closeout adjustments and continuing responsibilities; collection of amounts due

Roadmap – New Super-Circular

- Part II – Major Policy Reforms
 - Chapter II – OMB Guidance
 - Part 200 (cont'd)
 - Subpart E – 200.400 – 200.475 - Cost Principles
 - » Formerly A-87 (A-21 and A-122)
 - » i.e. general provisions; basic considerations; direct and indirect costs; special considerations for local gov's; general provisions for selected items of cost
 - Subpart F – 200.500 – 200.521 - Audit Requirements
 - » i.e. auditee responsibilities; federal agency responsibilities; auditor responsibilities; management decisions

Roadmap – New Super-Circular

- Part II – Major Policy Reforms
 - Chapter II – OMB Guidance
 - Part 200 (cont'd) – Appendices:
 - Appendix I – Full Text of Notice of Funding Opportunity
 - Appendix II – Contract Provisions for Non-Federal Entity Contracts Under Federal Awards
 - Appendix III - Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs)
 - Appendix IV - Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations

Roadmap – New Super-Circular

- Part II – Major Policy Reforms
 - Chapter II – OMB Guidance
 - Part 200 (cont'd) – Appendices:
 - Appendix V – State/Local Government and Indian Tribe – Wide Central Service Cost Allocation Plans
 - Appendix VI - Public Assistance Cost Allocation Plans
 - Appendix VII – States and Local Government and Indian Tribe Indirect Cost Proposals
 - Appendix VIII - Nonprofit Organizations Exempted From Subpart E—Cost Principles of Part 200
 - Appendix IX - Hospital Cost Principles
 - Appendix X – Data Collection Form
 - Appendix XI - Compliance Supplement

Specific Changes



Specific Changes

Subpart A – 200.0 – 200.99 - Acronyms & Definitions

OLD (current)	NEW Super-Circular	Super-Circular Section
Circular A-133 Compliance Supplement	Compliance Supplement	200.21
Vendor	Contractor	200.23
n/a	Personally Identifiable Information (PII)	200.79
n/a	Protected Personally Identifiable Information	200.82
n/a	Program Income	200.80

Specific Changes

Subpart B – 200.100 – 200.113 - General Provisions

Clarifies that the terms and conditions of federal awards flow down to subrecipients unless the Uniform Grant Guidance or the terms and conditions specifically indicate otherwise.

Federal agencies must not impose additional or inconsistent requirements, except as provided in 200.102 and 200.210.

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Specific Changes

Subpart B – 200.100 – 200.113 - General Provisions

Conflict of Interest

- Federal awarding agencies must establish conflict of interest policies for their federal awards
- Non-federal entities must disclose in writing any potential conflict of interest to the Federal awarding agency (or pass-through entity) in accordance with the federal awarding agency policy

Mandatory Disclosures

- Non-federal entities must disclose all violations of Federal criminal law involving fraud, bribery, or gratuity violations potentially affecting the Federal award

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Specific Changes

Subpart C – 200.200 – 200.211 - Pre-Federal Award Requirements and Contents of Federal Awards

Streamlined guidance to federal agencies on information required to be provided to non-federal entities

<p>Determining the instrument to be used</p> <ul style="list-style-type: none"> - Grant agreements - Cooperative agree. - Contract 	<p>Standard formats to announce funding opportunities</p>	<p>Fed's required to consider risk posed by each applicant prior to making award</p> <ul style="list-style-type: none"> - Financial stability - Prior performance - Mgmt. systems
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Specific Changes

Subpart D – 200.301 – 200.345 - Post Federal Award Requirements

Requires non-Federal entities to have effective internal controls over federal awards and mentions 3 best practices:

- GAO's Green Book
- COSO's Internal Control Framework
- Compliance Supplement, Part 6 Internal Control



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Specific Changes

Subpart D – 200.301 – 200.345 - Post Federal Award Requirements (cont'd)

Explicit information on what info must be included by a pass-through entity in its subawards at the time subaward is made

- Federal award identification
- All requirements imposed by the pass-through entity
- Certain indirect cost information
- Access requirements
- Terms & conditions surrounding closeout

Pass-through entity's responsibility to evaluate each subrecipients risk and develop appropriate subrecipient monitoring in response to the assessed risk



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Specific Changes

Subpart D – 200.301 – 200.345 - Post Federal Award Requirements (cont'd)

Procurement

- The new procurement standards adopt the majority of the language used from Circular A-102.
- There were some changes though, so carefully review to determine the impact on your procurement procedures.
- One new item to review is micro-purchases – for acquisition of supplies or services if aggregate amount does not exceed \$3,000.



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Specific Changes

Subpart E – 200.400 – 200.475 - Cost Principles

Time &
Effort

- Carefully read and analyze this section
- Principles based, not rules based anymore – requires judgment

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Specific Changes

Subpart E – 200.400 – 200.475 - Cost Principles

Direct
Costs

- Clarifies that salaries of administrative and clerical staff may be treated as direct costs if:
 - The services are integral to a project or activity
 - The individuals involved can be identified as specifically with the project or activity
 - The costs are included expressly in the budget or have the prior written approval of the federal awarding agency, AND
 - The costs are not recovered as indirect costs

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Specific Changes

Subpart E – 200.400 – 200.475 - Cost Principles

Indirect
Costs

- Requires federal agencies to accept a non-federal entity's negotiated indirect cost rate
- Allows for a one-time extension without further negotiation of a federally approved negotiated indirect cost rate for up to 4 years

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Specific Changes
Subpart E – 200.400 – 200.475 - Cost Principles

Indirect Costs

- Provides for a de minimis indirect cost rate of 10% of modified total direct costs for entities that have never had a negotiated indirect cost rate.

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Specific Changes
Subpart E – 200.400 – 200.475 - Cost Principles

Prior Approval

- Provides a list of circumstances under which entities need to seek prior approval from the Federal awarding agency including:
 - Pre-award costs
 - Additions to program income or the use of program income to meet a cost sharing or matching requirement
 - Changes in scope or objectives of a project/program
 - Subcontract of work under the award not previously approved

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Specific Changes
Subpart E – 200.400 – 200.475 - Cost Principles

Allowable Costs

- Clarifies guidance for certain allowable costs:
 - Employee health/welfare costs
 - Travel Costs
 - Conferences

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Specific Changes

Subpart E – 200.400 – 200.475 - Cost Principles

Family-Friendly Policies

- Encouraging Non-Federal Entities to Have Family-Friendly Policies
 - “Conferences” section provides that, for hosts of conferences, the costs of identifying (but not providing) locally available child-care resources are allowable
 - “Travel costs” section provides that temporary dependent care costs that result directly from travel to conferences and meet specified standards are allowable



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Specific Changes

Subpart E – 200.400 – 200.475 - Cost Principles

Compensation - Fringe Benefits

- Added/clarified guidance on:
 - Mass severance - federal agency or cog approval required
 - Excessive severance pay - unallowable



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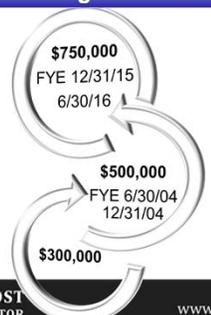
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Specific Changes

Subpart F – 200.500 – 200.521 - Audit Requirements

Increase in Single Audit Threshold

Maintains oversight on over 99.7% of the dollars currently subject to Single Audit



\$750,000
FYE 12/31/15
6/30/16

\$500,000
FYE 6/30/04
12/31/04

\$300,000

Reduces audit burden for approximately 5,000 entities



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Specific Changes

Subpart F – 200.500 – 200.521 - Audit Requirements

Criteria for Low Risk Auditee

- 1 new criteria: In the prior 2 audit periods, the auditor did not report a substantial doubt about the auditee's ability to continue as a going concern.
- 1 modified criteria: In the prior 2 audit periods, the auditor's opinion on whether the financial statements were prepared in accordance with GAAP, or a basis of accounting required by state law, and the auditor's in-relation-to opinion on the SEFA were unmodified.



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Specific Changes

- OAC 117-2-03 state Pursuant to section 117.38 of the Revised Code, all local public offices must file an annual financial report. Such reports shall be filed in accordance with the following:
 - (B) All **counties, cities and school districts**, including educational service centers and community schools, shall file annual financial reports which are prepared using generally accepted accounting principles



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Specific Changes

- (C) Local public offices that use the "Uniform Accounting Network" shall file their annual financial reports in accordance with the guidelines established by the "Uniform Accounting Network."
- (D) All other local public offices who do not prepare their annual reports using generally accepted accounting principles shall file their annual financial reports on the forms provided by the auditor of state. If the auditor of state has not prescribed an annual financial reporting format for a type of local public office, those public offices shall file financial statements annually with the auditor of state, using the format used by the local public office.



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Specific Changes

Subpart F – 200.500 – 200.521 - Audit Requirements

Not Low-Risk Auditee	Old (Current) 50%	New 40%
Low-Risk Auditee	Old (Current) 25%	New 20%

% Coverage

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Specific Changes

Type A/B Threshold Change

(For Entities With SEFA \$750,000 - \$25M)



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Specific Changes

Subpart F – 200.500 – 200.521 - Audit Requirements

- High-Risk Type A Program – change
 - A-133 (current/OLD) criteria: In the most recent audit period, did the program have ANY audit findings.
 - Super-Circular (NEW) criteria – “high risk” audit finding:
 - Modified opinion on the program
 - Material weakness in internal control
 - Known or likely QC exceeding 5% of total program expenditures

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Specific Changes

Subpart F – 200.500 – 200.521 - Audit Requirements

- High-Risk Type B Program – change
 - Current (OLD) – There were 2 Type B risk assessment options.
 - Super-Circular (NEW) – No longer 2 options:
 - Perform risk assessments on Type B programs until high-risk Type B programs have been identified up to at least 1/4th of number of low-risk Type A programs
 - Risk assessment on Type B programs not required for programs that do not exceed 25% of Type A threshold



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Specific Changes

Subpart F – 200.500 – 200.521 - Audit Requirements

- Loans & Loan Guarantees – modified cluster guidance
 - A cluster of programs is treated as 1 program in determining Type A programs.
 - For the purpose of excluding large loan programs for the revised Type A threshold calculation, a cluster of programs is not considered a loan program if the individual loan programs within the cluster comprise less than 50% of the total expenditures of the cluster.



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Specific Changes

Subpart F – 200.500 – 200.521 - Audit Requirements

- For loan & loan guarantees, now required to identify in the notes to the SEFA loan balances outstanding at the end of the audit period
 - This is in addition to including the total federal awards expended for loan or loan guarantees in the SEFA



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Specific Changes

Subpart F – 200.500 – 200.521 - Audit Requirements

- SEFA notes required to include whether or not non-federal entity elected to use the 10% de minimis cost rate
- SEFA is now required to include the total amount provided to subrecipients from each Federal program.
 - Previously this was only required “to the extent practical”



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Specific Changes

Subpart F – 200.500 – 200.521 - Audit Requirements

- Audit Finding Changes:
 - Requires identification of whether audit finding is a repeat from the immediately prior audit, and if so, the prior year audit finding number.
 - Audit finding numbers must be in the format prescribed by the DCF (ie. 2014-001; NOT 2014-01, or 2014-1)
 - Indicate whether sampling was a statistically valid sample
 - Requires that QC's be identified by CFDA number & applicable award number.



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Specific Changes

Subpart F – 200.500 – 200.521 - Audit Requirements

- Corrective Action Plan (CAP)
 - CAP to be separate document from auditor's findings
- Possible Future Change:
 - Included language to allow for future combining of the SEFA and the DCF



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Specific Changes

Subpart F – 200.500 – 200.521 - Audit Requirements

- Summary Schedule of Prior Audit Findings – this is NOT a change
 - Schedule must be prepared by Auditee (not auditor)
 - Auditor audits the schedule
 - If the auditee materially misrepresents the status of any prior audit finding, it would be reported as an audit finding in the Schedule of Findings



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Specific Changes

Subpart F – 200.500 – 200.521 - Audit Requirements

- Auditors and auditees must ensure reports do not include protected personally identifiable information (PII) and sign a statement stating such on the DCF.



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Specific Changes

Subpart F – 200.500 – 200.521 - Audit Requirements

What is Protected PII?

A persons first name, or first initial & last name in combination with:

SS #	Passport #	Clearances	Bank Numbers	Biometrics	Date and Place of Birth	Mothers Maiden Name	Credit, Medical, & Financial Records	Educational Transcripts	Credit Card #
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This does NOT include PII that is **required by law** to be disclosed.



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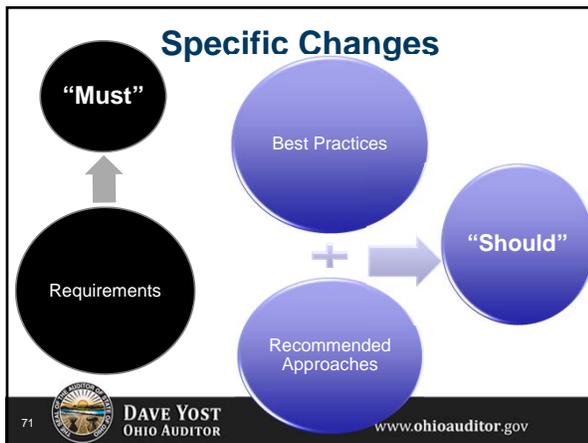
Specific Changes

- Ohio Revised code Sections 117.28, 9.24(H)(3), & 9.24(D) requires AOS to:
 - Issue FFR's in certain circumstances
 - Maintain an unresolved FFR database, accessible to the public

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Specific Changes

- § 200.303 Internal controls.
- The non-Federal entity **must**:
 - (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls **should** be in compliance with guidance in "Standards for Internal Control in the Federal Government" *[Green Book]* issued by the Comptroller General of the United States **and** the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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Specific Changes

- § 200.303 Internal controls.
- The non-Federal entity **must**:
 - (b) Comply with Federal statutes, regulations, and the terms and conditions of the Federal awards.
 - (c) Evaluate and monitor the non-Federal entity's compliance with statute, regulations and the terms and conditions of Federal awards.
 - (d) Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings.
 - (e) Take reasonable measures to safeguard protected personally identifiable information and other information the Federal awarding agency or pass-through entity designates as sensitive or the non-Federal entity considers sensitive consistent with applicable Federal, state and local laws regarding privacy and obligations of confidentiality.

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Specific Changes

- Data Collection Form (DCF)
 - While not in the Super-Circular, reminder that beginning with Fy 14 audit reports, DCF's are required to be:
 - Unlocked & unencrypted
 - At least 85% text searchable

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Specific Changes

Single audit reporting deadline (currently 9 months)

**Changes
NOT
Made**

Reducing # of compliance requirements in Compliance Supplement

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What To Do NOW!!!!



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What To Do NOW!!!

- Review the details of 2 CFR Chapter II, Part 200 that are applicable to your entity
- Visit <https://cfo.gov/cofar/> for:
 - Link to COFAR's 12/20/13 webcast announcing release
 - Link to COFAR's 1/27/14 archived training webcast
 - COFAR's FAQ's
 - Register for the COFAR mailing list to receive future announcements, information on upcoming webcasts, and other COFAR resources



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What To Do NOW!!!

- Review OMB Supporting Documents http://www.whitehouse.gov/omb/grants_docs/
 - Crosswalk from Predominant Source in Existing Guidance
 - Crosswalk to Predominant Source in Existing Guidance
 - Cost Principles Text Comparison
 - Audit Requirements Text Comparison
 - Definitions Text Comparison



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What To Do NOW!!!

- Develop a plan to become compliant
- Ensure an appropriate understanding of effective dates
- Obtain an understanding of the new requirements
- Focus on areas of most significance first (time & effort, indirect costs, procurement, internal control, subrecipient monitoring)
- Begin process to update local policies and regulations on federal grants and internal controls

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Upcoming Trainings

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Upcoming Local Super-Circular Trainings

- U.S. OMB presenting at Central Ohio AGA PDT 10/14/14 & 10/15/14
- AOS presenting at GFOA Conference 9/17/14 – 9/19/14

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Straight A Grant



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Straight A Grant

- This is NOT a federal grant – this is a STATE grant.
- New Fy 2014 grant
- Fy 14 appear to be non-reimbursable, but we expect Fy 15 to be different
- Post all activity to fund 466



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Straight A Grant

- Grant is restricted for projects that will provide for advancement in school achievement, achieve spending reductions in the 5-year forecast, or allow a greater share of resources to be utilized in the classroom.



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Straight A Grant

- Each arrangement is unique:
 - Some schools applied for as a consortium – these have a lead applicant
 - Some may have created a new Council of Government (COG)
 - Some may have shared services
 - Some may have private contributions
- Evaluate these issues and discuss with your clients.

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Straight A Grant

- Consider whether on-behalf of transactions took place
 - See AOS Bulletin 2000-008
- The issue of receivables related to this grant will need evaluated on a case-by-case basis.
- ODE's webpage on Straight A - <http://education.ohio.gov/Topics/Straight-A-Fund>

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Changes to Single Audits

Center For Audit Excellence
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Combined IPA Conference

GASB 68 Update

Presented by:
Dave Thompson, Assistant Chief Auditor,
Ohio Auditor of State
and
Brad Blake, Chief Auditor,
Ohio Auditor of State

AOS Proposed Guidance

Report the unfunded pension liability as a separate line item on the Statement of Net Position (for multiple pension systems, see footnotes for detail)

Include language in the MD&A that explains Ohio's legal environment and the limitations on enforcement of unfunded pension liability *as against the local government.*

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AOS Proposed Guidance

Include in MD&A a statement that:
Because of the discussion below, many end users of this financial statement will gain a clearer understanding of the Government's actual financial condition by adding deferred inflows¹ related to pension and the net pension liability to the reported net position.

¹ deferred outflows would be subtracted: if applicable

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AOS Proposed Guidance

Note that the liability is proportioned between governmental activities and individual enterprise funds.

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AOS Proposed Guidance

Note XX on Pension Liability

- Net Pension Liability represents a liability to employees for pensions
- Represents the government's proportionate share
- Pension Liability is reported on the accrual basis

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Defined Benefit
Cost-Sharing Multiple-Employer Plans
GASB 27 vs GASB 68

- GASB 27
 - Funding Approach
 - Liability – unpaid contractually required contribution
- GASB 68
 - Earnings Approach
 - Liability – benefits earned by employees

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GASB 68 Liability

- Payables to a defined benefit pension plan
 - Intergovernmental Payable
 - Modified Accrual and Accrual
- Liability to employees for pensions
 - Net Pension Liability
 - Accrual Basis of Accounting

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How to Calculate the Liability

- Pension systems will provide:
 - Each employer's proportionate share
 - Pension system's collective net pension liability
- Multiply these amounts
- Potentially significant
- First year -- beginning net position

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Reporting the Liability

- Change in the employer's proportionate share of the collective net pension liability
- Deferred inflows/outflows
 - Includes difference between expected and actual earnings on investments
- Pension expense

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GASB 68
Statement of Net Position

- Part of Long-Term Liabilities—Due In More Than One Year
- Identified in the Long-Term Liability Note
- Pension Note

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GASB 68
Statement of Activities

- Allocated to functions/programs similar to depreciation expense

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GASB 68 Questions

“My biggest concern is not disclosure regarding activity on the City’s financial statements for which it is not legally liable. I hope the AOS professional staff is working on a model disclosure.”

Sample notes have been included as of today’s handout. These samples will continue to develop as we learn more through the recently published implementation guide. We will issue a bulletin in the future that includes sample financial statements and footnote disclosures.

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GASB 68 Questions

“Can you identify the items to be recorded as deferred inflows/ outflows and provide some guidelines for their amortization?”

Changes in the collective net pension liability should be included in collective pension expense except the following are components of deferred inflows/outflows:

1. Difference between expected and actual experience in the measurement of the total pension liability. *
2. Changes of assumptions. *
3. Net difference between projected and actual earning on pension plan investments. **
4. Change in the employer’s proportion. *
5. Difference between the employer’s contribution and the employer’s proportional share of contributions. *

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GASB 68 Questions

“When will we be required to begin reporting?”

GASB 68 is effective for fiscal years beginning after June 15, 2014. So, for schools this will be fiscal year 2015 and for cities and counties it will be calendar year 2015.

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GASB 68 Questions

“How will GASB 68 impact governments that prepare OCBOA and Regulatory basis financial Statements (Libraries, Villages, Townships, etc...)?”

If your local government participates in one or more of the state pension plans, your annual financial report may be affected. We currently anticipate governments that prepare OCBOA and Regulatory basis financial statements will not include disclosure of their net pension liability in the notes. However, government that should be preparing GAAP statements, but choose to prepare OCBOA or regulatory statements instead will need to disclose their net pension liability in the notes.

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Combined IPA Conference

GASB 68 Update: Part 2

Ohio Auditor of State
Dave Yost
www.ohioauditor.gov

Overview GASB 67-68

- Employers Must Recognize Proportionate Share of Collective Pension Amounts
- Deferred outflows of resources, deferred inflows of resources
- Pension expense
- ALL SYSTEMS USING CONTRIBUTIONS

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Proportionate Share





gg4438104 www.pgsgraph.com

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Deferred outflows/inflows

Entity	Net Pension Liability	Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	Changes of Assumptions
Employer 1	\$ 45,224,620	438,859	1,569,847	1,404,206
Employer 2	5,661,780	54,942	196,533	175,796
Employer 3	6,795,628	65,945	235,892	211,001
Employer 4	10,193,442	98,917	353,838	316,502
Employer 5	13,355,038	129,597	463,584	414,668
Employer 6	3,043,487	29,534	105,646	94,499
Employer 7	2,011,585	19,520	69,827	62,459

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Pension Expense

Differences Between Expected and Actual Experience	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Resources	Total Deferred Inflows of Resources	Proportionate Share of Plan Pension Expense
355,917	-	726,425	1,082,342	1,907,283
44,558	-	74,326	118,884	238,777

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Schedules with opinion

- Two schedules
 - Schedule of Employer Allocations
 - Schedule of Pension Amounts by Employer

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Important dates



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Important dates



- Gasb 67 – June 2014
- Gasb 68 June 2015
- Census data for June 2014
Pension Auditors

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Census Data & AT-101 reports



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Census Data

- Date of birth
- Hire date
- Marital status
- Gender
- Spouse date of birth
- Other detailed on audit program



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Census Data

- Standardized Audit Procedures
 - Completeness
 - Accuracy
- Assertions built into the Audit Program
- Some assertions covered by the system auditors

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Audit Programs



- Use of Standardized shells developed by AOS – and Pension system Auditors

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Census Data

- Sample AOS census data procedures

Step No.	Assert.	PENSION PLAN - CENSUS DATA EMPLOYER LEVEL - EXAMINATION PROCEDURES	Date	Date	Stat.
1.	C	From the Employer, obtain a listing of total payroll for all employees for the period under audit. Test the completeness of the listing by obtaining and testing a reconciliation of total payroll per the listing to the Employer's general ledger.			
2.	C	From the Plan, obtain a listing of all employees for which it received contributions from the Employer for the period under audit. Select a sample of employees from the Plan's listing and test that the employees are included in the Employer payroll listing. Investigate variances.			

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AT-101 Reports

- Opinion
- Procedures
- Where to file



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AT-101 Reports - Opinion

- We have drafted opinions



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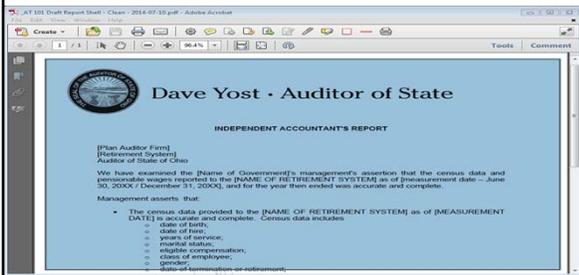
AT-101 Reports - Procedures

- We have drafted procedures to perform



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AT-101 report



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AT-101 Reports - Filing

IPAREPORT@OHIOAUDITOR.gov

You will get a automatic reply that your email was received.

WE WILL NEED THESE PRIOR TO YOUR AUDIT REPORTS

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AT-101 Reports - Results

Used by Pension System Auditor



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WRAP UP



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KEY Elements GASB 67-68



- Gasb 67 – June 2014
- Gasb 68 June 2015
- AOS Draft MD&A
- AOS Draft Statements
- AOS Draft Notes

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KEY Elements GASB 67-68

- Census data
- AT-101 Report Draft
- Census Data Procedures
- Entities selected
- Contract Modifications



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KEY Elements GASB 67-68



- This well effect everyone as either a preparer of AT-101 reports or user of Pension system opinions for % share by entity
- We probably have not thought of every key element yet so feed back is critical

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Other resources

- http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/gasbmatters/DownloadableDocuments/AICPASLGEP_CS_ER_Reporting_Whitepaper.pdf
- <https://www.opers.org/finance/>
- KPMG - <https://event.webcasts.com/viewer/event.jsp?ei=1029981>

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GASB 68 Forum
City of Generic, Ohio
For the Year Ended December 31, 2012
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City of Generic, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

The City of Generic as a Whole

Note: This information ties to the Statement of Net Position. See page 7.

Recall that the Statement of Net Position looks at the City as a whole. The following provides a summary of the City's net position for 2012 compared to 2011.

(Table 1)
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current and Other Assets	\$24,584,199	\$26,355,081	\$6,880,663	\$7,187,947	\$31,464,862	\$33,543,028
Capital Assets, Net	31,284,569	33,200,949	15,605,189	14,443,262	46,889,758	47,644,211
<i>Total Assets</i>	55,868,768	59,556,030	22,485,852	21,631,209	78,354,620	81,187,239
Deferred Outflows of Resources						
Deferred Charge on Refunding	315,312	336,569	60,334	141,642	375,646	478,211
Liabilities						
Current and Other Liabilities	2,615,438	2,405,402	520,112	914,722	3,135,550	3,320,124
Long-Term Liabilities:						
Due Within One Year	1,433,041	1,402,523	1,295,928	1,351,487	2,728,969	2,754,010
Due in More than One Year						
→ Net Pension Liability	6,797,348	9,785,897	1,519,094	2,186,983	8,316,442	11,972,880
Other Amounts	12,045,783	12,904,950	6,782,473	7,612,616	18,828,256	20,517,566
<i>Total Liabilities</i>	22,891,610	26,498,772	10,117,607	12,065,808	33,009,217	38,564,580
Deferred Inflows of Resources						
Property Taxes	4,710,830	5,248,767	0	0	4,710,830	5,248,767
→ Pension	1,936,983	0	432,883	0	2,369,866	0
<i>Total Deferred Inflows of Resources</i>	6,647,813	5,248,767	432,883	0	7,080,696	5,248,767
Net Position						
Net Investment in Capital Assets	19,668,123	20,968,797	7,732,350	5,917,802	27,400,473	26,886,599
Restricted:						
Capital Projects	147,188	241,731	0	0	147,188	241,731
Debt Service	509,480	513,704	0	0	509,480	513,704
Municipal Courts	830,873	774,291	0	0	830,873	774,291
Streets	1,115,228	1,227,043	0	0	1,115,228	1,227,043
Community Development	737,303	627,065	0	0	737,303	627,065
Street Lighting	550,136	555,255	0	0	550,136	555,255
Drug Force Violations	331,639	409,517	0	0	331,639	409,517
Other Purposes	393,617	301,073	0	0	393,617	301,073
Unrestricted	2,361,070	2,526,584	4,263,346	3,789,241	6,624,416	6,315,825
<i>Total Net Position</i>	\$26,644,657	\$28,145,060	\$11,995,696	\$9,707,043	\$38,640,353	\$37,852,103

City of Generic, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
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During 2012, the Government adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Government's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the Government's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Government is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by state statute. A change in these caps requires action of both Houses of the General Assembly, and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns and other changes are insufficient to keep up with required pension payments, state statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

City of Generic, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

In accordance with GASB 68, the Government's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability.

As a result of implementing GASB 68, the Government is reporting a net pension liability and deferred inflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2011, from \$37,930,957 to \$28,145,060 for governmental activities and from \$11,894,026 to \$9,707,043 for business-type activities.

Note: The following information ties to the Statement of Activities. See pages 8 & 9.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2012 and 2011.

(Table 2)
 Changes in Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenues						
Charges for Services	\$3,359,768	\$3,376,682	\$6,918,950	\$6,651,408	\$10,278,718	\$10,028,090
Operating Grants and Contributions	2,306,058	2,171,358	0	428,182	2,306,058	2,599,540
Capital Grants and Contributions	5,000	97,583	0	0	5,000	97,583
Total Program Revenues	5,670,826	5,645,623	6,918,950	7,079,590	12,589,776	12,725,213
General Revenues						
Property Taxes	4,903,333	5,299,630	0	0	4,903,333	5,299,630
Municipal Income Taxes	9,624,987	9,957,945	309,255	291,679	9,934,242	10,249,624
Grants and Entitlements not Restricted to Specific Programs	632,800	1,131,551	0	0	632,800	1,131,551
Investment Income	20,824	108,763	67,547	81,581	88,371	190,344
Gain on Sale of Capital Assets	32,484	17,041	0	0	32,484	17,041
Miscellaneous	166,941	413,756	33,029	27,249	199,970	441,005
Total General Revenues	15,381,369	16,928,686	409,831	400,509	15,791,200	17,329,195
Total Revenues	\$21,052,195	\$22,574,309	\$7,328,781	\$7,480,099	\$28,380,976	\$30,054,408

City of Generic, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

(Table 2)
 Changes in Net Position (continued)

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Program Expenses						
General Government	\$5,175,965	\$5,091,308	\$0	\$0	\$5,175,965	\$5,091,308
Security of Persons and Property						
Police	5,408,164	5,290,725	0	0	5,408,164	5,290,725
Fire	3,923,463	3,779,111	0	0	3,923,463	3,779,111
Public Health and Welfare	172,931	194,643	0	0	172,931	194,643
Leisure Time Activities	1,283,794	1,324,108	0	0	1,283,794	1,324,108
Community Development	712,958	843,855	0	0	712,958	843,855
Basic Utility Services	970,570	1,010,797	0	0	970,570	1,010,797
Transportation	4,169,563	4,303,602	0	0	4,169,563	4,303,602
Interest and Fiscal Charges	735,190	560,422	0	0	735,190	560,422
Water	0	0	3,090,839	4,131,949	3,090,839	4,131,949
Wastewater	0	0	1,949,289	1,958,932	1,949,289	1,958,932
<i>Total Program Expenses</i>	<u>22,552,598</u>	<u>22,398,571</u>	<u>5,040,128</u>	<u>6,090,881</u>	<u>27,592,726</u>	<u>28,489,452</u>
Increase (Decrease) in Net Position	(1,500,403)	175,738	2,288,653	1,389,218	788,250	1,564,956
Net Position Beginning of Year	28,145,060	N/A	9,707,043	N/A	37,852,103	N/A
Net Position End of Year	<u>\$26,644,657</u>	<u>\$28,145,060</u>	<u>\$11,995,696</u>	<u>\$9,707,043</u>	<u>\$38,640,353</u>	<u>\$37,852,103</u>

The information necessary to restate the 2011 beginning balances and the 2011 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2011 functional expenses still include pension expense of \$645,200 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2012 statements report negative pension expense of \$647,364.

In order to compare 2012 total program expenses to 2011, the following adjustments are needed:

Total 2012 GASB 68 program expenses	\$27,592,726
Plus:	
2012 negative pension expense	647,364
2012 contractually required contributions	<u>639,208</u>
Total 2012 GASB 27 program expenses	<u>\$28,879,298</u>

City of Generic, Ohio
Statement of Net Position
December 31, 2012

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$13,482,663	\$5,301,694	\$18,784,357
Cash and Cash Equivalents with Fiscal Agents	5,139	0	5,139
Accounts Receivable	91,638	1,381,106	1,472,744
Accrued Interest Receivable	1,930	3,172	5,102
Intergovernmental Receivable	1,210,007	0	1,210,007
Internal Balances	35,283	(35,283)	0
Income Taxes Receivable	2,561,977	0	2,561,977
Materials and Supplies Inventory	156,078	229,974	386,052
Prepaid Items	31,622	0	31,622
Loans Receivable	25,000	0	25,000
Property Taxes Receivable	5,060,513	0	5,060,513
Special Assessments Receivable	806,358	0	806,358
Assets Held for Resale	1,115,991	0	1,115,991
Nondepreciable Capital Assets	3,048,166	686,526	3,734,692
Depreciable Capital Assets, Net	28,236,403	14,918,663	43,155,066
<i>Total Assets</i>	<u>55,868,768</u>	<u>22,485,852</u>	<u>78,354,620</u>
Deferred Outflows of Resources			
Deferred Charge on Refunding	315,312	60,334	375,646
→ Pension:			
OPERS	0	0	0
Police and Fire	0	0	0
<i>Total Deferred Outflows of Resources</i>	<u>315,312</u>	<u>60,334</u>	<u>375,646</u>
Liabilities			
Accounts Payable	195,591	278,439	474,030
Accrued Wages	443,431	49,959	493,390
Intergovernmental Payable	600,385	41,754	642,139
Vacation Benefits Payable	707,663	84,497	792,160
Claims Payable	342,245	0	342,245
Unearned Revenue	266,000	0	266,000
Retainage Payable	5,139	0	5,139
Accrued Interest Payable	54,984	65,463	120,447
Long-Term Liabilities:			
Due Within One Year	1,433,041	1,295,928	2,728,969
Due In More Than One Year:			
→ Net Pension Liability (See Note XX)	6,797,348	1,519,094	8,316,442
Other Amounts Due in More Than One Year	12,045,783	6,782,473	18,828,256
<i>Total Liabilities</i>	<u>22,891,610</u>	<u>10,117,607</u>	<u>33,009,217</u>
Deferred Inflows of Resources			
Property Taxes	4,710,830	0	4,710,830
→ Pension:			
OPERS	1,936,983	432,883	2,369,866
Police and Fire	0	0	0
<i>Total Deferred Inflows of Resources</i>	<u>6,647,813</u>	<u>432,883</u>	<u>7,080,696</u>
Net Position			
Net Investment in Capital Assets	19,668,123	7,732,350	27,400,473
Restricted for:			
Capital Projects	147,188	0	147,188
Debt Service	509,480	0	509,480
Municipal Courts	830,873	0	830,873
Streets	1,115,228	0	1,115,228
Community Development	737,303	0	737,303
Street Lighting	550,136	0	550,136
Drug Force Violations	331,639	0	331,639
Other Purposes	393,617	0	393,617
Unrestricted	2,361,070	4,263,346	6,624,416
<i>Total Net Position</i>	<u>\$26,644,657</u>	<u>\$11,995,696</u>	<u>\$38,640,353</u>

See accompanying notes to the basic financial statements

City of Generic, Ohio
Statement of Activities
For the Year Ended December 31, 2012

	Program Revenues			
	Expenses	Charges for Services and Operating Assessments	Operating Grants and Contributions	
Governmental Activities				
General Government	\$5,175,965	\$2,082,652	\$445,252	\$0
Security of Persons and Property				
Police	5,408,164	64,368	565,729	0
Fire	3,923,463	429,512	355,615	0
Public Health and Welfare	172,931	14,211	88,825	0
Leisure Time Activities	1,283,794	128,611	13,128	0
Community Development	712,958	329,643	212,341	0
Basic Utility Services	970,570	310,771	0	0
Transportation	4,169,563	0	625,168	5,000
Interest and Fiscal Charges	735,190	0	0	0
<i>Total Governmental Activities</i>	<u>22,552,598</u>	<u>3,359,768</u>	<u>2,306,058</u>	<u>5,000</u>
Business-Type Activities				
Water	3,090,839	4,532,355	0	0
Wastewater	1,949,289	2,386,595	0	0
<i>Total Business-Type Activities</i>	<u>5,040,128</u>	<u>6,918,950</u>	<u>0</u>	<u>0</u>
<i>Total</i>	<u><u>\$27,592,726</u></u>	<u><u>\$10,278,718</u></u>	<u><u>\$2,306,058</u></u>	<u><u>\$5,000</u></u>

General Revenues

Property Taxes Levied for:

 General Purposes

 Debt Service

 Public Safety

Municipal Income Taxes Levied for:

 General Purposes

 Debt Service

 Wastewater

Grants and Entitlements not Restricted to Specific Programs

Investment Income

Gain on Sale of Capital Assets

Miscellaneous

Total General Revenues

Change in Net Position

Net Position Beginning of Year -- Restated See Note X

Net Position End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
(\$2,648,061)	\$0	(\$2,648,061)
(4,778,067)	0	(4,778,067)
(3,138,336)	0	(3,138,336)
(69,895)	0	(69,895)
(1,142,055)	0	(1,142,055)
(170,974)	0	(170,974)
(659,799)	0	(659,799)
(3,539,395)	0	(3,539,395)
(735,190)	0	(735,190)
(16,881,772)	0	(16,881,772)
0	1,441,516	1,441,516
0	437,306	437,306
0	1,878,822	1,878,822
(16,881,772)	1,878,822	(15,002,950)
1,898,877	0	1,898,877
225,894	0	225,894
2,778,562	0	2,778,562
8,904,771	0	8,904,771
720,216	0	720,216
0	309,255	309,255
632,800	0	632,800
20,824	67,547	88,371
32,484	0	32,484
166,941	33,029	199,970
15,381,369	409,831	15,791,200
(1,500,403)	2,288,653	788,250
28,145,060	9,707,043	37,852,103
<u>\$26,644,657</u>	<u>\$11,995,696</u>	<u>\$38,640,353</u>

Note XX Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the Government's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the Government's obligation for this liability to annually required payments. The Government cannot control benefit terms or the manner in which pensions are financed; however, the Government does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of employer governments, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these governments. All contributions to date have come solely from these governments (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. A liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

City of Generic, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

	Balance 12/31/11	Increase	Decrease	Balance 12/31/12	Amounts Due in One Year
Governmental Activities					
<i>General Obligation Bonds</i>					
<i>Various Purpose Refunding Bonds</i>					
Serial	\$7,989,600	\$0	\$367,800	\$7,621,800	\$382,800
Premium	45,324	0	2,862	42,462	0
Discount	(40,999)	0	(2,589)	(38,410)	0
Total Various Purpose Refunding Bonds	7,993,925	0	368,073	7,625,852	382,800
City Hall	945,000	0	175,000	770,000	180,000
City Hall Court	625,000	0	65,000	560,000	70,000
<i>Capital Improvement Bonds</i>					
Serial	1,295,000	0	135,000	1,160,000	135,000
Build America Bonds - Term	850,000	0	0	850,000	0
Premium	20,549	0	2,371	18,178	0
Total Capital Improvement Bonds	2,165,549	0	137,371	2,028,178	135,000
Total General Obligation Bonds	11,729,474	0	745,444	10,984,030	767,800
<i>Special Assessment Bonds</i>					
Northfield and Rockside Resurfacing	20,000	0	20,000	0	0
Northfield and Rockside Resurfacing #2	220,000	0	50,000	170,000	55,000
Total Special Assessment Bonds	240,000	0	70,000	170,000	55,000
<i>Ohio Public Works Commission Loans</i>					
Willard Avenue	55,650	0	22,260	33,390	22,260
Wandle Avenue	233,360	0	25,929	207,431	25,929
Broadway Culvert	518,349	0	25,917	492,432	25,917
Total Ohio Public Works Commission Loans	807,359	0	74,106	733,253	74,106
<i>Other Long-Term Obligations</i>					
1967 Police Pension	181,428	0	4,634	176,794	4,833
Capital Leases Payable	12,915	39,540	7,980	44,475	10,971
Compensated Absences Payable	1,336,297	536,978	503,003	1,370,272	520,331
Total Other Long-Term Obligations	1,530,640	576,518	515,617	1,591,541	536,135
Total Governmental Activities before Net Pension Liability	14,307,473	576,518	1,405,167	13,478,824	1,433,041
→ Net Pension Liability:					
OPERS	9,785,897	0	2,988,549	6,797,348	0
Police and Fire Pension	0	0	0	0	0
Total Net Pension Liability	9,785,897	0	2,988,549	6,797,348	0
Total Governmental Activities	\$24,093,370	\$576,518	\$4,393,716	\$20,276,172	\$1,433,041

City of Generic, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

	Balance 12/31/11	Increase	Decrease	Balance 12/31/12	Amounts Due in One Year
Business-Type Activities					
<i>General Obligation Bonds</i>					
Water Refunding #1	\$320,000	\$0	\$50,000	\$270,000	\$50,000
Water Refunding #2	140,000	0	140,000	0	0
Washington Street Water	530,400	0	27,200	503,200	27,200
Unamortized Premium	3,351	0	212	3,139	0
Unamortized Discount	(3,021)	0	(191)	(2,830)	0
Total Washington Street Water	530,730	0	27,221	503,509	27,200
<i>Capital Improvement Bonds</i>					
Serial	455,000	0	45,000	410,000	45,000
Build America Bonds - Term	1,170,000	0	0	1,170,000	0
Unamortized Premium	7,165	0	827	6,338	0
Total Capital Improvement - Water	1,632,165	0	45,827	1,586,338	45,000
Sewer Improvement Refunding	305,000	0	5,000	300,000	0
Unamortized Premium	908	0	58	850	0
Unamortized Discount	(603)	0	(38)	(565)	0
Total Sewer Improvement Refunding	305,305	0	5,020	300,285	0
Sewer Improvement	185,000	0	35,000	150,000	35,000
<i>Capital Improvement Bonds</i>					
Serial	375,000	0	40,000	335,000	40,000
Build America Bonds - Term	945,000	0	0	945,000	0
Unamortized Premium	5,970	0	689	5,281	0
Total Capital Improvement - Sewer	1,325,970	0	40,689	1,285,281	40,000
<i>Total General Obligation Bonds</i>	4,439,170	0	343,757	4,095,413	197,200
<i>OWDA Loans</i>					
Sewer System	1,625,375	0	793,319	832,056	832,056
Rapid Sandfilter	1,672,854	0	111,728	1,561,126	116,128
<i>Total OWDA Loans</i>	3,298,229	0	905,047	2,393,182	948,184
<i>OPWC Loans</i>					
Northfield Road Water Line	350,000	0	20,000	330,000	20,000
Grand, Franklin Water Line	0	454,000	11,350	442,650	22,700
Flow Control	12,492	0	4,163	8,329	4,163
Oxidation Tower Improvements	555,044	0	41,114	513,930	41,114
Sludge Thickener	175,294	0	10,017	165,277	10,017
<i>Total OPWC Loans</i>	1,092,830	454,000	86,644	1,460,186	97,994
<i>Other Long-Term Liabilities</i>					
Compensated Absences	133,874	24,692	28,946	129,620	52,550
<i>Total Business-Type Activities before Net</i>					
<i>Pension Liability</i>	8,964,103	478,692	1,364,394	8,078,401	1,295,928
Net Pension Liability (OPERS)	2,186,983	0	667,889	1,519,094	0
Total Business Type Activities	\$11,151,086	\$478,692	\$2,032,283	\$9,597,495	\$1,295,928



City of Generic, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

The Government pays obligations related to employee compensation from the fund benefitting from their service, including the general fund, recreation, street construction maintenance and repair and public safety special revenue funds and water and wastewater enterprise funds. The capital leases payable will be paid from the general fund. The police pension loan will be paid from the general fund.

Draft - For Discussion Only

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Health Care Solutions

The Affordable Care Act The Impact on Employers



August, 2014

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Today's Focus:

- Employer Shared Responsibility
 - Group Size
 - Enforcement Delay
- Preparing for 2015
- Employer Filing Requirements
- Employer Reporting Requirements
- Open Employer Questions



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Employer Shared Responsibility Group Size

- Must have at least 50 full-time employees AND full-time equivalent employees. (Less than 100 employees until 2016.)
- Full-time is defined as an average of 30 or more hours per week or 130 hours a month (for time paid or entitled to payment).
- Must use common law definition of employee.
- Must count all members of control group.

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Employer Shared Responsibility Group Size

- Must not count hours of service worked outside the United States
- To determine Applicable Large Employer status you count employees during the prior calendar year; you do NOT use the Measurement Period Safe Harbor
- Full-time employees (FTEs) and Full-time equivalent employees (FTEEs) are counted



Employer Shared Responsibility Enforcement Delay

- No employer shared responsibility payments (penalties) are due in 2014.
- For employers with calendar year (January 1) plan years, penalties apply January 1, 2015.
- For employers with non-calendar year plan years, penalties will not apply until the first day of the 2015 plan year for those employees who are eligible under the terms of the plan as of February 9, 2014 and covered on the first day of the 2015 plan year.



Employer Shared Responsibility Enforcement Delay

- Employers with fewer than 100 employees (FTEs and FTEEs) in 2014 that meet the three conditions below, are not subject to the penalties until the first day of the employer's 2016 plan year:
 - The employer must employ, on average, between 50 and 100 full-time and full-time equivalent employees.
 - Between February 9, 2014 and December 31, 2014, the employer may not reduce the size of its workforce or the hours of service worked by its employees.
 - Between February 9, 2014 and December 31, 2014 the employer may not eliminate or materially change its health plan coverage or substantially change the amount of the employee-only contribution.



Employer Shared Responsibility Enforcement Delay

- Transition relief for employers between 50 and 100 employees also applies to newly created employers and businesses.
- This transition relief ends as of the last day of the employer's 2015 plan year.
- An employer who has over 100 full-time and full-time equivalent employees in 2015 (or any month in 2016 that is part of the 2015 plan year) must only offer coverage to 70% of its full-time employees in order to avoid a penalty. The number rises to 95% in 2016 PY.

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Employer Shared Responsibility Enforcement Delay

- Employers with close to 50 full-time employees in 2014 can use a 6-month period to determine ALE status, rather than using the 2014 calendar year (i.e., an employer can use the July-December 6-month period of 2014 to count its employees).
- Provided the employer didn't offer dependent coverage prior, an employer that takes steps during 2014 to add dependent coverage will not be assessed a penalty in 2014 for failing to offer such coverage. Such transition relief will extend into 2015 in certain circumstances.

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HEALTH CARE REFORM: Organizational Flow Chart

The diagram is a funnel-shaped flow chart. At the top, six boxes represent 'TAXES', 'MEDICARE', 'SOCIAL SECURITY', 'EMPLOYERS', 'MEDICAID', 'INSURERS', and 'WEALTH'. These lead to a second row of 'PRESIDENT', 'HHS', 'IRS', 'GAO', and 'CONGRESS'. The third row includes 'DOJ', 'LABOR DEPT.', 'HOMELAND SECURITY', and 'DMV'. Below these is a red box labeled 'BAMACARE' with a cross symbol. The final row shows 'DOCTORS' leading to a box labeled 'YOU'.

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Preparing for 2015

- Categorize your workforce: Who's full-time, part-time, variable hour, temporary, seasonal
- Update job descriptions accordingly
- Choose and implement a measurement period method
 - Month-to-Month
 - Look-Back Measurement
- Update and document your plans eligibility rules (for both fully-insured and self-funded plans)



Employer Filing Requirements

- **January 15, 2014** – Last date to pay first installment or combined Transitional Reinsurance payment - ACH withdrawal via Pay.gov
- **January 31, 2015** – Deadline for 2014 W-2 (must include total cost of health care plan offered)
- **July 31, 2015** - Deadline for 2015 PCORI Fee Filing
- **November 5, 2015** – Small group deadline to obtain an HPID (health plan identification number)
- **November 15, 2015** - Last date to pay second installment Transitional Reinsurance payment – ACH withdrawal via Pay.gov



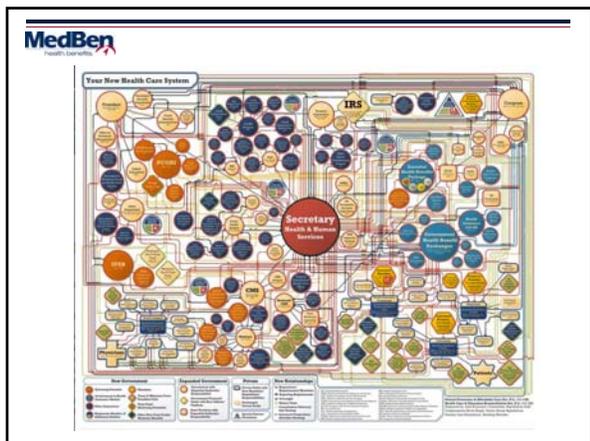
Employer Reporting Requirements

- 6055 Information Return
 - “Individual Mandate” return
- 6056 Information Return
 - “Applicable Large Employer” return
- Due first quarter of 2016 but reporting 2015 information
- Data to be collected, including dependent SSNs



Employer Reporting Requirements

Form	Who Reports?	What Form?
6055	Self-funded employers and Insurers	ALEs – 1094-C & 1095-C Insurers – 1094-B 7 1095-B
6056	Applicable Large Employers	1094-C & 1095-C



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Open Employer Questions

- If you are an ALE, will you “pay” or “play”?
- Can an employer pay for his employees individual insurance policies?
- What position will an employer take regarding Exchange coverage options?
- How will employers handle leased employees, interns?
- Other?

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Questions?

- MedBen can help!
 - Caroline Fraker
 - cfraker@medben.com
 - 740-522-7386
 - www.medben.com

Instructions for Installing EWP Reader

Step 1 – Install EWP Reader onto a computer that does NOT have any version of TeamMate on it. Note: if you already have EWP Reader installed, you can skip this step.

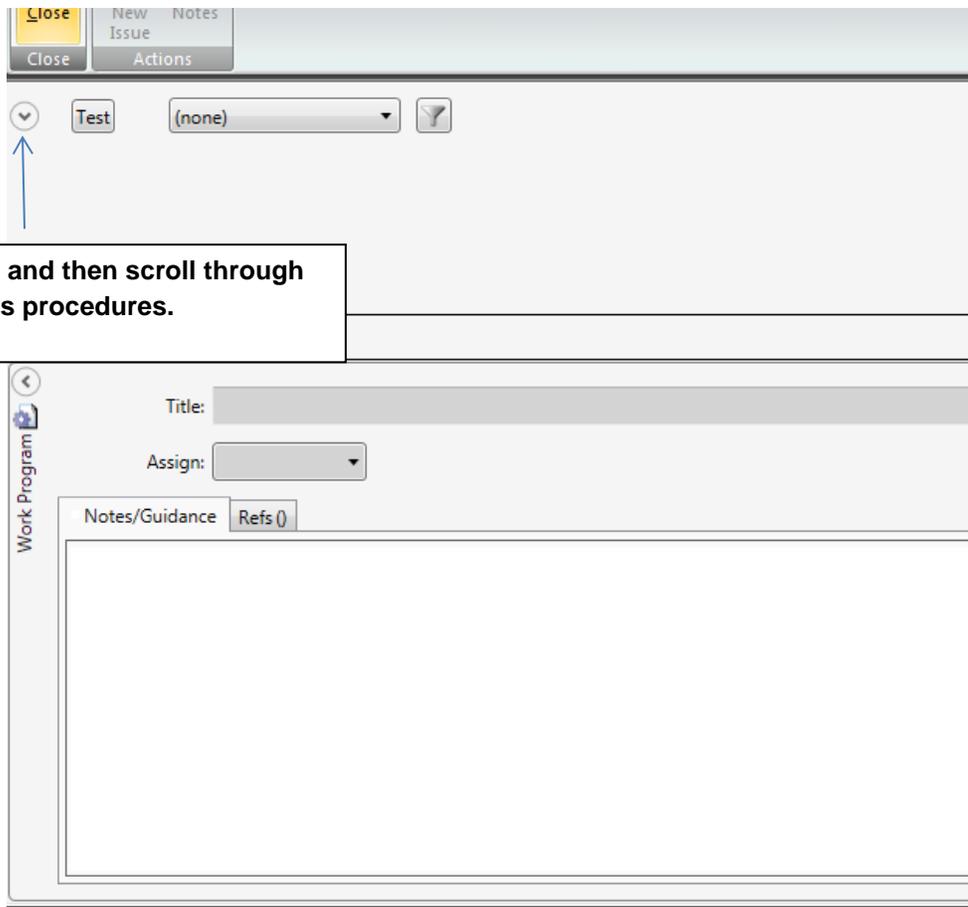
Step 2 – Follow the instruction in the *TeamMateEWP Reader.pdf* file labeled “To Install an EWP Project in the Reader” to bring the audit project file(s) into the software. Repeat for each file/project you need to review. You will then get an error that says “windows account not authorized...” Hit OK and then follow the login prompt.

At the login prompt the username is “guest” and the password is “EWP*Share”

Step 3 – Follow the instructions in the *TeamMateEWP Reader.pdf* file to open the project file(s) and use the viewers to review the audit documentation.

Another option for reviewing audit documentation is to use the Browser file system in EWP Reader. All of AOS programs are under the folder called PG (Program Group). You can then click through the file folders and open the .PRG files to see the program information. Under each .PRG is a set of procedures where our testing is documented and hyperlinked to workpapers.

If you see the following screen when navigating through the project click on the down arrow next to “test”.





TeamMate EWP Reader Ready Reference

TeamMate EWP Reader delivers the following benefits:

- EWP R10 projects can be shared with non-TeamMate users
- Free download that can be distributed by licensed clients to any third parties
- EWP Reader users cannot make any changes to project data, irrespective of project status or user role
- The Restricted read-only role allows clients to choose whether or not non-TeamMate users can export work papers or generate reports
- Dramatically simplified ribbon user interface makes it easier for non-TeamMate users to navigate and view project data without training
- Utilizes the same leading edge security and encryption technology to protect your data as used by TeamMate EWP

To open EWP Reader:

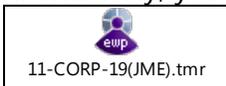
From Windows, select **Start | Programs | TeamMate | TeamMate | EWP Reader** or click the EWP Reader desktop shortcut.

To Install an EWP Project in the Reader

1. From the EWP Explorer, click on the **Replica** button to install the Project transport file (.tmr).



Alternatively, you can open the file by double clicking on the transport file (.tmr).



The Install Replica Wizard opens.

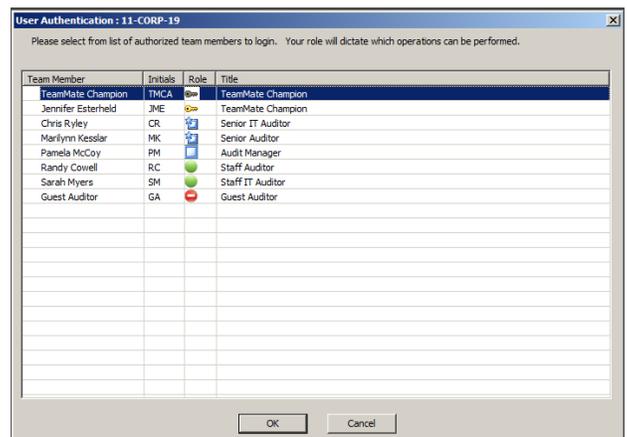
2. Select **Next**.
3. Click **Browse** and then select the Replica Location.
4. Select **Finish**.
5. After the installation is finished, you will be prompted to delete the replica file. If you need to retain the replica file, select **No**.

Projects the EWP Reader

Projects appear in your EWP Explorer after you load them. If you follow the steps for loading a project above, the audit opens and you are prompted to select your Team Member name.

To open a project in EWP:

1. Select **Start | Programs | TeamMate | EWP**.
2. Select the **Replica** tab from the EWP Browser and double-click on the project you want to open.
3. Select your Team Member name, and then click **OK**.



Using Viewers

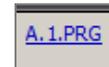
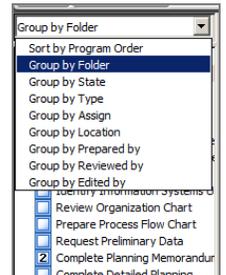
The Browser is the index or table of contents, of the project and is the first screen displayed after opening the project. You can access all Schedules in the Project and other information through the Browser, or use EWP Viewers to go directly to the information you need.

To use a viewer:

1. Select one of the viewer tabs at the bottom of the screen, such as the **Procedure Viewer**.



2. You can sort the contents by selecting one of the **Group by** options in the left hand corner. For example, **By Folder** reflects the order of procedure steps.
3. Scroll to view the steps. You can open work paper or issue links within the procedure step by double-clicking the link text.
4. You can click the ARC number in the upper left to go to the Program Folder in the Browser for the audit step.

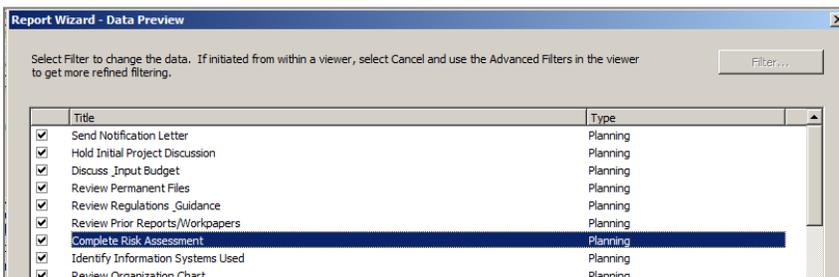


Generating Reports

You can generate a report in Microsoft Word format report showing all the procedures steps or other information to save to your desktop.

To generate a procedure report and save it to your desktop:

1. From the Procedure Viewer select the **Generate Report** icon from the Reports panel in the Review Ribbon.
2. Select the **Combined Procedures Report** in Report Wizard and select **Next** at the lower right.
3. Select the procedure steps you want to print.



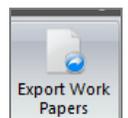
4. Select **Next**.
5. Select **Save as an External Document** and select the **Finish** button. The report opens in Microsoft Word.
6. *Optional*. Save the report to your computer using **File | Save** in Word.

Exporting Work Papers

You can export supporting work papers such as Microsoft Excel or Word files and .pdf documents.

To export work papers:

1. From the Procedure Viewer select the **Export Work Papers** icon from the Reports panel in the Review Ribbon
2. Select the work papers you want to export.
3. Browse to the location you want to save them in, and then click **OK**.





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Annual Financial Data Reporting System (AFDRS)

Presented by:
Leanna Abele, CPA
Assistant Chief Deputy Auditor

Ohio Auditor of State
Dave Yost

Combined IPA Conference
August 22, 2014

www.ohioauditor.gov

Objectives

Annual Financial Data Reporting System (AFDRS)

- Definition
- Uses of Information Gathered
- Implementation/Development of the AFDRS
- How to Report via the AFDRS
- Available Resources
- Frequently Asked Questions



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What is the Annual Financial Data Reporting System?



The Annual Financial Data Reporting System (AFDRS) replaces the existing multiple methods (hard copy through U.S. mail, documents attached to emails, etc.) used by entities to file their annual financial reports as required by ORC 117.38.



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What is the AFDRS? (cont.)

The AFDRS is an Internet based application that allows certain financial statement, debt, and demographic data to be entered and transmitted to the Auditor of State (AOS) to satisfy the annual filing requirements prescribed by the Ohio Revised Code (ORC) and the Ohio Administrative Code (OAC).

At this time, the AFDRS does not require a complete set of financial statements to be provided.



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Uses of Information Gathered by the AFDRS

The AFDRS will be able to be used by the AOS to meet the following needs:

Annual Financial Report Filing Purposes:
Record the filing of the annual financial reports and identify the need to assess penalties for late or improper filings



Legislative Reporting Purposes:
Extract the data necessary to be provided to the Governor and General Assembly as required by ORC 117.38(D)



Audit Purposes:
Provide more immediate access to entity financial data for the auditors (Not Immediately Available; Future Development)



Comparison Purposes:
Provide online access to each entity's financial data to allow comparisons of year-to-year data and data from like-entities (Not Immediately Available; Future Development)



Financial Health Indicator* (FHI) Purposes:
Generate data for the FHI (multiple years of data will be required)



* FHI indicator information can be obtained at <https://ohioauditor.gov/indicators/default.html>.

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Implementation/ Development of the AFDRS

Filing with AFDRS is being implemented in four phases:

- ★ Phase 1 = cities and counties (filing of December 31, 2013 information)
- ★ Phase 2 = school districts, educational service centers and community schools (filing of June 30, 2014 information)
- ★ Phase 3 = villages, townships and libraries (filing of December 31, 2014 information)
- ★ Phase 4 = all other entity types (filing of year-end information; anticipated that Phase 1-3 entities will also begin uploading a completed financial report)



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How to Report via the AFDRS

The AFDRS must be accessed through an entity-specific URL link that will be delivered to each entity via email. Prior to the distribution of the entity-specific URL link, the AOS has attempted to obtain confirmation from each entity that the proper contact name and email address for the fiscal officer/treasurer, who will serve as the primary contact, is on file with the AOS.





email address for the fiscal officer/treasurer, who will serve as the primary contact, is on file with the AOS.



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How to Report via the AFDRS (cont.)



The AOS encourages entities to become members of its eServices application. As a result, if an entity's contact information changes, the entity may login to <https://eServices.ohioauditor.gov> and request a change to its contact information. Otherwise, an entity will need to notify the AOS of the contact information changes via the email address established for AFDRS correspondence (annualdatareportingcorrespondence@ohioauditor.gov).

If an entity is unsure of the information on file with the AOS, please either login to eServices, if a member, or send an inquiry to the AFDRS correspondence email address.





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Available Resources

Established information concerning the AFDRS on the AOS website



➡ <https://ohioauditor.gov/financialreporting/default.html>

➡ Frequently Asked Questions

➡ Annual Financial Data Reporting System Quick Guides

➡ Provides email address where questions may be sent annualdatareportingcorrespondence@ohioauditor.gov



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Available Resources (cont.)

1. Go to <http://ohioauditor.gov>
2. Select Local Government
3. Select Annual Financial Reporting



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Available Resources (cont.)

The following screen appears detailing the annual financial reporting requirements:



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Available Resources (cont.)

If you continue to scroll down the annual financial reporting page, the following appears from which you can access the Quick Guide(s) and FAQs concerning the AFDRS:



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(FAQs) (cont.)



Q: In the past, my entity was required to submit the annual financial report in accordance with AOS Technical Bulletin 2008-001 to comply with ORC Section 117.38. Is my city, county, school district, educational service center, or community school required to submit additional information/data beyond what is required by the AFDRS to fully meet the required filing?

A: No. ORC 117.38 requires the filing of annual financial reports with the AOS and specifies certain criteria that must be included in the report. AOS Technical Bulletin 2008-002 requires entities to prepare the basic financial statements, including the government-wide financial statements, the fund financial statements, the notes to the basic financial statements, Management's Discussion and Analysis, and any other required supplementary information.

These completed report components **will be necessary** for your entity to enter the information required by the AFDRS and for audit purposes; therefore, **their completion, by the reporting deadline, continues to be required**; however, the only direct reporting to the AOS will be via the AFDRS.



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FAQs (cont.)



Q: If the original email containing the link to the AFDRS for my entity was deleted or is otherwise no longer available, what is the appropriate manner to restore access?

A: The entity's **fiscal officer** should send an email to the AOS at annualdatareportingcorrespondence@ohioauditor.gov requesting the link be resent. The name of the entity will need to be included in this request.



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FAQs (cont.)



Q: Am I able to obtain an extension for filing the annual financial report?

A: Entities filing on a GAAP basis have 150 days, except for community improvement corporations who have 120 days, following fiscal year-end to submit their annual financial reports to the AOS, while other entities have 60 days following fiscal year-end to complete their submission. The AOS is aware the initial implementation of the AFDRS will affect client schedules and could impact the ability to meet the filing deadlines prescribed by ORC 117.38; therefore, extensions of the due dates will be available, if requested.

AOS Technical Bulletin 2008-001 addresses the need for extensions and the specific requirements of a request. It states the AOS recognizes that occasionally circumstances may arise that justify granting an extension of the annual report filing deadline. Generally, the AOS will consider granting an extension when the circumstances listed in the Bulletin exist or have occurred; however, the initial year each entity is required to file via the AFDRS is also an acceptable reason for requesting an extension.

Note: No matter the basis of accounting, entities should also request extensions, if necessary, to avoid a noncompliance citation in the management letter for not filing timely in accordance with ORC 117.38.



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FAQs (cont.)



Q: Where do I send a request for extension for filing my entity's annual financial report?

A: The request for extension should comply with the requirements specified in AOS Technical Bulletin 2008-001 by stating the reason for the request and estimated completion date and including the signatures of the Chief Fiscal Officer and a representative of the entity's governing board. The request for extension should be submitted to Local Government Services (LGS) at LGSAnnualFinancialReports@ohioauditor.gov no later than the deadline for filing the annual financial report. **Please be aware that receiving an extension for filing the entity's annual financial report does not eliminate the assessment of penalties for failing to comply with the requirements of OAC 117-2-03(B), which requires certain entity types to prepare their financial reports pursuant to GAAP.**

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FAQs (cont.)



Q: Our entity contracts for GAAP services. In the past, the GAAP converter has filed our annual financial report with the AOS. Will they be able to access the AFDRS in order to continue complying with the annual filing requirements?

A: Yes. Each entity's fiscal officer will receive an email that contains an entity-specific link to access the AFDRS to file that entity's annual financial report with the AOS. This link may be provided to other individuals to provide access to file the entity's annual financial report; however, the responsibility to ensure the annual financial report information is filed with the AOS remains with the entity.

NOTE: Since any individual who is provided the entity-specific link will be able to access the AFDRS and file on behalf of the entity, please ensure the email with the embedded link is only provided to other individuals when necessary.

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FAQs (cont.)

Q: What information is needed in order to complete the filing requirements within the AFDRS?



A: The information may vary with each entity type. The following slide is a list of items for each entity type that is currently required to utilize the AFDRS:

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FAQs (cont.)



Q: I am the fiscal officer of a governmental entity but have either assigned staff or contracted to have the financial information entered into the AFDRS. Whose name and title should be entered into the acknowledgement page when submitting the annual financial information?

A: The individual who inputted the annual financial information in the AFDRS should enter his/her name and title into the acknowledgement page to ensure that the proper individual is contacted should questions arise.



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FAQs (cont.)



Q: Can I modify my entity's submission once it is submitted?

A: No. Each entity has the ability to save and modify data for its submission up to the point that it is submitted; however, once submitted, the information cannot be modified. If, under certain limited circumstances, a modification may be necessary, the fiscal officer must contact the AOS via the email account established for questions (annualdatareportingcorrespondence@ohioauditor.gov).

Note: Entities should consider the need for extension requests prior to established due dates. If an entity refiles its annual financial information, the filing date will be recorded as the most recent submission date, which may result in penalties outlined in ORC 117.38 and/or a noncompliance citation in the management letter.

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FAQs (cont.)



Q: After reviewing the FAQs, I still have questions. To whom should questions concerning the AFDRS and/or the new filing method required by the AOS be addressed?

A: If, after reviewing the Quick Guide and FAQs, you encounter difficulties or have further questions concerning the AFDRS or during the submission process, please contact the AOS at annualdatareportingcorrespondence@ohioauditor.gov.



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Summary

Important Things to Take Away from Today



- Become familiar with the requirements of ORC 117.38 and OAC 117-2-03(B)
- All entities will be required to utilize the AFDRS once fully implemented
- The AFDRS will serve many purposes in the future
- Extensions for filing via the AFDRS will be granted for first time users, if requested
- Do not file in the AFDRS unless the financial statements are complete since refiling an entity's annual financial report will only be accepted under certain limited circumstances
- Be aware of due dates and request extensions, if necessary, to avoid penalties and audit report comments

Resources to Keep in Mind

- Ohio Auditor of State Web Site
- Quick Guides Established for the AFDRS
- FAQs Established for the AFDRS
- Contact: annualdatareportingcorrespondence@ohioauditor.gov



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Questions???



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Presenter Phone: (800) 282-0370
 E-mail: lmabele@ohioauditor.gov

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A Global Reach with a Local Perspective



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Got Fraud? You Could Be Next!
How to Prevent and Detect Common Fraud Schemes

A Forensic Accountant's Perspective

WHAT IS FORENSIC ACCOUNTING?



“The Art of figuring out what we don’t know”

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WHAT IS FORENSIC ACCOUNTING?



- The **evidence** of economic transactions and reporting as contained with an accounting system, and
- The **legal framework** which allows such evidence to be suitable to the purpose(s) of establishing accountability and/or valuation
- Criminal, civil and regulatory, Federal, State, local

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DIFFERENCE BETWEEN AUDITORS AND FORENSIC ACCOUNTANTS

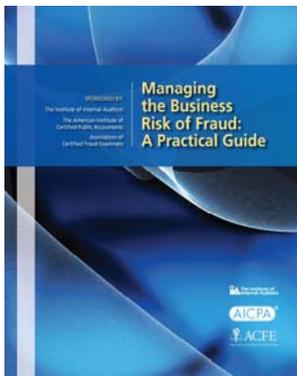
- ▶ Auditors usually reason from numbers to people, forensic accountants usually do the reverse
- ▶ Auditors typically do not presume fraud exists and are generally more trusting
- ▶ Auditors may make materiality judgments
- ▶ Forensic accountants may have "self-selected" into the investigative side and are natural sleuths
- ▶ Forensic accountants have the benefit of experience with various fraud schemes
- ▶ Forensic accountants adopt different approaches beyond the auditor's tool kit, such as data mining, computer forensics and space-time analysis

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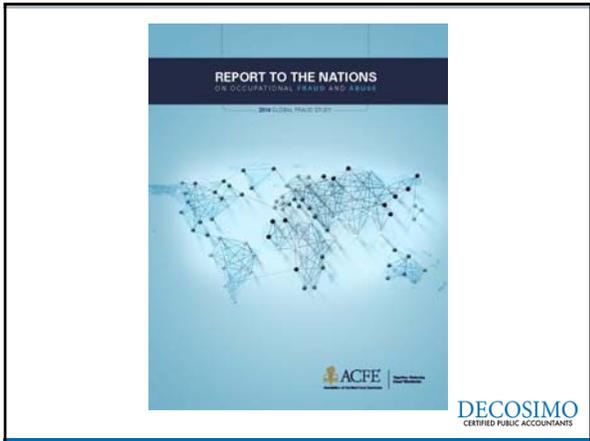
KEY STEPS TO MANAGE FRAUD RISKS

- 1 • Governance
- 2 • Risk Assessment
- 3 • Prevention
- 4 • Detection
- 5 • Deterrence and response

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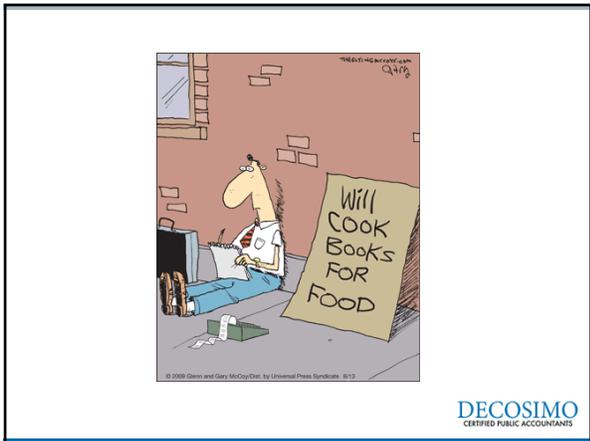
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KEY STEPS TO MANAGE FRAUD RISKS

- 1 • Governance
- 2 • Risk Assessment
- 3 • **Prevention**
- 4 • Detection
- 5 • Deterrence and response

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“You see, Mr. Gittes, most people never have to face the fact that at the right time.....and the right place.....they’re capable of anything.”

- Corrupt Businessman Noah Cross - Chinatown

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Rita Crundwell



Controller, City of Dixon, Illinois 1983-2012

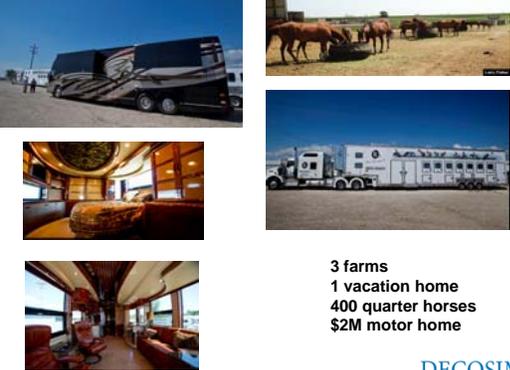
- One of the best-known Quarter Horse breeders in the country
- Won 52 world championships
- Named the leading owner by the American Quarter Horse Association for 8 consecutive years

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Rita Crundwell: An unsophisticated fraud

- Begin working for the City in 1983
- Divorced in 1986
- In late 1988, inherited 6.9 acres and single family home from Mother
- She drove a six-year-old Oldsmobile Cutlass
- Annual budget for the City was approximately \$8M
- Compensation in 2012 was \$80,000 but took 12 extra weeks off and reduced to \$61,000

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3 farms
1 vacation home
400 quarter horses
\$2M motor home

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Rita Crundwell and the Dixon
Embezzlement
THE \$54 MILLION BAMBOOZLE:
How the trusted comptroller of a small Illinois town became the
biggest municipal embezzler in U.S. history—and no one noticed
By Bryan Smith

Chicago Magazine, December 2012

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Rita Crundwell: An unsophisticated fraud

- Fraud began in 1990 and lasted 21 years
- Opened a bank account and could deposit, transfer, disburse and record funds without review
- She made herself indispensable and had computers in her mobile home and would call back quickly if any questions arose
- Financial statement audits began in 2006 – she played on the softball team of the auditing firm
- During her tenure:
 - City laid off employees
 - Streets could not be resurfaced
 - Waste water treatment facility was delayed
- 20 years in federal prison

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Rita Crundwell: An unsophisticated fraud

Red Flags

1. Lack of segregation of duties
 2. Extravagant lifestyle
- Had an outside investor in her quarter horse business
 - Her family was in the satellite business and her family owned all of the cell phone towers in Illinois

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WHAT IS FRAUD?

Legal Elements of Fraud -

1. A material false statement
2. Knowledge that the statement was false when it was made
3. Reliance on the false statement by the victim, and
4. Damages as a result

Is a crime in which the victim participates voluntarily

Fraud schemes are limited only by the creativity of the human mind

Deception for financial gain

Involves the violation of position of financial trust

Is a lie committed to deprive an innocent victim of money or property

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FRAUD IS A HUMAN ACT

- All numbers are created by humans operating from different psychological foundations
- The human act of fraud relies heavily on both an individual's emotions and state of mind
- Personal incentive and perceived pressure drive human behavior
- The need to rationalize wrongdoing is psychologically rooted
- The assessment of the opportunity, including the likelihood of being caught, is behavioral assessment

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CRESSEY'S HYPOTHESIS

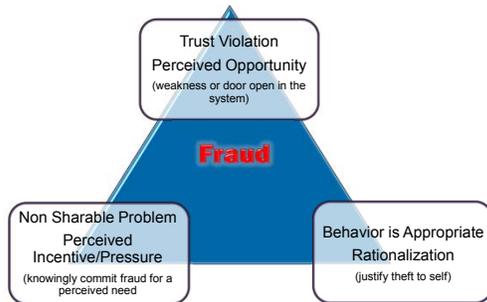
Fraud Triangle

Trusted persons become trust violators when...

- ❑ They conceive of themselves as having a problem which is non-sharable
- ❑ Are aware this problem can be secretly resolved by violation of the position of financial trust
- ❑ Are able to apply to their own conduct in that situation verbalizations which enable them to adjust their conceptions of themselves as trusted persons

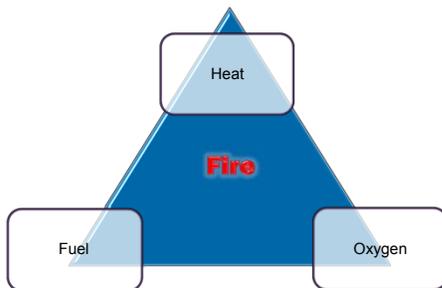
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CRESSEY'S FRAUD TRIANGLE



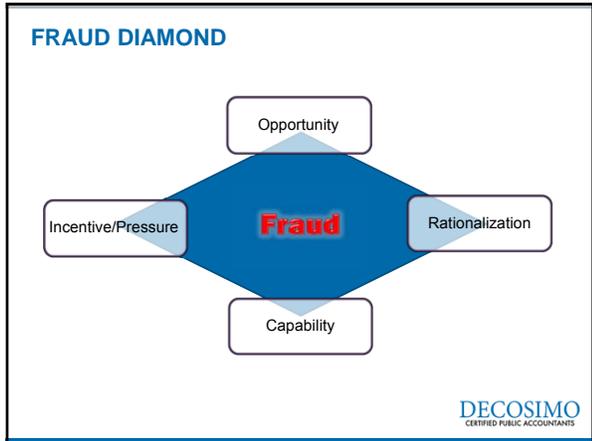
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FIRE TRIANGLE



W. Steve Albrecht, Ph.D., CFE, CPA, CIA

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- NEW MEANING FOR COMMON BUSINESS TERMS**
- **EBIT** *Earnings Before Irregularities and Tampering*
 - **CEO** *Chief Embezzlement Officer*
 - **CFO** *Corporate Fraud Officer*
 - **PE** *Parole Entitlement*
 - **EPS** *Eventual Prison Sentence*
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- COSO'S FRAUDULENT FINANCIAL REPORTING 1998-2007**
- Key Findings
- ❖ 89% of cases the CEO and or the CFO were named
 - ❖ Motivations include:
 - meeting expectations,
 - concealing deteriorating financial conditions
 - preparing for debt/equity offering
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COSO'S FRAUDULENT FINANCIAL REPORTING 1998-2007

Common Financial Statement Fraud Techniques

- ❖ Improper Revenue Recognition 61%
- ❖ Overstatement of Assets 51%
- ❖ Understatement of Expenses/Liabilities 31%
- ❖ Misappropriation of Assets 14%
- ❖ Inappropriate Disclosures 1%
- ❖ Other Miscellaneous Techniques 20%
- ❖ Disguised Through Related Party Trans 18%
- ❖ Insider Trading Cited 24%



COSO'S FRAUDULENT FINANCIAL REPORTING 1998-2007

Improper Revenue Recognition

- ❖ Sham sales
- ❖ Conditional sales
- ❖ Round-tripping
- ❖ Loans as sales
- ❖ Bill and hold
- ❖ Revenue before sale completed
- ❖ Improper cutoff of sales
- ❖ Improper use of percentage of completion
- ❖ Unauthorized shipments
- ❖ Consignment sales



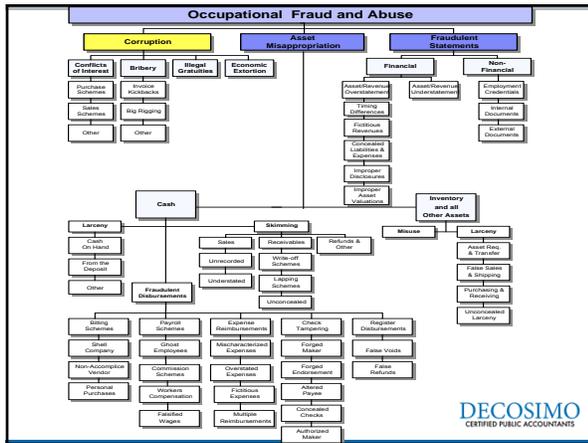
PERCEIVED ROOT CAUSES OF MISCONDUCT
KPMG LLP (U.S.) Integrity Survey 2008-2009

- ❖ Pressure to maintain numbers 59%
- ❖ Believe will be rewarded for results 52%
- ❖ Believe Code of Conduct not taken seriously 51%
- ❖ Lack familiarity with standards for their jobs 51%
- ❖ Lack resources to get it done without cutting corners 50%
- ❖ Fear of losing job 49%
- ❖ Believe policies easy to bypass or override 47%
- ❖ Seek to bend rules for personal gain 34%





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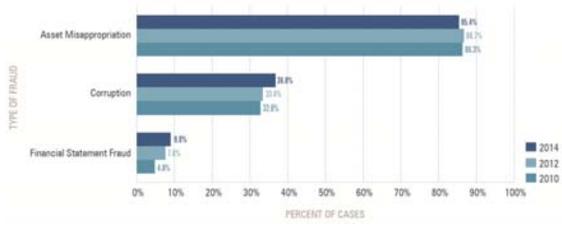
CORRUPTION SCHEMES

The offering, giving, receiving or soliciting any thing of value to influence an official act or business decision:

- Bribery (Kickbacks)
- Conflicts of interest
- Illegal gratuities
- Economic extortion

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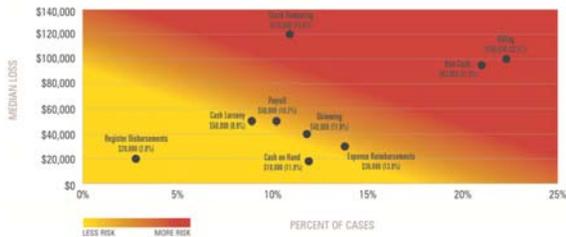
FRAUDS BY CATEGORY



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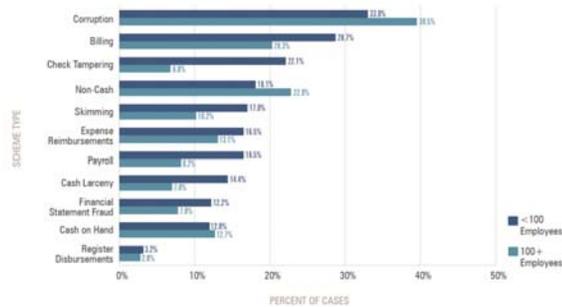
FREQUENCY AND MEDIAN LOSS ASSET MISSAPPROPRIATION SCHEMES



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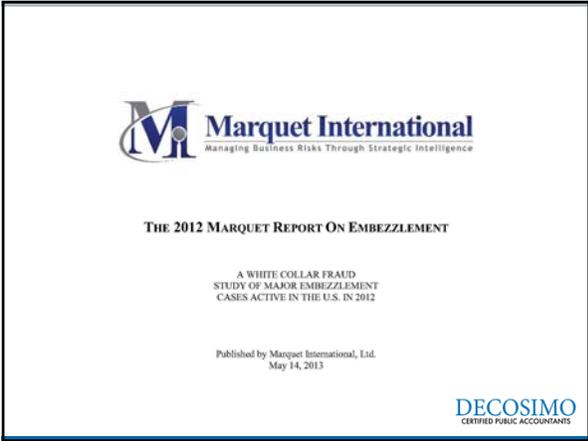
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SCHEME TYPE BY SIZE OF VICTIM



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THE 2012 MARQUET REPORT ON EMBEZZLEMENT

Key Findings

- ▶ There was an 11% increase in the number of cases over 2011
- ▶ Average loss for 2012 was \$1.4M with the median loss of \$340K and average scheme lasting 4.7 years
- ▶ The most common embezzlement scheme involved the issuance of forged or unauthorized checks
- ▶ 65% of the cases in which a motivating factor was known was to obtain and maintain more lavish lifestyle
- ▶ 84% of cases involved individual perpetrators, nearly 58% were female but males stealing nearly 3 times more.
- ▶ 67% involve individuals in bookkeeping or finance positions
- ▶ 3.9% had prior criminal/fraudulent activity

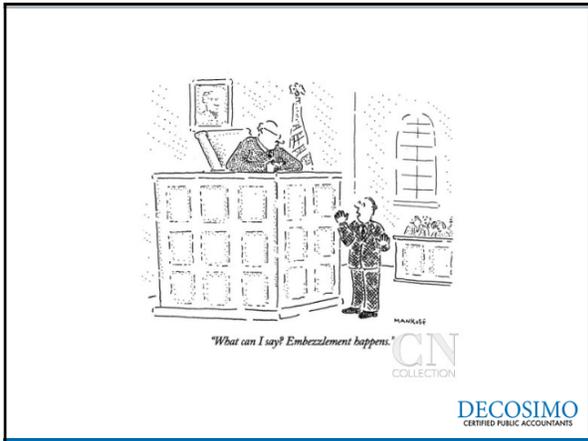
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THE 2012 MARQUET REPORT ON EMBEZZLEMENT

Types of Embezzlement Schemes

- ▶ Forged/unauthorized check
- ▶ Theft/conversion of cash receipt
- ▶ Unauthorized electronic funds transfers
- ▶ Vendor fraud
- ▶ Credit card/account fraud
- ▶ Fraudulent reimbursement schemes
- ▶ Inventory/equipment theft
- ▶ Payroll shenanigans
- ▶ Theft/conversion of cash receipt
- ▶ Bogus loan schemes

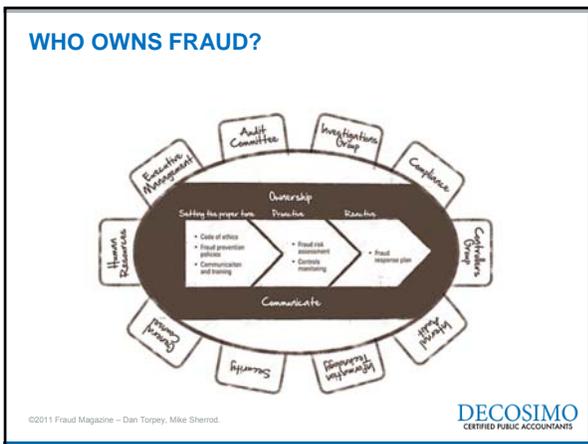
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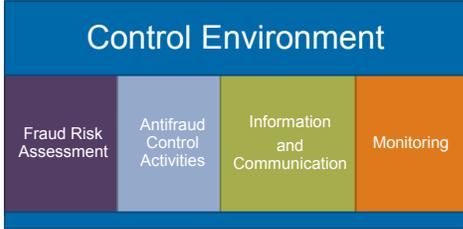
KEY STEPS TO MANAGE FRAUD RISKS

- 1 • Governance
- 2 • Risk Assessment
- 3 • Prevention
- 4 • Detection
- 5 • Deterrence and response

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COMPRESENSIVE ANTIFRAUD PROGRAM



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COMPRESENSIVE ANTIFRAUD PROGRAM

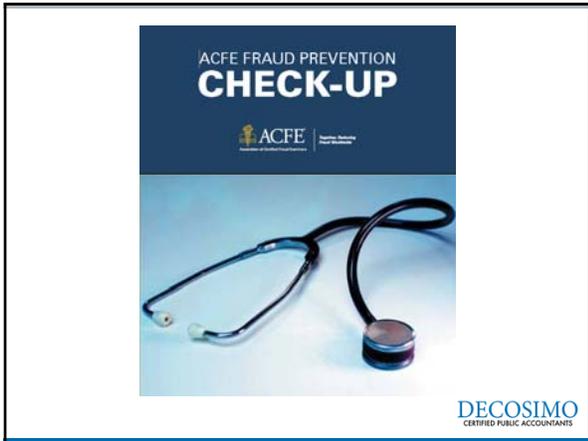


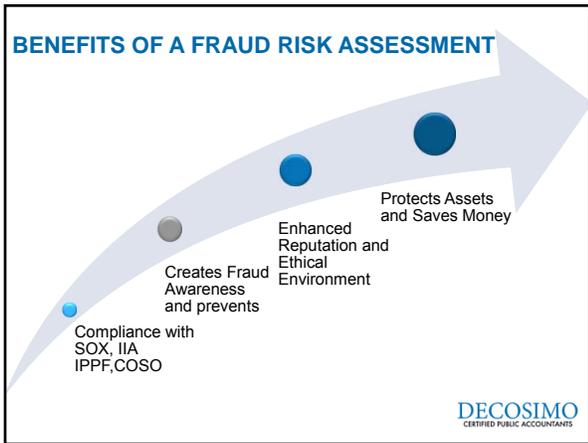
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KEY STEPS TO MANAGE FRAUD RISKS

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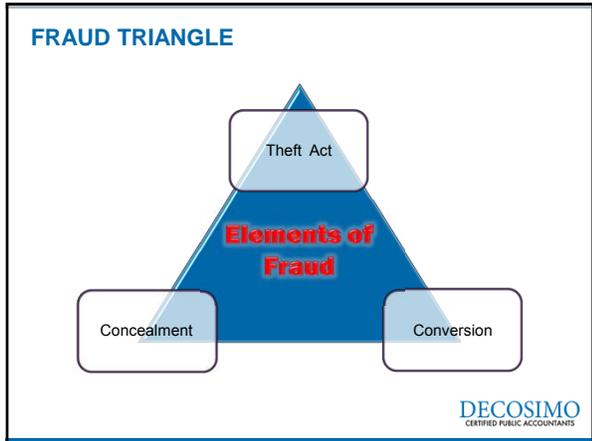


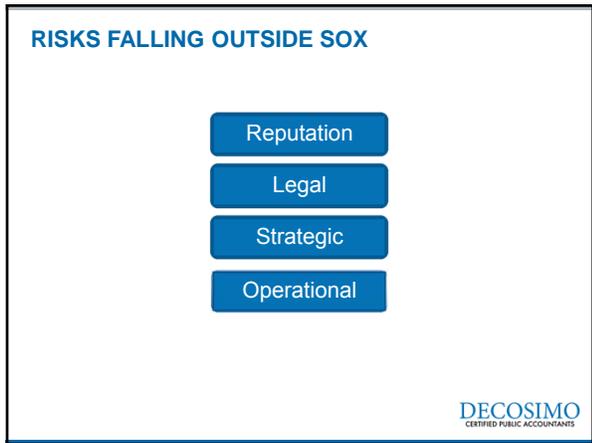


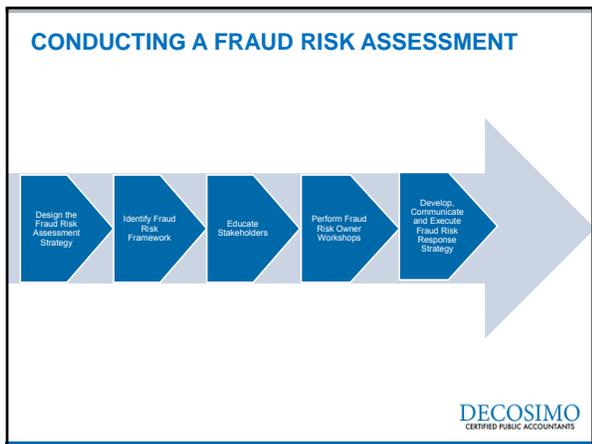
FRAUD RISK ASSESSMENT GOALS

Provide a map to the fraud schemes and scenarios the company potentially faces with an understanding of existing controls and a list of steps needed to mitigate fraud risk on an ongoing basis.

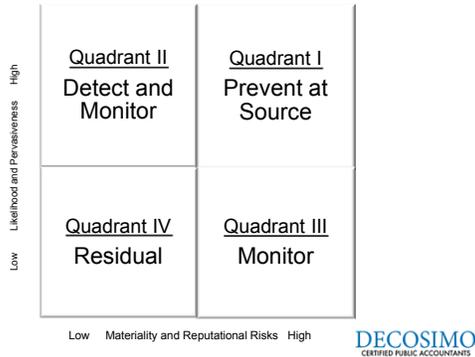
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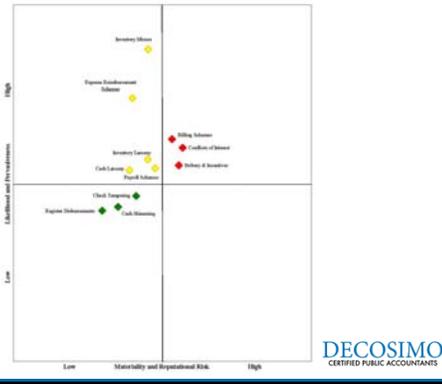




FRAUD SCHEMES HEAT MAP



FRAUD RISK ASSESSMENT HEAT MAP





"Our best strategy may be to destigmatize embezzlement."

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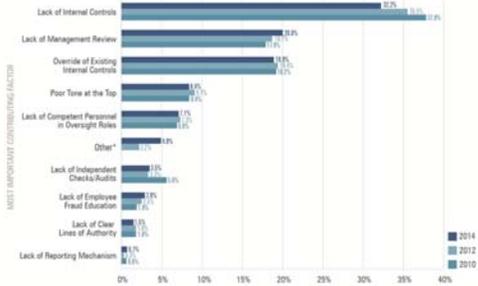
KEY STEPS TO MANAGE FRAUD RISKS

- 1 • Governance
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PRIMARY INTERNAL CONTROL WEAKNESSES

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FRAUD PREVENTION



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FRAUD PREVENTION

- 1. Creating and Maintaining a Culture of Honesty and Integrity
- 2. Assessing the Risk of Fraud and Developing Responses to Minimize Fraud Risk and Eliminate Opportunity

W. Steve Albrecht, PH.D., CFE, CPA, CIA



CREATING A CULTURE OF HONESTY AND INTEGRITY

- 1. Top management models appropriate behavior
- 2. Hire the right kind of employees
- 3. Communicate expectations throughout the organization and require periodic written confirmation of acceptance of those expectations
- 4. Create a positive work environment
- 5. Develop and maintain effective policies for disciplining perpetrators once fraud occurs

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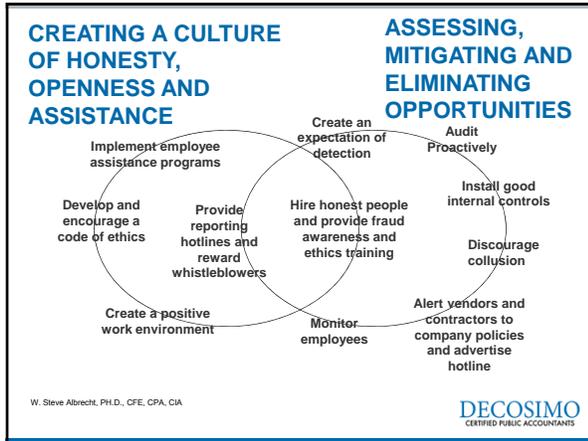


ASSESSING AND MITIGATING THE RISK OF FRAUD AND ELIMINATING OPPORTUNITIES

- 1. Accurately identifying sources and measuring risks based on scheme and scenario
- 2. Implementing appropriate preventative, detective and deterrent controls
- 3. Creating widespread monitoring by employees
- 4. Installing independent checks, including an effective internal audit function

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Detective Controls

- Reviews of performance
- Analyses
- Reconciliations
- Physical observations
- Information systems
- Proactive fraud detection

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Deterrent Controls

- Controls which help eliminate risk factors which many lead of fraud

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KEY STEPS TO MANAGE FRAUD RISKS

- 1 • Governance
- 2 • Risk Assessment
- 3 • Prevention
- 4 • **Detection**
- 5 • Deterrence and response

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DETECTION OF FRAUD

- Part of an overall fraud prevention program by increasing the perception of detection
- The sooner the fraud is discovered, it can be stopped from escalating into something bigger
- Almost 49% of organization recovery no assets
- Data analytics offers tools and techniques, reaching into huge populations of data identifying anomalies that merit further investigation



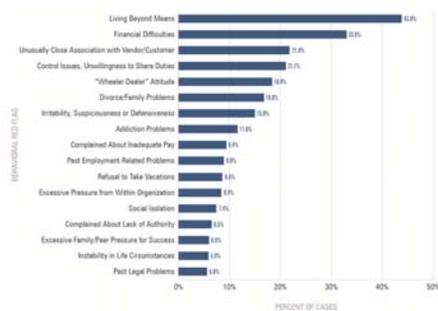
RED FLAGS

Do not ignore a red flag – Studies of fraud cases consistently show that red flags were present, but were either not recognized or were recognized but not acted upon by anyone.

Sometimes an error is just an error – Red flags should lead to some kind of appropriate action, i.e. an investigation by a measured & responsible person, but sometimes an error is just an error and no fraud exists

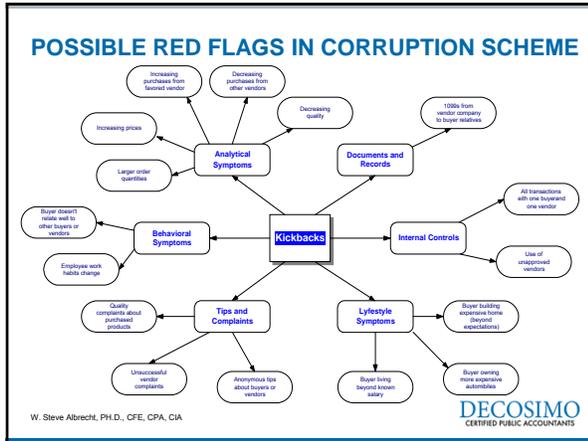


BHEAVIORAL RED FLAGS OF PERPETRATORS



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- ### RED FLAGS – EMPLOYEE FRAUD AND MINDSET
1. Lack of segregation of duties
 2. Living beyond their means
 3. Over-protectiveness of data and key documents
 4. Persistent demoralization
 5. Being the first one in or the last one out
 6. Resistant to take vacation or sick leave
 7. Propensity to work "outside" the system
 8. Weak code of ethics
 9. Poor work performance
 10. Excessive drive to achieve
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- ### RED FLAGS IN MANAGEMENT FRAUD
- Reluctance to provide information to auditors
 - Photocopied or missing documents
 - Decisions dominated by an individual or small group
 - Excessive number of year-end transactions
 - Management displays significant disrespect for regulatory bodies
 - Excessive number of or frequent changes in checking accounts
 - Weak internal control environment
 - Unexpected overdrafts or declines in cash balances
 - Accounting personnel are lax or inexperienced
 - High employee turnover rate
 - Compensation is out of proportion
 - Decentralization without adequate monitoring
 - Frequent changes in external auditors
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WAYS IN WHICH DATA ANALYSIS IS USED

- ▶ Analyze entire populations of transactional data to look for various forms of anomalies
- ▶ Analyze transactions for indicators of known fraud risks



DATA ANALYSIS SOFTWARE

- ▶ Designed specifically for auditors and investigators
- ▶ Read only access to data imported
- ▶ Creates log of all operations carried out and changes
- ▶ Import data from and export data to multitude of formats
- ▶ Read and process millions of records
- ▶ Runs independently from the organization's core systems
- ▶ Allows every transaction in a population to be rapidly examined
- ▶ Exceptions targeted
- ▶ Incident-oriented
- ▶ Clearer picture of what is happening

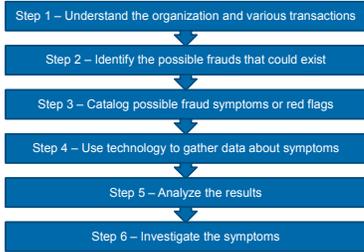


DATA ANALYSIS SOFTWARE FUNCTIONS

- ✓ Compares, joins, matches, appends and connects different files from different sources, both internal and external
- ✓ Identifies and extracts specific transactions, identifies gaps or duplicates
- ✓ Profiles data by summarizing, stratifying or aging the files
- ✓ Development of complex tests for some frauds
- ✓ Provides for automation for continuous testing
- ✓ Digital analysis using Benford's Law
- ✓ Creates useful file statistics automatically
- ✓ Displays the data and results graphically
- ✓ Creates samples using different sampling methods

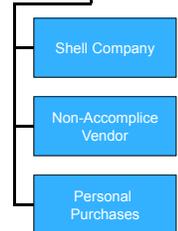


SIX STEP APPROACH TO DATA ANALYSIS FRAUD DETECTION



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Billing Schemes



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SHELL COMPANIES



- A business with no actual employees
- No physical presence
- Exists only on paper
- Have legitimate uses
- Used for fraud, tax evasion, money laundering
- Created by perpetrator
- Legally formed
- Only in name
- Assumed vendor
- Pass through entity

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OTHER BILLING SCHEMES



- Assumes vendor in AP but changes information
- Intercepts checks, false endorsement
- Pass through entity
- Personal purchases
- Direct or indirect access
- Management override

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CONCEALMENT



- Levels of concealment – direct matches or
- On transaction data or master file data
- Types of data, documents, false approvals, false representations, overriding controls
- Consider indirect access to data as well as direct
- Identify red flags associated with the concealment method
- Think like a fraudster

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RED FLAGS ASSOCIATED WITH BILLING SCHEMES

- ◀ Incomplete vendor information on vendor master
- ◀ Recurring payments just under approval level
- ◀ Lack of segregation of duties in accounting and purchasing function
- ◀ Sharpe rise in the amount of service-related expenses or expenses in general
- ◀ Absence of detail on vendor invoices
- ◀ New or unknown vendors
- ◀ Duplicate payment to vendors
- ◀ Unexplained or temporary changes to vendor master files
- ◀ Unfolded invoices
- ◀ Phone numbers which do not correspond with physical location
- ◀ Only PO Box for address or residential address

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SHELL COMPANIES – Data Requirements

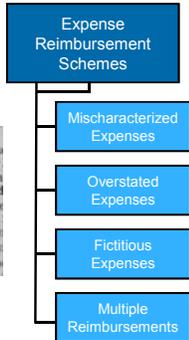
- ✓ Vendor Master
- ✓ Posted and approval by ID file
- ✓ Payroll Master
- ✓ Check and disbursement registers
- ✓ PO and receiving transaction files
- ✓ Inventory transaction files



SHELL COMPANIES – Data Profile

- Mailing address
 - search for known mail box services
 - just numbers and search for duplicates in vendor data base and/or with payroll master
- Location within a reasonable distance of the organization
- Telephone number -
 - search for cell phone numbers
 - search for duplicate numbers with vendor master
- Create date – search for correlation between create date and first invoice date
- Bank routing number – search for matches between vendor master and payroll master
- Invoice number – search for duplicate invoice numbers, inconsistent numbering or sequential numbering
- Invoice amount – unusually below approval amount





P-CARDS AND T&E EXPENSES

- According to the ACFE, T&E frauds alone account for 14.5% of all frauds
- In organizations where T&E fraud become widespread, is often a symptom of a general unethical attitude
- Use of technology has a critical role in identifying indicators of fraud
- Can analyze millions of records



The screenshot shows the 'salesreceiptstore' website. It features a navigation menu with options like 'Home', 'Custom Receipts', 'Receipt Printing', 'Money Order Receipts', 'Receipt Remittance', and 'Contact Us'. The main content area is titled 'Print Money Order Receipts' and includes a description of the service, a list of features (such as 'Online Receipts', 'Custom Receipts', and 'Receipt Printing'), and a 'Receipt Image' section with a photo of several receipts. The DECOSIMO logo is visible in the bottom right corner of the screenshot.



P-CARDS AND T&E EXPENSES

- Transactional data
- Purchase card or credit card detail purchase transactions from portal
- Employee information from HR/PR



COMMON TEST TO DETECT P-CARD AND T&E EXPENSE SCHEMES

- Identify transactions on weekends, holidays or while the employee is on vacation
- Identify split transactions in which a large purchase if made with smaller amounts, just under review and approval levels
- Identify purchases of the same item or service within a specific time frame
- Identify where a P-Card was used for a specific purchase and the same purchase was processed as a T&E claim
- Identify unusually high or frequent use of P-Cards compared to others
- Calculate expected mileage for fuel cards and travel dates
- Identify if first class tickets were submitted as an expense but later returned for economy tickets
- Identify where mileage claims were made for the same period as car rental charges or gas was claimed



RED FLAGS ASSOCIATED WITH EXPENSE REIMBURSEMENT SCHEMES

- ◀ Failure of supervisors to adequately review expense reports
- ◀ T&E expenses exceeding budget or prior years' totals
- ◀ T&E expenses significantly exceed those of other employees with similar responsibilities
- ◀ Expense reports that lack support or are supported by photocopies
- ◀ Claims for reimbursement of old expenses
- ◀ Employees who pay higher dollar expenses in cash
- ◀ Expense reports which consistently total to round numbers
- ◀ Expense reports which consistently total at or just below the organization's reimbursement limit
- ◀ Expense reports that have been approved by a manager outside the claimant's department



COMMON TESTS TO DETECT DISBURSEMENTS FRAUD

- Duplicate payments tests
- Benford's Law analysis
- Rounded amount invoices
- Invoices just below approval levels
- Abnormal invoice volume activity such as rapid increase or high variance
- Vendors with sequential invoice Numbers or where numbers and dates are inconsistent
- Merge vendor and employee files to find matches
- Relative Size Factor



COMMON TESTS TO DETECT DISBURSEMENTS FRAUD

- Compare vendor master file to detect new or deleted vendors
- Review master file change logs by vendor
- Payments to vendors at prices exceeding standards or continued purchases from vendors with high rates of return or rejects
- Identify concentrations of contracts with one vendor initiated by the same contracting employee
- Identify purchasing activity in excess of current needs
- Analyze JEs
- Search for duplicate purchase orders, receiving reports, and debit memos



COMMON TESTS TO DETECT RECEIPTS FRAUD

- Identify time lags between deposit dates per cash receipts records and credits to customers' accounts
- Identify customers that have the same names, addresses, or phone numbers as employees
- Compare shipping addresses per shipping records to employee addresses and to other shipments for the same customer
- Analyze the composition of sales (cash, credit card, and on account) by location, department, cashier, etc.
- Analyze composition of deposits, cash and checks
- An unusual number of credits, discounts, voids, by one
- Accounts written off shortly after being established, which there is no payment history or assigned to collection early



COMMON TESTS TO DETECT FRAUD IN PAYROLL

- Extract all round dollar amounts
- Compare current year payroll file to terminated employees
- Compare payroll data to human resource data
- Extract employees without employee number or SS number
- Extract employees without deductions or taxes withheld
- Extract employees with payments after termination dates
- Check for sequential or duplicate SS numbers
- Test for invalid SS numbers
- Duplicate mailing addresses paid in same period
- Calculate % of overtime to gross pay
- Compare current year to prior year payroll file to detect pay rate changes



BENFORD'S LAW

Overview

- Benford's Law predicts the digit patterns in "naturally occurring" sets of data.
- The law is named after Frank Benford, a physicist at the GE Research Laboratories in the 1930's
- He tested his theory by tabulating the first digits for approximately 20,000 observations
- He used integral calculus to formulate the expected digit frequencies in lists of numbers
- His results shows clear bias towards the low digits, but the later digits become less pronounced
- The scale invariance theorem, by Pinkham, asserts that a set of numbers conforming to Benford's Law, when multiplied by a nonzero constant, still conforms

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BENFORD'S LAW

Data Sets

- ✓ The numbers should represent the sizes of similar phenomena.
- ✓ There should be not built-in maximum or minimum values.
- ✓ The data should not consist of assigned numbers.
- ✓ There should be more small items than large items.
- ✓ Data sets should have four or more digits for a good fit.
- ✓ As a data set increases in size, it becomes more feasible to get the expected digit frequencies.
- ✓ If the data set is under 10,000 observations, the first-three-digits test should not be performed

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BENFORD'S LAW

Data Sets

- ✓ The populations of towns and cities in Europe? **YES**
- ✓ The daily and weekly number of shares bought and sold for an individual company listed on the NYSE? **YES**
- ✓ The five-digit postal zip codes used in the U.S.? **NO**
- ✓ The street numbers for every house in the U.S.? **YES**
- ✓ The dollar amounts of each air ticket sold or refunded by American Airlines for a year? **NO**
- ✓ The invoiced amount of each bill issued by DirectTV? **NO**
- ✓ The extended inventory values of a Wal-Mart warehouse with more than 20,000 line items? **YES**

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BENFORD'S LAW

The Basic Tests

- ✓ First-digits
- ✓ Second-digits
- ✓ First-two-digits
- ✓ First-three-digits

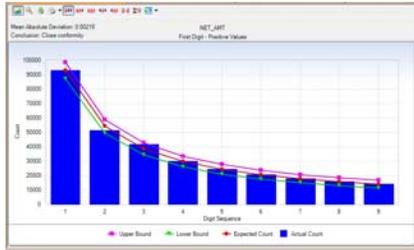
Associated Tests

- ✓ Number duplication
- ✓ Last-two-digits
- ✓ Rounded numbers

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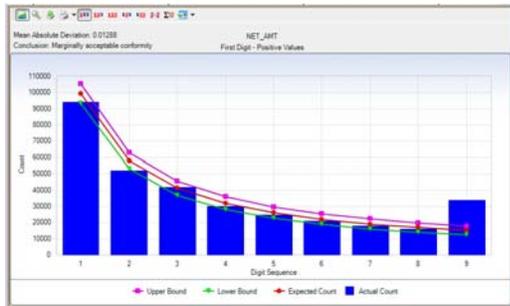
BENFORD'S LAW – First Digits' Expected Frequencies

Digit	Frequency
0	
1	30.10%
2	17.61%
3	12.49%
4	9.69%
5	7.92%
6	6.70%
7	5.80%
8	5.12%
9	4.58%



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BENFORD'S LAW – First Digits



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INVOICES UNDER \$10,000

DECOSIMO FORENSIC ACCOUNTING
 Computer Consultants, Inc.
 Payment History
 Exhibit 3
 Page 4

Invoice Number	Voucher Number	Vendor Number	Vendor Name	Invoice Date	Amount	Check Number	Date Cleared Bank
40006544	10921	54382	AAA PLUMBING	3/15/2008	\$1,495.00	17208	3/18/2008
40102926	11752	54382	MM EQUIPMENT AND REPAIR	4/15/2008	\$3,850.00	17693	4/20/2008
40203702	12983	54382	JOHN H. WILEY AND ASSOCIATES	5/20/2008	\$4,500.00	179261	5/22/2008
40209331	13152	54382	JOHN SMITH CONSULTANTS, INC.	6/1/2008	\$5,500.00	181708	6/10/2008
40404244	13638	54382	COMPUTER CONSULTANTS, INC.	7/1/2008	\$8,500.00	187025	7/24/2008
40500332	13806	54382	JOHN BOB AND COMPANY	8/6/2008	\$9,500.00	188868	8/12/2008
40601247	14163	54382	COMPUTER CONSULTANTS, INC.	8/15/2008	\$9,500.00	193668	8/16/2008
40701983	14478	54382	COMPUTER CONSULTANTS, INC.	10/20/2008	\$9,500.00	197621	10/27/2008
40800036	14694	54382	COMPUTER CONSULTANTS, INC.	11/1/2008	\$8,825.00	199969	11/7/2008
40900982	14951	54382	COMPUTER CONSULTANTS, INC.	12/1/2008	\$8,825.00	200363	12/1/2008
40803782	14873	54382	COMPUTER CONSULTANTS, INC.	12/2/2008	\$9,080.00	201901	12/4/2008
41002694	15288	54382	COMPUTER CONSULTANTS, INC.	1/1/2009	\$9,500.00	207486	1/26/2009
41106182	15703	54382	COMPUTER CONSULTANTS, INC.	2/1/2009	\$9,500.00	212111	3/8/2009
41205440	15913	54382	COMPUTER CONSULTANTS, INC.	3/1/2009	\$9,500.00	215828	4/1/2009
50303382	16782	54382	COMPUTER CONSULTANTS, INC.	3/8/2009	\$8,440.00	225168	6/28/2009
50105441	16283	54382	COMPUTER CONSULTANTS, INC.	4/1/2009	\$9,500.00	220113	5/10/2009
50301195	16680	54382	COMPUTER CONSULTANTS, INC.	5/1/2009	\$9,500.00	223815	6/18/2009
50302272	16727	54382	COMPUTER CONSULTANTS, INC.	6/1/2009	\$9,500.00	224479	6/18/2009
50302271	16727	54382	COMPUTER CONSULTANTS, INC.	6/10/2009	\$8,160.00	224479	6/18/2009
50303353	16782	54382	COMPUTER CONSULTANTS, INC.	6/22/2009	\$9,545.00	225167	6/28/2009
50303354	16782	54382	COMPUTER CONSULTANTS, INC.	6/23/2009	\$8,520.00	225165	6/28/2009
50303351	16782	54382	COMPUTER CONSULTANTS, INC.	6/23/2009	\$9,500.00	225168	6/28/2009

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 CERTIFIED PUBLIC ACCOUNTANTS

BENFORD'S LAW

Related Tests

1. Same invoice number, Same dollar amount, Different vendor numbers and

2. Relative Size Factor:

$$\text{Relative Size Factor} = \frac{\text{Largest Record in a Subset}}{\text{Second Largest Record in a Subset}}$$

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DUPLICATE PAYMENTS TEST

Fields Needed:

Vendor/ supplier number
 Invoice number
 Invoice date
 Invoice amount

Test	Vendor Num	Invoice		Invoice Amount
		Num	Invoice Date	
A	Exact	Exact	Exact	Exact
B	Exact	Exact	-	Exact
C	Exact	Exact	Exact	Exact
D	Exact	-	Exact	Exact
E	Exact	Different	Exact	Exact
F	Different	Exact	Exact	Exact

Test	Vendor Num	Fuzzy		Exact	Letters and digits only
		Fuzzy	-		
G	Exact	Fuzzy	-	Similar	Letters and digits only
H	Exact	Fuzzy	-	Exact	Letters only
I	Exact	Fuzzy	-	Exact	Digits only
J	Exact	Fuzzy	-	Exact	Contain similar characters
K	Exact	-	Exact	Fuzzy	Within "blank" percentage

Fuzzy Invoice Dates – If dates are within a certain period

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NORMALIZING DATA

ADDRESS
 Suite 45, 123 W Main Street, Miami, Florida, USA
 #45 - 123 WEST MAIN ST MIAMI FL US
 Apt.45,123 W. Main Street, Miami,Florida,U.S.A..

NORMALIZED_ADDRESS
 45 123 W MAIN ST MIAMI FL USA
 45 123 W MAIN ST MIAMI FL USA
 45 123 W MAIN ST MIAMI FL USA

UPPER, LOWER, TRIM, LTRIM, ALLTRIM, REMOVE, STRIP, COMPACT, REPLACE

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FUZZY MATCHING

VENDOR_ADDRESS	EMPLOYEE_ADDRESS
1701 W Carroll Street	1701 West Carol St
539 South Main Avenue	539 Main Avenue South
1515 Broadway	1551 Broadway

NEAR, MATCH, BETWEEN, COMPARE, FREETEXT, SOUNDSLIKE

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 CERTIFIED PUBLIC ACCOUNTANTS

DUPLICATE PAYMENTS TEST

VENDORID	VENDOR NAME	INVOICE_NO	DESCRIPTION	AMOUNT	VENDOR
11009	BOISE CASCADE OFFICE PRODUCTS	3995592	708025	1,063.73	4300
11009	BOISE CASCADE OFFICE PRODUCTS	3995932	708025	1,063.73	4300
11009	BOISE CASCADE OFFICE PRODUCTS	3983229	240748	1,112.69	4717
11009	BOISE CASCADE OFFICE PRODUCTS	3983228	240748	1,112.69	4717
11009	BOISE CASCADE OFFICE PRODUCTS	3960159	824672	1,121.28	4300
11009	BOISE CASCADE OFFICE PRODUCTS	3960158	804672	1,121.28	4300
11009	BOISE CASCADE OFFICE PRODUCTS	3930495	504306	1,173.95	6230
11009	BOISE CASCADE OFFICE PRODUCTS	3930495	504306	1,173.95	6230
11009	BOISE CASCADE OFFICE PRODUCTS	3963220	301807	1,228.31	4300
11009	BOISE CASCADE OFFICE PRODUCTS	3120476	070753	1,228.31	2928
11009	BOISE CASCADE OFFICE PRODUCTS	3120476	070753	1,228.31	2928
11009	BOISE CASCADE OFFICE PRODUCTS	2038016	536025	1,271.16	5764
11009	BOISE CASCADE OFFICE PRODUCTS	2038016	536025	1,271.16	5764
11009	BOISE CASCADE OFFICE PRODUCTS	3960149	399627	1,271.62	4300
11009	BOISE CASCADE OFFICE PRODUCTS	3960149	399627	1,271.62	4300
11009	BOISE CASCADE OFFICE PRODUCTS	3943396	429828	1,495.66	6512
11009	BOISE CASCADE OFFICE PRODUCTS	3943396	429828	1,495.66	6512
11009	BOISE CASCADE OFFICE PRODUCTS	1133040	298839	1,594.40	5169
11009	BOISE CASCADE OFFICE PRODUCTS	1133040	298839	1,594.40	5169
11009	BOISE CASCADE OFFICE PRODUCTS	3942162	302146	1,626.56	4117
11009	BOISE CASCADE OFFICE PRODUCTS	3942162	302146	1,626.56	4117
11009	BOISE CASCADE OFFICE PRODUCTS	3930069	126965	1,689.06	3660
11009	BOISE CASCADE OFFICE PRODUCTS	3930069	126965	1,689.06	3660
11009	BOISE CASCADE OFFICE PRODUCTS	1132426	461327	1,762.42	3923
11009	BOISE CASCADE OFFICE PRODUCTS	1132426	461327	1,762.42	3923
11009	BOISE CASCADE OFFICE PRODUCTS	3930057	621940	1,833.35	5928
11009	BOISE CASCADE OFFICE PRODUCTS	3930057	621940	1,833.35	5928
11009	BOISE CASCADE OFFICE PRODUCTS	3993201	726761	1,959.94	4861
11009	BOISE CASCADE OFFICE PRODUCTS	3993201	726761	1,959.94	4861

INCONSISTENT INVOICE NUMBERING AND DATES

DECOSIMO FORENSIC ACCOUNTING
John Smith Consulting and Associates
Payment History
Exhibit 3

Invoice Number	Difference Invoice Number	Voucher Number	Vendor Number	Vendor Name	Invoice Date	Amount	Check Number	Date Cleared	Bank
4008844		10021	54382	John Smith Consulting and Associates	3/15/2008	\$1,488.00	172808	3/18/2008	
4010298	94,382	11752	54382	John Smith Consulting and Associates	4/15/2008	\$3,850.00	176683	4/20/2008	
40203702	100,776	12983	54382	John Smith Consulting and Associates	5/20/2008	\$4,500.00	179281	5/22/2008	
40300511	86,829	13182	54382	John Smith Consulting and Associates	6/1/2008	\$5,500.00	181708	6/15/2008	
40402424	101,893	13638	54382	John Smith Consulting and Associates	7/1/2008	\$8,500.00	187025	7/24/2008	
40500332	97,908	13805	54382	John Smith Consulting and Associates	8/6/2008	\$8,500.00	188886	8/12/2008	
40612417	100,915	14163	54382	John Smith Consulting and Associates	9/15/2008	\$9,500.00	193668	9/16/2008	
40701983	100,716	14478	54382	John Smith Consulting and Associates	10/20/2008	\$9,500.00	197621	10/27/2008	
40800009	100,000	14854	54382	John Smith Consulting and Associates	11/11/2008	\$8,825.00	199959	1/17/2009	
40900862	100,856	14951	54382	John Smith Consulting and Associates	12/1/2008	\$8,825.00	203053	12/11/2008	
40803762	(97,130)	14873	54382	John Smith Consulting and Associates	12/2/2008	\$9,080.00	201901	12/4/2008	
41002604	198,842	15289	54382	John Smith Consulting and Associates	1/11/2009	\$9,500.00	207488	1/26/2009	
41108162	103,576	15703	54382	John Smith Consulting and Associates	2/1/2009	\$9,500.00	212211	3/9/2009	
41205440	99,258	15913	54382	John Smith Consulting and Associates	3/1/2009	\$9,500.00	215828	4/1/2009	
50303382	9,097,912	16782	54382	John Smith Consulting and Associates	3/8/2009	\$8,440.00	225165	6/28/2009	
50105441	(197,911)	16203	54382	John Smith Consulting and Associates	4/1/2009	\$9,500.00	220013	5/10/2009	
50301195	195,754	16680	54382	John Smith Consulting and Associates	5/1/2009	\$9,500.00	223815	6/18/2009	
50302272	1,077	16727	54382	John Smith Consulting and Associates	6/1/2009	\$9,500.00	224479	6/18/2009	
50302271	(1)	16727	54382	John Smith Consulting and Associates	6/10/2009	\$8,160.00	224479	6/18/2009	
50303353	1,082	16782	54382	John Smith Consulting and Associates	6/22/2009	\$9,545.00	225167	6/28/2009	
50303384	1	16782	54382	John Smith Consulting and Associates	6/23/2009	\$8,820.00	225165	6/28/2009	
50303391	(3)	16782	54382	John Smith Consulting and Associates	6/23/2009	\$9,500.00	225168	6/28/2009	

Total Checks Issued to Computer Consultants

\$174,895.00

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CERTIFIED PUBLIC ACCOUNTANTS

APPROVAL LEVELS

<u>Purchase</u>	\$ 1,000	<u>Leases</u>	\$ 100,000
	\$ 5,000		\$ 1,000,000
	\$ 10,000		
	\$ 1,000,000	<u>Write offs</u>	\$ 50,000
<u>POs</u>	\$ 25,000		\$ 250,000
	\$ 500,000		\$ 500,000
			\$ 1,000,000
<u>Checks</u>	\$ 20,000	<u>Dispositions</u>	\$ 10,000

STRATA

LEVELS	97%
\$ 500	\$ 485
\$ 1,000	\$ 970
\$ 1,500	\$ 1,455
\$ 5,000	\$ 4,850
\$ 20,000	\$ 19,400
\$ 25,000	\$ 24,250
\$ 50,000	\$ 48,500
\$ 200,000	\$ 194,000
\$ 250,000	\$ 242,500
\$ 500,000	\$ 485,000
\$ 1,000,000	\$ 970,000
\$ 2,000,000	\$ 1,940,000

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APPROVAL LEVEL TEST RESULTS

John Smith Manufacturing, Inc.

Approval Levels

December 31, 2009

Decosimo Forensic Accounting - Exhibit 22

INV_NUM	NET_AMT	VEND_NUM	VEND_NAME	CK_NUM	CK_NET	SESSION PAY_NUM	INV_DATE
Approval Limit \$ 10,000							
D42908	\$ 9,836.48	25679	VANGARD BC	55787	\$ 9,836.48	55787	125074 1/11/2009
D42909	\$ 9,836.48	25679	VANGARD BC	59456	\$ 9,836.48	59370	131975 2/12/2009
D42910	\$ 9,836.48	25679	VANGARD BC	59269	\$ 9,836.48	59270	131975 3/13/2009
D42911	\$ 9,836.48	25679	VANGARD BC	55537	\$ 9,836.48	59970	554469 4/14/2009
D42912	\$ 9,836.48	25679	VANGARD BC	54540	\$ 9,836.48	59153	165205 5/10/2009
D42913	\$ 9,836.48	25679	VANGARD BC	56368	\$ 9,836.48	58269	153921 6/16/2009
D42914	\$ 9,836.48	25679	VANGARD BC	56415	\$ 9,836.48	58269	153921 7/17/2009
D42915	\$ 9,836.48	25679	VANGARD BC	56746	\$ 9,836.48	55537	123131 8/19/2009
D42916	\$ 9,836.48	25679	VANGARD BC	59070	\$ 9,836.48	55537	123131 8/19/2009
D42917	\$ 9,836.48	25679	VANGARD BC	59153	\$ 9,836.48	54540	115281 10/20/2009
D42238-1	\$ 9,849.06	25679	AMERIKREM	55787	\$ 206,250.14	54540	115281 1/15/2009
720903188	\$ 9,895.74	34644	INVISTA SARL INC	58249	\$2,459,481.91	58249	153491 8/10/2009
7209063787	\$ 9,889.21	34644	INVISTA SARL INC	58249	\$2,459,481.91	58249	153491 8/10/2009
184201	\$ 9,900.00	598	BILL ACUFF & ASSOCIATES INC	57705	\$ 22,320.00	57705	147993 7/9/2009
186928	\$ 9,900.00	598	BILL ACUFF & ASSOCIATES INC	57705	\$ 22,320.00	57705	147993 7/9/2009
SLSTX 0807	\$ 9,985.64	2294	NEW YORK STATE SALES TAX	58283	\$ 9,985.64	58283	552406 9/7/2009
SLSTX 0807	\$ 9,985.64	2294	NEW YORK STATE SALES TAX	58311	\$ 9,786.64	58311	552542 9/7/2009
031775-41	\$ 9,922.93	226	CHEMICAL CO	57790	\$ 838,822.55	57790	149135 5/15/2009
031919-41	\$ 9,933.15	226	CHEMICAL CO	57790	\$ 838,822.55	57790	149135 5/17/2009
4591840	\$ 9,771.23	937	XPRESS GLOBAL SYSTEMS	54669	\$ 153,859.49	54669	116592 12/14/2009
4691297	\$ 9,922.03	937	XPRESS GLOBAL SYSTEMS	54669	\$ 153,859.49	54669	116592 12/14/2009

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KEY WORK/PHRASE SEARCH IN EMAILS

- ▶ **Incentive/Pressures** – meet the deadline, make the number, under the gun, make the deal (sale), under pressure, afraid, problem, just book it, lose my job, get fired, not ethical, cover up, write off, illegal
- ▶ **Opportunity** – cookie jar reserve, facilitation fee, process fee, release expense, handover fee, hush money, improper payment, cash only kick back, off the books, failed investment
- ▶ **Rationalization** – everyone does it, it's the culture, trust me, they owe me, sounds justified, fix it later, nobody will notice, just an error, she, he told me to do it, nobody will find out, they owe it to me, grey area

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CERTIFIED PUBLIC ACCOUNTANTS

STEPS FOR IMPLEMENTATION OF DATA ANALYSIS

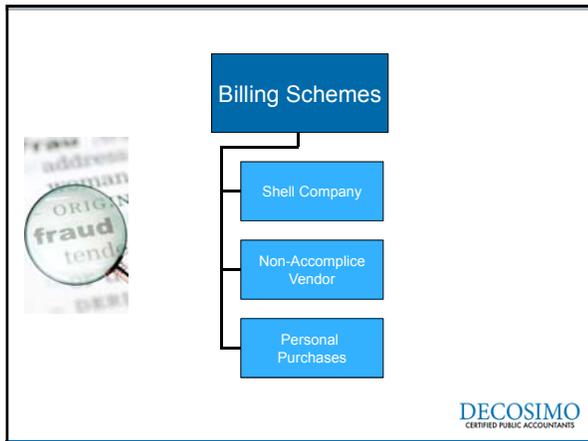
- ▶ Define overall objectives
- ▶ Assign initial responsibilities for implementation and ongoing fraud detection
- ▶ Start with relatively simple tests and then add more complex analysis building a library of specific tests
- ▶ Identify and define specific fraud risk to be tested
- ▶ For each risk, identify and define data requirements, data access processes and analysis logic
- ▶ Coordinate with IT department
- ▶ Develop the test
- ▶ Validate the effectiveness of the test
- ▶ Establish timing and responsibilities for automated test processing
- ▶ Establish workflow and responsibilities for exception management and resolution
- ▶ Implement reporting processes

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CONTINUOUS FRAUD DETECTION

- ▶ Moving from fraud specific data analysis tests on an ad hoc basis to continuously monitoring for fraud is not complex
- ▶ Consider who is responsible for reviewing and following up on results
- ▶ Determine how often, how to address unresolved items and who is responsible for the decision to initiate in-depth interviews or investigation
- ▶ Should be a dynamic process as systems change and people thinking of new ways to beat the system
- ▶ Regularly profile entire populations over a period of time for anomalies
- ▶ Software should provide workflow capabilities and dashboards that summarize results

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CASE STUDY #1
BILLING SCHEME

- A Large retail company
- Chief Information Officer
- 10-year employee
- Could authorize expenditures up to \$15,000
- Computer consultants contract ran out in prior year
- Computer consulting in current year budget
- Created shell company and incorporated
- Self approval of invoices
- Losses were \$765,000 over 5 years
- Asked AP to hold that check!

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RED FLAGS ASSOCIATED WITH BILLING SCHEMES

- ▶ Lack of segregation of duties in accounting and purchasing function
- ▶ Sharpe rise in the amount of service-related expenses or expenses in general
- ▶ Inventory shortages
- ▶ Absence of detail on vendor invoices
- ▶ Incomplete vendor information on vendor master
- ▶ Recurring payments just under approval level
- ▶ New or unknown vendors
- ▶ Duplicate payment to vendors
- ▶ Unexplained or temporary changes to vendor master files
- ▶ Unfolded invoices
- ▶ Phone numbers which do not correspond with physical location
- ▶ Only PO Box for address or residential address

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CASE STUDY #1
BILLING SCHEME

Controls to Prevent or Detect

1. Perform due diligence on all vendors
2. Provide fraud awareness training
3. Conduct various data mining tests for duplicate payments
4. Test vendor master for incomplete vendor information
5. Match HR master file to vendor master
6. Promote the company's anonymous hotline and protect whistleblower's
7. Require reporting of management override of controls and procedures
8. Test for invoices just below approval levels
9. Lack of detail on invoices or consecutively numbered invoices



VENDOR MASTER BEST PRACTICES

- Clearly define ownership of the vendor data
- Review and engage access controls
- Establish clear vendor setup procedures
- Enforce new vendor approval practices
- Determine when multiple vendor records will be allowed
- Manage one-time vendor accounts separately
- Apply consistent naming conventions
- Enforce Data Validation including the free IRS TIN matching system
- Remove employees from the master vendor file
- Perform maintenance on a regular basis
- Remove old/unused vendors
- Retain the right records
- Establish written, detailed procedures



Check Tampering



- Forged Maker
- Forged Endorsement
- Altered Payee
- Concealed Checks
- Authorized Maker



CASE STUDY #2
CHECK TAMPERING



- A Medium size manufacturing company
- Suspect was Assistant Controller
- 8-year employee
- Responsible for accounts payable and payroll
- Suspect has purchased new car and traveled each year
- Approximately 7 years prior, suspect has tax lien
- Check numbers and dates out of sequence
- Changed payee in accounting system
- Losses were \$850,000
- Backed up system, produced checks, restored system
- Removed checks/check copies from statement

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RED FLAGS ASSOCIATED WITH CHECK TAMPERING SCHEMES

- No segregation of duties in check preparation and check delivery
- Unusual or excessive entries to cash accounts
- Excessive voided checks
- Signatures not matching authorized signatures
- Cash checking account shortages
- Checks payable to cash or employee
- Out of sequence or duplicate number checks
- Canceled checks printed on inferior stock
- Canceled checks with dual endorsements
- Vendor complaints about non payment
- Bank statements with manual corrections

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CASE STUDY #2
CHECK TAMPERING

Controls to Prevent or Detect

1. Obtain a credit report on all employees involved in handling of funds
2. Have someone independent of disbursements receive and review the bank statement and canceled checks each month
3. Have someone independent of disbursements account for all checks, including voided checks
4. Never pre sign checks
5. Have the associate roll forward the GL cash account each month in addition to reconciling the bank statement

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AUTHORIZED MAKER SCHEMES

- Employee with signature authority writes a fraudulent check
- Overriding controls through intimidation
 - High level managers can make employees afraid to question suspicious transactions
 - Can happen when ownership is absent or inattentive
- Poor controls
 - Failure to closely monitor accounts
 - Lack of separation of duties

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CONCEALING CHECK TAMPERING

- Fraudster reconciling the bank statement
 - Fraudulent check can be removed
 - Doctor the bank statement
 - Code it as "void" or not include it in the disbursements journal
- Re-alteration of checks
 - Check is changed back to the rightful payee when returned from the bank
 - Re-altered checks will match the names of the legitimate payees listed in the disbursements journal

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CONCEALING CHECK TAMPERING

- Falsifying the disbursements journal
 - Check made payable to the perpetrator but a different person is listed as the payee in the books
 - Amount of the check can also be falsified in the disbursements journal
 - Existing accounts that are rarely reviewed or are very active are preferred

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CONCEALING CHECK TAMPERING

- Reissuing intercepted checks
 - New checks are issued to replace the ones that the vendor did not received
 - The original invoice is changed in a manner that avoids a duplicate check for new check
 - New check issued and a stop payment is supposed to have been made
- Bogus supporting documents
 - Fake support is needed to support the check
 - False payment vouchers, invoices, purchase orders, receiving reports are submitted

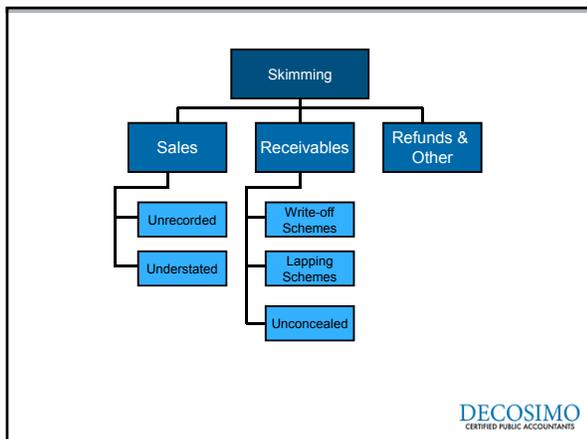
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RED FLAGS ASSOCIATED WITH PAYROLL SCHEMES

- ▶ No segregation of duties in human resources and payroll
- ▶ Payroll expenses exceed budgeted or prior years' totals
- ▶ Employees with the same personal information
- ▶ Employees lacking payroll information such as taxes or insurance being withheld
- ▶ Unexplained increases in overtime, either in departments or by employee
- ▶ A non-linear correlation between sales and commission expenses
- ▶ Disproportionately large increase in employee compensation

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RED FLAGS IN CASH OR ACCOUNTS RECEIVABLE

- Excessive number of voids
- Presence of personal checks in petty cash
- Sudden activity in a dormant account
- Taxpayer complaints that they are receiving non-payment notices
- Discrepancies between bank deposits and postings
- Excessive or unjustified cash transactions
- Large number of account write-offs
- Bank accounts not reconciled on a timely basis
- Unauthorized bank accounts
- Abnormal number of expense items or reimbursement to an employee

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Corruption



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KICKBACK SCHEMES

- Involve submission of invoices for goods and services that are either overpriced or completely fictitious
- Involve collusion between employees and vendors
- Almost always attack the purchasing function of the victim company
- Diverting business to vendors
 - Vendor pays the kickbacks to ensure a steady stream of business from the purchasing company
 - No incentive to provide quality merchandise or low price
 - Almost always leads to overpaying of goods or services

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PREVENTING KICKBACK SCHEMES

- Assign an employee independent of the purchasing department to routinely review buying patterns
- Make sure that all contracts have a "right to audit" clause
- Establish written policies prohibiting employees from soliciting or accepting any gift or favor from a customer or supplier
- Expressly forbid any employee from engaging in any transaction on behalf of the company who has an undisclosed personal interest in the transaction
- Implement an ethics policy that clearly explains what improper behavior is and provides grounds for termination if an employee accepts a bribe or kickback

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DETECTING BIE-RIGGING SCHEMES

- Look for:
 - Unusual bidding patterns
 - Low bids followed by change orders
 - Very large unexplained price difference among bidders
 - Contractors who bid last repeatedly receive the contract
 - Predictable rotation of bidders
 - Losing bidders who become subcontractors
 - Vendors with the same address and phone number
 - Few bidders for the project
 - Projects that have been split into smaller ones

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PREVENTING AND DETECTING CONFLICTS OF INTEREST

- Implement, communicate, and enforce an ethics policy that addresses conflicts of interest offenses
- Require employees to complete an annual disclosure statement
- Establish an anonymous reporting mechanism to receive tips and complaints
- Compare vendor address and telephone files to employee address and telephone files for matches

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WHAT TO DO IF YOU SUSPECT FRAUD

- Contact a Certified Fraud Examiner
- Deal with the suspect
- Contact your attorney
- Act quickly
- Know the rights and responsibilities of the parties
- Secure data
- Contact your insurer
- Consider the iceberg

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FRAUD MANAGEMENT

- Develop an integrated strategy for fraud prevention and control
- Develop an ownership structure which cascades down
- Introduce and PROMOTE a fraud policy statement
- Introduce and PROMOTE an ethics policy statement
- Establish sound operational control procedures and test
- Introduce a fraud education, training, and awareness program
- Introduce and PROMOTE a fraud response plan
- Introduce and PROMOTE a whistle blowing policy
- Introduce and PROMOTE a reporting hotline(s)
- Implement employee assistance programs
- Periodically review all policies and procedures
- Constantly monitor adherence to controls and procedures
- Develop appropriate information and communication systems

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THINGS YOU CAN DO TOMORROW

- Have someone independent receive information directly from the bank and review canceled checks and wire transfers
- Buy employee theft and dishonesty insurance
- Do things that increase the perception of detection
- Prepare to conduct a fraud risk assessment
- Look for fraud
- Prepare for fraud awareness training
- Increase awareness of and various ways for hotline reporting

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Contact the Subject Matter Expert



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Bill is director of forensic and internal audit services with Decosimo and has more than 30 years of experience in public accounting providing assurance services, conducting investigations, providing litigation support, performing forensic business analyses and audits, outsourcing of internal audit services, evaluating internal control systems and conducting fraud risks assessments and training. Besides being a certified public accountant (CPA), Bill has also earned the certified fraud examiner (CFE), certified in financial forensics (CFF), certified internal auditor (CIA) and chartered global management accountant (CGMA) credentials.

The contents and opinions contained in this article are for informational purposes only. The information is not intended to be a substitute for professional accounting counsel. Always seek the advice of your accountant or legal advisor with any questions.



Questions?