



Dave Yost  
Auditor of State



Ohio Auditor of State  
Dave Yost

Presented by: Joey Jones, CPA  
Chief Auditor - East Region

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## Agenda

- Ohio Compliance Supplement Manual
- Auditing the allocation of salaries for fiscal officers/clerk, and Board members
- Audit/Finance Committee role in the audit process



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## Ohio Compliance Supplement

- Why the Ohio Compliance Supplement?
- Changes from 2012 to 2013
- Changes from 2013 to 2014
- Where to find the OCS



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## The Ohio Compliance Supplement

The Ohio Compliance Supplement is the “audit program” used by auditors to test compliance during the audit.



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## The Ohio Compliance Supplement

Additionally, the Ohio Compliance Supplement is a great source of information to help understand some of Ohio laws.



The Auditor of State's Office has added clarifications to several requirements throughout the supplement.



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## Major changes to the OCS from 2012 to 2013

OCS Implementation Guide consolidates all appendices and other informational material that was formerly spread throughout several documents and chapters into an easy to navigate document.



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## Major changes to the OCS

2012 = 7 Chapters

2013 and 2014 = 3 Chapters  
(Direct Laws, Indirect Laws & Mandates,  
Stewardship)

+ Optional Procedures Manual



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## Why the big change in 2013?

Ease of Use



New auditing standards -  
Includes only the laws that require testing  
due to new clarified auditing standards,  
ORC, or stewardship.



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## How did/does this change impact the audit?

You probably noticed that in 2013  
auditors didn't test certain laws  
and/or maybe tested other laws  
differently.



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## Changes from 2013 to 2014

5705.12 Auditor of State permission to establish funds moved from optional procedures manual to chapter 1 and combined with requirements for establishing funds.



A reassessment of this requirement determined that AOS approval of funds helps prevent financial statement misclassifications so this was added back as a required test.

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## Changes from 2013 to 2014

Distribution of revenue – due to HB 59

Park district sale/lease of mineral rights monies must be deposited into a special fund created by the board of park commissioners to be used exclusively for the maintenance of parks within the District or for acquisition of new park lands[R.C. § 1545.23].



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## Changes from 2013 to 2014

- Clarified manuscript debt law requirements and added headings and information for different entity types.
- Clarified manuscript debt accounting guidance to describe how to present manuscript debt on Cash, GAAP, and OCBOA financial statements.



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## Changes from 2013 to 2014

Added a note regarding the new AOS electronic filing system.



Note: The Auditor of State is in the process of developing an Annual Financial Data Reporting System (System). This System is an Internet based application that allows certain financial statement, debt, and demographic data to be entered and transmitted to the AOS to satisfy the filing requirements prescribed by the ORC and the OAC. More information will be provided to entities as this process gets closer to completion.

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## Changes from 2013 to 2014

### OPERS payments to Village Council

- Payments made as fees or commissions that are fixed charges or calculated as a percentage of an amount not directly related to work or services performed are not "earnable salary".
- OPERS determined that payments for attending meetings such as those made to Village Council (BPA members) not be used for basis of OPERS contributions.
- If sole compensation
- Contact OPERS



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## Changes from 2013 to 2014

### Township Trustee Compensation

- Clarified legal requirements regarding time and effort documentation (Per Diem allocations) and Certifications (Salary Method allocations).
- Will be discussed in detail later



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## Changes from 2013 to 2014

- 5705.39 Appropriations limited by estimated resources moved from OPM to chapter 2
- This is a required test because it is fundamental to the operations of the entity which makes this a required test under auditing standards.



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## Changes from 2013 to 2014

- 5705.41 (A) and (B) “expenditures and commitments are within the appropriations” moved from the OPM to chapter 2.
- This is a required test because it is fundamental to the operations of the entity which makes this a required test under auditing standards.



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## Changes from 2013 to 2014

- Various investment requirements
- Added clarification regarding CDARs, Star Plus, and other CDAR-like programs
  - Added clarifications regarding brokered CDs.



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## Changes from 2013 to 2014

### 149.43 Availability of public records

Moved from chapter 3 to chapter 2 because the ORC requires auditors to look at this as part of a regular audit.



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## Changes from 2013 to 2014

### 505.60 and 505.601 Reimbursement of insurance premiums

Added a list of items that are not allowed to be reimbursed as part of a township's reimbursement of township premiums.



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## Available on the Auditor of State Internet



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## Auditing the Allocation of Salaries

- Was Chapter 3 2013 OCS
  - Stewardship
- Now 2014 OCS Chapter 1
  - Direct and Material



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## Ohio Rev. Code § 507.09 and § 505.24(C)

- AOS Bulletin 2013-002
  - Attendance at board meetings and other activities supporting the general business of the township must be allocated to the general fund.
  - Allocating 100 percent of an official's compensation to funds other than the general fund is not permitted under Ohio law.



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## Trustees Paid Per Diem

- Resolution passed by a **majority** of the board
- Establishing the periodic notification method
  - Number of days spent in the service
  - **Kinds of services rendered**



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## Per Diem (cont)

- Latin term-per day
- Not extra perks



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## Per Diem (cont)

- Paid from the township general fund, or
- Other township funds in proportion to the kinds of services rendered
- **Time and Effort** documentation required
- ORC 505.24 limits the number of days a trustee can be compensated to 200.

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## Per Diem (cont)

- Day not defined
  - Consult with YOUR legal
  - Adopt policy per OAG 2004-036
- “Day” Policy
  - Audit to policy



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## Per Diem (cont)

- Administrative Procedures
  - Timesheets
  - Similar method of record keeping
- Document time spent
- Type of service performed
- If no documentation then no salary can be paid from restricted funds

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## Per Diem (cont)

- Daily records
- Each trustee
- Provide reasonable justification
- Monthly summaries not acceptable



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## Per Diem Audit Procedures

- Recompute selected allocations of trustee amounts to each fund.
- For trustees with allocations to funds other than the general fund, trace time or services performed to time or activity sheet.



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## Trustee Paid Salary Method

- Resolution **unanimously** passed
- Resolution must also specify the proportions of the salary that are to be paid from each fund
- Must **certify** the percentage of the time spent working on matters that are to be paid from funds other than the general fund.

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## Salary Method (cont)

- Certification completed prior to receiving his/her pay for that pay period.
  - Done individually
  - Notarized n/a and not a time log
  - Statement detailing the percentage of time that the trustee/fiscal officer spent during that pay period
- Sample certification is attached to Bulletin 2011-07




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## Fiscal officer compensation



- Certify the percentage of the time
- Complete a certification prior to receiving his/her pay for that pay period
- Certification must be done individually
  - Notarization n/a and not a time log
- Statement detailing the percentage of time that the spent during that pay period
- Sample certification is attached to Bulletin 2011-07

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**Payroll Certification**

Pay period XX/XX/20XX – XX/XX/20XX

TRUSTEE NAME/FISCAL OFFICER  
 The following breakdown represents the amount of time I spent in the service of these funds during this pay period:  
 40% ----- Township General Fund  
 30% ----- Township Road and Bridge Fund  
 10% ----- Township EMS Fund  
 20% ----- Township Cemetery Fund

I certify that the above percentages are an accurate representation of my time spent working in the service of those funds.

\_\_\_\_\_  
 NAME DATE

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## Salary Audit Procedures

- Recompute selected allocations of trustee/fiscal officer salary amounts to each fund.
- For fiscal officers or trustees with allocations to funds other than the general fund, trace selected allocations to certifications.
- Agree selected postings of the salaries to the township's check register

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## Improper allocations

- Townships must properly allocate the officials' salaries for the entire 2012-2013 period.
  - Findings for adjustment
  - Could disqualify the township from lower-cost agreed upon procedure audits
  - Modified opinions
  - Increase audit costs



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## True False

- Per Diem method limits the number of country club memberships the Township can pay for?
- Salary method must use time and effort documentation

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## AUDIT COMMITTEES



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## BACKGROUND

- **What is the role of the Independent Auditor?**
  - To provide independent third-party assurance that they can reasonably rely upon the financial statements presented by Management.



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## BACKGROUND



- **What is the Governing Board's responsibility?**
  - To ensure that management fulfills its internal control and financial reporting responsibilities.
  - Example: Management - Pupil  
Governing Board - Parent

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## BACKGROUND



- When it comes to internal control and financial reporting, there is a natural tendency to believe **“everything must be okay”** until something goes wrong!
- Unless positive action is taken to counteract this tendency, it is unlikely that a governing body will ever focus attention on internal controls and financial reporting.

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## NATURE & PURPOSE

- **What is an Audit Committee?**
  - Institutionalizes an ongoing involvement with internal control and financial reporting.
  - A practical tool for ensuring that internal control and financial reporting is on the government's radar screen.



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## NATURE & PURPOSE

### • An Audit Committee has three Goals:

1. Satisfy itself that management is maintaining a framework of internal control
2. Ensures that management's financial reporting practices are assessed objectively
3. The financial statements are properly audited and that any problems disclosed are satisfactorily resolved



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## NATURE & PURPOSE

### • Benefits of an Audit Committee

- Focus on Governing body's attention on responsibility for internal control and financial reporting
- Facilitates direct communication between the independent auditor and the governing body
- Provides an appropriate venue for the independent auditors and the governing body to discuss in detail internal control and audit related matters

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## MEMBERSHIP, STRUCTURE & OPERATION

### • Who should serve on an audit committee?

- Members of the governing body
  1. Core responsibilities of legislative branch of a government is to oversee executive branch (as a rule responsibility cannot be delegated)
  2. Credibility of the audit committee will depend on its real and perceived authority (the process of delegation inherently weakens both by opening a gap between the committee and the decision makers)



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## MEMBERSHIP, STRUCTURE & OPERATION

- While members of the audit committee should be members of the governing body, it does **NOT** follow that any & all members of the governing board automatically should be eligible to serve on the committee



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## Corporate World



- An audit committee can be described as a group of minimum 3 independent directors with no connection to the company management, which are an operating component of the board of directors, with responsibility for internal controls and financial reporting oversight.

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## MEMBERSHIP, STRUCTURE & OPERATION

- **What level of expertise is needed to serve as a member of an audit committee?**
  - Sufficient understanding of accounting, auditing, financial reporting and/or internal control is desirable\*
  - Exercise an appropriate degree of professional skepticism in dealing with management\*
  - Understand the role of and receive training on audit committees

\* Able to make informed decisions with the assistance of a financial expert

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## MEMBERSHIP, STRUCTURE & OPERATION

### • Financial Expert on your audit committee should possess all of the following:

- A thorough understanding of GAAP & financial reporting
- Experience either preparing or auditing similar entities
- Experience with the application of GAAP to accounting estimates and accruals
- Experience with internal accounting controls
- Understanding the functioning of the audit committee
- Familiar with applicable laws and regulations



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## MEMBERSHIP, STRUCTURE & OPERATION

### • Set-Up of audit committee :

- Formally established
  - Resolution, charter to ensure they have authority to carry out their objectives
- Adequately funded
  - Authority to obtain services if needed (legal, specialists)
- Properly documented
  - Scope of responsibilities, structure, member requirements



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## MEMBERSHIP, STRUCTURE & OPERATION

### • Audit committee details

- Should include no less than 3 members
- Should meet at least quarterly
  - 1 meeting per year between Auditors and Committee
  - 1 meeting per year between management and committee
  - 1 meeting per year of the committee itself
  - Others – CEO, CFO, general counsel, outside counsel



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Always Remember.....  
Auditors are here to help!!

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**Audit Division**

**Joey Jones, CPA**

**Chief Auditor East Region**

101 Central Plaza South  
700 Chase Tower  
Canton Ohio, 44702  
Presenter Phone: (800) 443-9272  
E-mail: [jjones@ohioauditor.gov](mailto:jjones@ohioauditor.gov)

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**Dave Yost**  
Auditor of State

88 East Broad Street  
Columbus, Ohio 43215  
Phone: (800) 282-0370 Fax: (614) 466-4490  
E-mail: [contactus@ohioauditor.gov](mailto:contactus@ohioauditor.gov)  
[www.ohioauditor.gov](http://www.ohioauditor.gov)

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