“WHAT TO EXPECT IN A GOVERNMENTAL AUDIT”
Thriving Communities

Presented by:
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AGENDA

• Structure of the Auditor of State

• What is an Audit?
  – Internal Controls
  – Compliance

• Audit Bulletins:
  – Land Banks
  – Findings for Recovery

• Getting Ready for an Audit
Structure of the Office

- Auditor of State Web Site: www.ohioauditor.gov
- Audit Division:
  - Financial Audit Group (8 regional offices)
  - Audit Administration Group
  - Fraud & Investigative Audit Group
  - Medicaid/Contract Audit Group
STRUCTURE OF AOS OFFICE

Athens 800-441-1389
Canton 800-443-9272
Cincinnati 800-368-7419
Cleveland 800-626-2297
Columbus 800-443-9275
Dayton 800-443-9274
Toledo 800-443-9276
Youngstown 800-443-9271
WHAT IS AN AUDIT?

– Financial statement opinion – public interest, bond ratings, & financial management
– Determine compliance with state & local laws, contracts & covenants
– Evaluate internal control and provide recommendations
WHAT IS AN AUDIT?

• Audits are performed on an annual or biannual basis in Accordance with GAGAS & GAAS

• Exception: Subject to OMB Circular A-133 (expend greater $500,000 or more in one year) must be audited annually
WHAT IS AN AUDIT?

• The Auditor of State performs audits of all local governments, state agencies, boards & commissions including all colleges and universities.

• Some audits are performed by Independent Public Accountants (IPAs) on a contract basis.
AUDIT LINGO

– Control Deficiency
– Significant Deficiency
– Material Weakness
– Noncompliance
INTERNAL CONTROLS

control
Internal Controls: Five Components

More than just control procedures

- Control environment
- Information & communication
- Risk assessment
- Monitoring
- Control procedures
Internal Control Objectives

– How do you prevent errors?
– If an error occurs, will you detect it?
Control Environment: Starts at the Top!

- “Tone at the Top” for ethical behavior
- Committed to internal controls
- Code of conduct
- Hiring qualified job applicants
Risk Assessment

• Answer: Ask more questions:
  – What can go wrong?
  – How can we avoid it?

• Particularly critical when things change:
  – Reorganization, new systems or computers, new transaction types, etc.
Monitoring

A process that assesses the quality of internal control performance over time

- Management / supervisory reviews
  - Critical when it is impractical to segregate duties
- Analytical reviews
COMPLIANCE
LAWS & REGULATIONS
AUDIT TECHNICAL BULLETINS

What are these and Where do I find them?
AUDIT TECHNICAL BULLETINS

Audit Technical Bulletin

• AOS interpretive guidance regarding accounting; auditing and legal matters that are communicated in written form related to entities we audit.

• These bulletins directives and instructions are of an advisory nature only.
AUDIT TECHNICAL BULLETINS
http://www.auditor.state.oh.us/services/lgs/bulletins/default.htm

Local Government Resources

Search technical bulletins


2012 Technical Bulletins

2012-001 Ohio Revised Code 117.43 (B) Contract Procedures - This bulletin provides state agencies with information regarding the authority and role of the Auditor of State in the procurement of auditing and accounting services by a state agency and to establish procedures for procuring these services.

2012-002 Ohio Revised Code 3314.023, 3314.02(E)(3), 3314.02(E)(4) - Changes to Ohio Revised Code sections governing the requirements for the monitoring, compliance, compensation and governing authority of sponsors of community schools.

2012-003 House Bill 66 - Fraud Hotline - House Bill 66 made changes to the AOS fraud hotline and requires public employers to notify their employees of the hotline. This bulletin explains those changes and also provides a model form that public employers can use to satisfy the requirements of House Bill 66.

2012-004 County Land Reutilization Corporations - In response to several counties who have have organized or are planning to organize County Land Reutilization Corporations (CLRC), this bulletin outlines the statement considerations and the annual reporting requirements for these entities.

2012-005 Estimating Historical Costs of Capital Assets using the Consumer Price Index - This bulletin lists the consumer price index (CPI) for years ranging from 1935 to 2011 and gives the formula to calculate the estimate of the historical cost of a capital asset.
County Land Reutilization Corporations

- Section 1724.04 ORC permits a county having a population of more than 60,000 that has elected to adopt and implement procedures to facilitate the effective reutilization of nonproductive land under Section 5722 of the ORC, the option to organize a “county land reutilization corporation” (CLRC) for the purpose of exercising the powers granted under 5722 (aka Land Bank)
AUDIT BULLETIN: 2012-004

• Reporting Requirements:

  – Generally Accepted Accounting Principles (GAAP) – pursuant to Section of 117.20 ORC

  – The financial report is to be filed with the AOS within 120 days follow the last day of the corporation’s fiscal year (unless an extension is obtained by the deadline)

  – The financial report shall be published on the CLRC’s (or county’s in which the CLRC resides) web site.
AUDIT BULLETIN: 2012-004

• Financial Statement Considerations:
  
  • **GASB 61** – The Financial Reporting Omnibus an amendment of GASB 14 & 34
    – 14 – The Reporting Entity
    – 34 – Basic Financial Statements & Management Discussion and Analysis – State & Local Governments
  
  • **GASB 62** – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements
LAWS AND REGULATIONS

• State & Federal Laws
• Contracts
• Grant agreements
• Other
OHIO COMPLIANCE SUPPLEMENT

• What is an OCS?
• Where do I find it?
• Who puts it together?
• Why do I need to know this?
OCS - Defined

• The OCS includes certain laws and regulations which are of considerable public interest, or are of the type auditors generally consider “direct and material”.

• Though the OCS is not a comprehensive listing of applicable laws and regulations, it is designed to help auditors and public offices identify and familiarize themselves with certain laws and regulations which generally apply to a variety of local governments.
Where Do I Find the OCS?

- [http://www.auditor.state.oh.us/services/lgs/publications/LocalGovernmentManualsHandbooks/ohio_compliance_supplement.htm](http://www.auditor.state.oh.us/services/lgs/publications/LocalGovernmentManualsHandbooks/ohio_compliance_supplement.htm)

- Available by:
  - Entire Supplement (pdf)
  - PDF version by section
  - Microsoft Word Version by section
Who Puts the OCS Together?

AUDITOR OF STATE

- Legislative Affairs
- Legal Division
- Center for Audit Excellence
  - Significant new or revised legal and regulatory requirements financial or audit impact
  - Comments we receive from auditors and clients
  - Implementation Instructions & Identifies updates
Why Do I need to Know This?

• Auditors design their tests to reasonably assure detection of material misstatements resulting from:
  – violations of provisions of laws, regulations, contracts, or grant agreements that directly and materially affect the determination of financial statement amounts.

• Management is responsible for designing, implementing and complying with applicable laws and regulations.
Why do I need to know this?

- **EFFICIENCIES**
  - You know what the Auditor is going to ask you
  - You know what records the Auditor is going to request
  - You can better improve your operations by implementing controls to help ensure compliance with laws and regulations
  - BETTER AUDIT REPORTS!!!
FINDING FOR RECOVERY (FFR)

- What is a finding for recovery?
FINDING FOR RECOVERY

Under Ohio Rev. Code Sections 9.24(H)(3) and 117.28, a finding for recovery may exist when:

- Public money has been illegally expended;
- Public money that has been collected has not been accounted for;
- Public money that is due has not been collected; or when
- Public property has been converted or misappropriated
ADDITIONAL CONSIDERATIONS

• The AOS does not generally issue FFRs where the amount in question aggregates $500 or less.

• However, we will consider all potential FFRs regardless of the amount
  – IE: alcohol purchases; timing of FFR; other
FINDING FOR RECOVERY DATABASE

• Audit Bulletins
  – **2003-009**: Unresolved Findings for Recovery Database (ORC Section 9.24)
  – **2004-006**: Unresolved Findings for Recovery Database (ORC Section 9.24) (makes clarifications and gives definitions from 2003-09)
HINTS FROM THE AUDIT STAFF

• Common issues for new & established governments and ways to get ready for your audit
GETTING READY
Official Record of Transactions

- Incomplete minute records
- Failure to document formal actions
Getting Ready

Official Record of Transactions

• Record all official transactions

• Index the minutes

• Maintain minutes and resolutions
Policies & Procedures

• Lack of formal policies
  – Travel
  – Reimbursements
  – Cell phones
  – Gifts
  – Credit card
Getting Ready

Policies & Procedures

• Develop & follow personnel and accounting policies and procedures.

• Have employees read and sign policies for acknowledgment of receiving them.

• Best Practices – example policies
Getting Ready

Policies & Procedures

• Spring 04 – Best Practices
  • Cell phones
  • Travel policies

• Winter 04 – Best Practices
  • Purchasing cards (credit cards)
  • Vehicles
Capital Assets

- Lack of capital asset policy
- Incomplete listing & reporting of capital assets
- No tracking of capital assets
- Support schedules for capital asset calculations (GAAP-UP)
Getting Ready

Capital Assets

• Develop a capital asset policy
• Capture & maintain data on additions and deletions
• Perform inventory reviews comparing records to actual assets
• Maintaining separate listing of federal assets
Federal Programs

- Lack of documented policies
- Expenditures incurred after period of availability
- Misplaced or lost records
- Accuracy of the Federal Schedule
Getting Ready

Federal Programs

• Maintain files of grant applications and related information.
• Prepare a file folder for each separate grant (by year) and maintain all documents related to the grant in this file.
Disbursements

• No source documentation
Getting Ready

Disbursements

• Maintain source documentation
  – Vouchers/Invoices: Attach invoices to vouchers as supporting documentation for disbursements.
  – File vouchers in numeric order. Indicate approval for payment on invoice and mark invoice and voucher paid to reduce chances of duplicate payment.

• Board should review and approve vouchers for payment
Getting Ready

Disbursements

• Obtain written opinion from legal council on gray areas (i.e., proper public purpose).

• Prepare narratives of department functions.
Personnel/Payroll

• Vacation and sick leave balances
• Fringe benefits not documented
Getting Ready

Personnel/Payroll

• Develop policy and maintain leave records for employees.
• Add fringe benefits to W-2s (personal use of autos, cell phones, life insurance) –
  – Best Practices Spring 2006 Tips – Taxable fringe benefits (see handout)
Summary

• Auditor and Client have specific responsibilities

• The audit process is well-defined, with a focus on “on-going” communication

• The best way to get ready for an audit is to implement good accounting, record-keeping and control practices year-round – *this will benefit you in managing your finances!*
AUDIT EXCELLENCE

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