Ohio Township Association Winter Conference
February 6, 2020
Stacie Scholl
Central Region, Audit Division
Ohio Auditor of State

Top 10 Township Audit Comments

Agenda

Audit Terminology
Types of Audit Comments
Top 10 Audit Comments

Terminology

• GAGAS
  • Generally Accepted Government Auditing Standards
  • Comments affecting the financial statements
  • aka: the Yellow Book
• Single Audit
  • The Single Audit Act of 1984 (amended in 1996) – applicable if entity expends $750,000 of federal dollars in 1 year.
  • Comments affecting federal programs
• Noncompliance = Citation
  • Includes Finding for Recovery= Recovery of Public Money/Property
• Recommendation = Internal Control Deficiency
**Noncompliance Examples**

Federal Code of Regulations (CFR)  
Grant Agreement  
United States Code (USC)  
Federal & State Court Decisions  
Ohio Administrative Code (OAC)  
Ohio Revised Code (ORC)  
Ohio Constitution  
Ohio Ethics Commission Opinions  
Local Ordinance, Policy, Resolution, etc.

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**Findings for Recovery**

Ohio Rev. Code § 117.28 authorizes AOS to report Findings for Recovery (FFR) in audit reports when legal action may be appropriate to recovery public money or property. FFRs may exist when:

- Public money has been illegally expended
- Public money that has been collected but not been accounted for
- Public money that is due but has not been collected
- Public property has been converted or misappropriated

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**Ohio Compliance Supplement**

- Ohio Property and Evidence Room Best Practices Manual
- Ohio Compliance Supplement Manuals
- County Board of Developmental Disabilities Manual
Ohio Compliance Supplement

2019

Ohio Compliance Supplement Implementation Guide (PDF)
- Exhibit 3 Compliance R10 (Microsoft Word)

Ohio Compliance Supplement Manual (PDF)
- Chapter 1 - Zoning Law (70F) (Microsoft Word)
- Chapter 2 -intensity Maps and Statutorily Mandated Tests (70F) (Microsoft Word)
- Chapter 3 - Section 101 (PDF) (Microsoft Word)

Optional Procedures Manual (Microsoft Word)

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Ohio Compliance Supplement

Matrix 1 lists the following entities:
- Municipal health district (HHD)
- Lake County Health District
- Franklin County Public Health
- Cuyahoga County Public Health
- Geauga County Public Health
- Cuyahoga County Health District
- Mahoning County Health District
- Summit County Health District
- Stark County Health District
- Tuscarawas County Health District
- Muskingum County Health District
- Wayne County Health District
- Lucas County Health District
- Clark County Health District
- Franklin County Health District
- Law enforcement districts
- Fire districts
- Library districts
- Urban renewal districts
- Home rule districts
- Township districts
- Boroughs
- Municipal corporations
- Special districts
- Special service districts
- Tree care districts
- Board of education districts
- School districts
- Community colleges
- Vocational schools
- Online schools
- Independent school districts
- Private schools
- Catholic schools
- Religious schools
- Charter schools
- Board of education districts
- School districts
- Community colleges

Matrix 2 lists the following entities (Continued):
- Community and technical colleges
- Nonprofit colleges and universities
- Four-year public institutions
- Four-year private institutions
- Two-year public institutions
- Two-year private institutions
- Community colleges
- Technical colleges
- Medical colleges
- Religious schools
- Vocational schools
- Career technical schools
- Technical schools
- Independent school districts
- Public school districts
- Private schools
- Catholic schools
- Religious schools
- Charter schools
- Board of education districts
- School districts
- Community colleges

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Ohio Compliance Supplement

Matrix 3

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Ohio Compliance Supplement

Matrix 4

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<td>Zoning Law</td>
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1/2/2020
Example Noncompliance Citation

**Finding Number 2018-002**

Material Noncompliance - Deficit Fund Balance

Ohio Rev. Code § 710.10(B) states, in part, that all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose. Further, Ohio Rev. Code § 710.10(B) states that money paid into any fund shall be used only for the purposes for which such fund was established.

As of December 31, 2017, the General fund had a negative fund balance of $31,214. The negative fund balance is the result of the continued impact of the Township's financial difficulties.

The existence of a deficit fund balance indicates money from another fund or funds was used to pay obligations of funds that carry the deficit fund balance. The Township should monitor fund balances to ensure that expenditures are made within appropriated levels of available funds and if negative fund balances are anticipated, the Board should make an approved transfer or advance of funds to cover the necessary expenditures.

Example Internal Control Comment

**Finding Number 2019-001**

Material Weakness - Financial Statement Presentation

In our audit engagement, as required by AUIC Section 315, Terms of Engagement, paragraph 38, management acknowledged its responsibility for the preparation and the presentation of the financial statements. This responsibility includes designing, implementing, and maintaining internal controls relevant to preparing and fairly presenting financial statements. This includes maintaining effective internal controls over financial reporting. In general, an accounting and information system should be designed to provide management with accurate and timely information about financial results and cash flows to meet its needs. The present system does not meet the above expectations.

The following errors were noted in the Township's financial statements:

- During 2018, the Township posted $14,455, $3,714, and $2,755 of Miscellaneous Revenues, Special Assessment Revenues, and Intergovernmental Revenues, respectively, in Charges for Services in the General Fund.
- During 2018 and 2017, the Township posted $800,646 and $515,477, respectively, of Unassigned Fund Balances to assigned Fund Balances in the General Fund.
- During 2017, the Township posted $0.00 in Miscellaneous Revenues and Intergovernmental Revenues, respectively, in Charges for Services in the General Fund.

The errors were the result of the lack of review by management of the Township's accounting and financial statements. The Township's financial statements are accounting records that have been adjusted to correct financial errors.

Without adequate review, the Township is at risk of reporting inaccurate information in its financial statements. The Township should review the Ohio Township Handbook and services due care when posting transactions in the financial ledger to ensure the accuracy of the Transactions and the information entered. The Township should review its financial statements and ensure they are accurately reflecting financial transactions. This will help more accurately reflect the Township's financial status and avoid any inaccurate financial reporting.

Top 10 Township Audit Comments

- Comment 1
- Comment 2
- Comment 3
- Comment 4
- Comment 5
- Comment 6
- Comment 7
- Comment 8
- Comment 9
- Comment 10
Ohio Rev. Code § 5705.41 (D) Certificate of Fiscal Officer requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the Treasurer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision’s fiscal officer. Every contract made without such a certificate shall be void and no warrant shall be issued in payment of any amount due thereon.

Ohio Rev. Code § 5705.36 Certification of available revenue - additional revenue - amended official certificate.

(A)(1) On or about the first day of each fiscal year, the fiscal officer of each subdivision and other taxing unit shall certify to the county auditor the total amount from all sources available for expenditures from each fund set up in the tax budget or, if adoption of a tax budget was waived under section 5705.281 of the Revised Code, from each fund created by or on behalf of the taxing authority. The amount certified shall include any unencumbered balances that existed at the end of the preceding year.

(2) Subject to divisions (A)(3) and (4) of this section, upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be greater or less than the amount included in an official certificate, the fiscal officer may certify the amount of the deficiency or excess to the commission, and if the commission determines that the fiscal officer’s certification is reasonable, the commission shall certify an amended official certificate reflecting the deficiency or excess.
Ohio Rev. Code § 5705.38 Annual appropriation measures

(A) On or about the first day of each fiscal year, the taxing authority of each subdivision or other taxing unit shall pass an appropriation measure, and thereafter during the year it may pass any supplemental appropriation measures as it finds necessary, based on the revised tax budget or the official certificate of estimated resources or amendments of the certificate. If it desires to postpone the passage of the annual appropriation measure until an amended certificate is received based on the actual balances, it may pass a temporary appropriation measure for meeting the ordinary expenses of the taxing unit until no later than the first day of April of the current year, and the appropriations made in the temporary measure shall be chargeable to the appropriations in the annual appropriation measure for that fiscal year when passed.

Ohio Rev. Code § 5705.39 Appropriations limited by estimated revenue.

The total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure therefrom, as certified by the budget commission, or in case of appeal, by the board of tax appeals. No appropriation measure shall become effective until the county auditor files with the appropriating authority a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed such official estimate or amended official estimate. When the appropriation does not exceed such official estimate, the county auditor shall give such certificate forthwith upon receiving from the appropriating authority a certified copy of the appropriation measure. Appropriations shall be made from each fund only for the purposes for which such fund is established.

Ohio Rev. Code § 5705.41(B)

No subdivision or taxing unit shall make any expenditure of money unless it has been appropriated as provided in such chapter.
#2- Budgetary Accounting System Deficiencies

The Township did not have a control in place to ensure that amended certificates as authorized by the Board of Trustees reconciled to estimated resources that were posted to the accounting system. This resulted in incorrect estimated receipts being posted to the accounting system for the General Fund and the Road & Bridge Fund in 2017.

As of December 31, 2017, the appropriations posted to the Township’s accounting ledgers varied from the approved appropriation authority.

Failure to post budgeted amounts accurately and timely results in the inability to monitor budgeted and actual receipts and expenditures, and thus, may impair the Township’s ability to detect possible errors or irregularities.

#3- Ohio Rev. Code § 5705.10

Ohio Rev. Code § 5705.10 (C) requires that all revenue derived from a special levy shall be credited to a special fund for the purpose for which the levy was made.

In addition to property tax monies being assessed and collected for the levies, the State of Ohio reimbursed taxing subdivisions for homestead and rollback. These revenues were derived and allocated upon property tax levies.
Ohio Rev. Code § 5705.10(D)

All revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose. All revenue derived from a source other than the general property tax, for which the law does not prescribe use for a particular purpose, including interest earned on the principal of any special fund, regardless of the source or purpose of the principal, shall be paid into the general fund.

Ohio Rev. Code § 5705.10(D) (continued)

Examples:
• General Fund annexation agreement intergovernmental receipts were posted to Special Revenue funds.
• General Fund JEDZ intergovernmental receipts were posted to the Special Revenue Fund.
• The Township inappropriately recorded gas tax revenue in the General Fund as earnings on investments. Given the source of the revenue, this should have been recorded in the Gasoline Tax Fund as intergovernmental revenue.
• The Township inappropriately recorded auto registration receipts in the Gasoline Tax Fund and General Fund as intergovernmental revenue. Given the source of the revenue, these amounts should have been recorded as intergovernmental revenue in the Motor Vehicle License Tax Fund.

#4- Financial Statement Errors

Financial Reporting

In our audit engagement letter, as required by AU-C, Section 210 Terms of Engagement, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16.

Errors were noted in the financial statements and note disclosures.
While obtaining an understanding of internal controls over the cash reconciliation process, we identified a deficiency in the Township’s controls such that there was a reasonable possibility that a material misstatement of the entity’s financial statements would not be prevented, or detected and corrected in a timely manner. A crucial step in the internal control over financial reporting is to reconcile monthly the cash bank balance and investments to the balance in the accounting records and provide support for reconciling items. The reconciliation process will help ensure complete, accurate and timely posting of receipts and will promote the detection of errors or irregularities by the Township’s management in a timely manner.

At year end, there was an unreconciled variance identified in the bank reconciliations.

Ohio Rev. Code §117.38, requires cash basis entities to file complete annual reports via the Hinkle System within 60 days of the fiscal year end, while GAAP entities have 150 days. To be considered complete, the filing must contain all financial statements and notes, management’s discussion and analysis (if applicable), and any other required supplemental information.
Ohio Rev. Code § 117.103 (B) (1) states that a public office shall provide information about the Ohio fraud-reporting system and the means of reporting fraud to each new employee upon employment with the public office. Each new employee shall confirm receipt of this information within thirty days after beginning employment.

Ohio Fraud Reporting System

Auditor of State Keith Faber takes the misuse and misappropriation of public money seriously, and is devoted to raising awareness of it among all Ohio residents.

Ohio Rev. Code § 135.22 states that annually a treasurer shall complete continuing education programs to enhance the background and working knowledge of investments, cash management, and ethics, unless the treasurer provides annually to the Auditor of State a notice of exemption. The notice shall be certified by the Treasurer of State and shall provide that the treasurer is not subject to the continuing education requirements.
It is vital for the Board of Trustees to provide an oversight function for the Township due to the lack of segregation of duties, as all accounting functions of the Township are controlled by the Fiscal Officer. We recommend the Board of Trustees monitor Township financial activity and document review of monthly reports in the record of proceedings. Additionally, we recommend the Township establish procedures to review and follow up on audit comments to help ensure similar errors are not repeated in subsequent fiscal years.

As a monitoring control, we recommend the monthly bank reconciliation and all supporting documentation be reviewed and approved by the Trustees. Evidence of these reviews and approvals should be documented in the Township’s minutes and bank reconciliations should be signed.

Ohio Rev. Code § 505.24
- Establishes Township Trustee compensation
- Defines requirements for per diem vs. salary

Ohio Rev. Code § 507.09
- Establishes Fiscal Officer compensation

Both ORC Sections address:
- Pay rate based on the Township’s annual budget
- 2019 to 2028 pay rate increases of 1.75% each year
- Requirements that must be met to allocate wages to any fund other than the General Fund

Common reasons for noncompliance
- Wrong rate paid based on Township’s budget
- No Board resolution at the beginning of the year to establish per diem vs. salary method for Trustees.
- If salary, lack of resolution establishing approved allocation to funds other than the General Fund and lack of certifications maintained
- If per diem, lack of documentation of days of service filed with the fiscal officer to support amount paid
One More for Good Measure!
Public Records

Ohio Rev. Code § 149.43
• Availability of public records for inspection & copying

Ohio Rev. Code § 149.42
• Township records commission

Ohio Rev. Code § 109.43
• Public records training programs- model public records policy

Ohio Rev. Code § 149.351
• Prohibiting destruction or damage of records

