

OASBO AOS Advisory Committee March 5, 2018 Agenda ~ Addendum

The following are questions on additional topics that resulted from our request for feedback ~ please provide written comments the committee can use to respond to members:

- A. We received a question from a member about the AOS recognition for completing a CAFR as well as having clean audits. The district had received these recognitions in the past, but not in FY 2016. However, they did not get a clear explanation as to why they did not receive the recognition. It would be beneficial to know the specific criteria the AOS uses to determine whether districts should receive recognition. For instance, a definition for the term "academic standards" related to this recognition is not clear.

The criteria is available on the AOS website at -

<https://www.ohioauditor.gov/financial/awards.html>

"Academic standards" is not among the criteria listed. We formerly used the "PI score" as a component, but that criteria was suspended pending clarification from ODE.

- B. A treasurer was advised by the auditor when the audit was in the final stages, that the district needed to have a True-Up policy in place; that it was concerning anything that is billed or paid by ADM/FTE (i.e., foundation). Treasurer's district does not file GAAP but prepare OCBOA statements and take the penalty. So, the auditor said the policy determining how to book a receivable or payable will not impact the district, however, they would still need a true up policy. Without a policy in place, a Finding for Recovery could be issued against the treasurer.

This issue came up briefly at the committee meeting in November, but it appears to have become more concerning to treasurers. No bulletin appears to be available on the topic. Further, adjustments to districts' ADM numbers occur several times throughout the year. The treasurer has no way of knowing exactly what the ADM for the district for the year will be until very late in the year, and sometimes not until after the fiscal year ends. It is concerning that only the treasurer could be liable related to contracts tied to ADM (similar to the licensure issue discussed above).

If the District is paying for services based on ADM/FTE and there is a determination that the District was overfunded, then there is the potential that the District has overpaid for the services. If this occurs, the District should have a "True-up Policy" in place.

The district would still be responsible for any liability even if they choose not to report on the statutorily required GAAP basis. A FFR could be issued if the district owes monies to ODE, or if the District overpaid for services based on ADM/FTE. (i.e. to a computer consortium or an ESC for services)

- C. Does the AOS have any issues with SC View (i.e., an online requisition workflow, digital records, etc.)?

Here's the website - <http://www.scstrategicsolutions.com/>

The AOS does not provide guidance on selection of software. It is up to each entity to make determinations; however, if the software impacts controls and/or records related to the entity's financial statements and/or legal compliance, the auditors would be required to review the entity's use of the software at the time of audit.

- D. Is the AOS aware that ODE Federal Grants Department requires districts to do "desk audits" and on-line audit surveys on our Federal Grants? At the same time, the AOS audits Federal Grants. Could there be coordination between the two agencies to avoid this duplication?

ODE passes grants through to districts as subrecipients. The federal regulations require entities receiving grants (i.e. ODE) to perform subrecipient monitoring for every grant it passes through. ODE's subrecipient monitoring is required to be reviewed/tested as part of the State of Ohio Single Audit. During the audit of the district, the AOS is testing for controls over and compliance with all federal grant requirements for each major program. We are aware of subrecipient monitoring completed by ODE (and other state agencies) and we utilize this work in assessing risk and determining testing requirements when we can.

- E. A member raised objections about the tier system for determining which independent auditor the district can choose. What is the rationale for which tier a district falls under? The member is concerned that too often, the unique needs of districts are overlooked. Would the AOS consider a process for challenging the tier in which the district is placed?

Tier Definitions

Tier 1 – Large, complex, high profile and/or specialized IPA experience required

Tier 2 – All others

Tier 3 – Small, lower risk, no customization or specific IPA experience required, no unusual transactions. Entities preparing GAAP basis financial

statements may be included; however, entities preparing CAFRs are excluded

School –

- **City School Districts - Tier 2**
- **Local School District could be Tier 3 depending on size (will work with region to determine)**
- **Schools preparing CAFRs - Tier 2**

Community School – Tier 3

If a District has concerns over the tier they have been assigned they certainly can inquire and give input if they think it should be different, however, no formal process is anticipated to be established.

- F. **Can the AOS provide clarity and rationale for where pay-to-participate fees can be deposited? Many districts have always put them into the general fund to offset the salaries for coaches' salaries, etc.**

It would be somewhat dependent upon the District's policy adopting a pay to play fee. We recommend the District obtain the input of legal counsel in the establishment of the policy and required accounting for the fee. Below is a recent response we issued to a very similar question on this subject:

Based on review of the resolution Mike forwarded, the District adopted an activity fee to be used for the purchase of equipment and cost of transportation.

Page 5 of our Student Activity Handbook describes the requirements of ORC Section 3315.062. This statute requires schools to adopt a separate activity fund if they are collecting activity fees greater than \$50 for the year. I imagine most schools meet this low threshold. The requirement is further amplified by OAG Opinion 82-014.

It appears to me that the school must establish a separate fund to collect these fees (likely the 300 fund).

If the General Fund is covering these expenses, it may be possible for the Activity Fund to reimburse the General Fund for any portion of allowable expenditures made by the General Fund during the year. Appendix A-1 of our AOS Ohio Compliance Supplement Implementation Guide discusses the concept of interfund reimbursements being allowable as long as neither fund (the fund

originally paying the expense and the reimbursing fund) are violating purpose restrictions.

The AOS Student Activity Guidelines, AOS Ohio Compliance Supplement Implementation Guide, and OAG Opinion can be found at the links below:

http://www.ohioauditor.gov/publications/guidelines_student_programs.pdf

http://www.ohioauditor.gov/references/compliancemanuals/2018/OCSImplementationGuide_2018.pdf

<http://www.ohioattorneygeneral.gov/getattachment/4170dbf8-7471-46c9-8707-2ff73bf0955e/1982-014.aspx>

- G. A treasurer reported having a discussion with auditors during the post audit conference last fall regarding the timing of setting the Certificate of Estimated Resources. The requirement by law does not coincide with the best timing of reporting the information required, and having access to supporting documentation. An estimate can be made, but the figures would increase in accuracy if they could be made a little later in the year, possibly at the same time appropriations are set. What are the views of the AOS on this issue?

As indicated, the deadlines are set by law and are designed as controls over an entity's budgeting process; therefore, the AOS's view is the entity must follow the law. The law; however, provides for amending the certificate of estimated resources as needed. Please refer to the *Ohio Compliance Supplement Optional Procedure Manual*, page 3. If District's want to change the requirements of the law they should seek a legislative change.

1. Miscellaneous member statements ~ AOS comments requested:

- H. One treasurer commented, "Based on the delay in audit reviews and lengthy waits on final reports, it appears that the AOS does not have enough employees on staff. I contacted Donna Waldren in the Fall and asked if we could have our audit outsourced to an IPA firm since they were so far behind. She stated that it was too late to do that this year. The auditors are just now working on our 2 year audit for FY16 & FY17. They have been here since early January, and some days there are four auditors working in our workroom (with only two of them working on our audit.) The staff have all been very good to work with. Professional and courteous. Our concern is that it appears as though we are providing temporary office space for auditors who live in the area and need a place to work.

We did a presentation to Moody's in December, anticipating a bond rating upgrade, but were not successful. I believe the fact that we had not been audited since FY15 was a determining factor in their decision. Could you please share these two concerns with them - 1) audit delays and 2) using our workroom as their temporary headquarters (i.e., for those not working on our audit)."

- 1) The AOS's goal is to issue as many audit reports within six months of the fiscal year end of the entity; however, many issues can cause delays. The issues may range from lack of timely and accurate filing of final, unaudited financial statements by the client to unexpected loss of audit staff; therefore, although each region plans to meet the goal by determining the capacity of our audit staff and the need to contract with IPAs firms well in advance of the audit period, issues can arise. If an entity has a specific need, such as a bond rating, debt issuance or other external deadline, the entity must make the region aware of that need well in advance. Our goal for contracting an audit to an IPA firm is to have the contract in place two to three months prior to the end of the entity's reporting period. We have discussions with Moody's and other rating agencies fairly often and would be willing to give input when or make interim information available when/if we know it is needed by a client in the course of rating agency work.**
 - 2) For training purposes or logistics, we sometimes locate staff working on another engagement at the supervisor's work-site to obtain the required staff oversight as required by auditing standards. Any time that staff are working on a different entity's engagement that time is not charged to the entity at the location. Our supervisors should discuss this issue with the host entity and we encourage clients to make certain concerns are made known to the managers on site. If the client continues to have issues/concerns with the AOS staff on-site, he/she should contact the Chief Auditor of the applicable region.**
- I. A member commented, "I would like to bring up the subject of the annual ethics disclosure that we have to pay to send in. We are not elected officials, but appointed. Why should we have to expose our personal information to the state? This should be an obligation of all board members, not the Superintendent and Treasurer."

The ethics filings are dictated by the Ohio Ethics Commission and include required and voluntary filings. We suggest you contact the Commission for further guidance. This is not an issue that the AOS has the ability to address.

- J. Another member commented, "GAAP - This should be a local decision. When our district did GAAP, no one EVER asked to see it. Our board decided several years ago to save money, and time, by not doing GAAP. We were successful in issuing bonds for a new building project without GAAP statements. My dues to OASBO would cover the fine if I were to discontinue membership. However, I would like our organization to be an advocate for all districts, however small or large, so I continue to be a member. I am very irritated by this worthless finding on my audit each year."

I will apologize up front for my response, however, it is sad commentary that a fiscal professional, in a position of the public trust like a District Treasurer, would consider GAAP financial reporting "worthless," especially since it is the law for Districts to report on that basis. It is further sad commentary that the same individual is irritated when the AOS, the office responsible for accountability, does our job and properly reports when there is non-compliance.

The determination of basis of accounting is a local decision; however, several entities, including school districts and community schools, are mandated by statute to file on the Generally Accepted Accounting Principles (GAAP) basis. GAAP reporting includes the conventions, rules, and procedures that serve as the norm for the fair presentation of financial statements and present a comprehensive financial picture, rather than only cash transactions. Because GAAP is mandated for school district financial statement presentation, deciding not to present on a GAAP basis must result in a material non-compliance citation under *Government Auditing Standards*.

- K. Yet another member opined, "In relation to the issue of GAAP vs Cash Basis, as funds are mandated to be used elsewhere, we too report on a Cash Basis. So no matter how great our audit is, we will never get any recognition. Perhaps, the non GAAP schools could be recognized somehow (in a positive manner of course)."

The AOS awards are for excellence in reporting and compliance with laws and regulations. While the auditing standards permit us to issue an unmodified opinion on financial statement presented on an Other Comprehensive Basis of Accounting (OCBOA) with a material non-compliance citation, the minimum statutory requirement for school districts and community schools is to report on a GAAP basis; therefore, AOS awards are not presented to entities that report below the legally mandated minimum standards.

- L. This information was received from someone who now works with treasurers as a consultant. He said, "If field examiners/auditors are going to ask for reports, they should at least know what reports are available or be willing to accept something else that's at least close. When I was still a treasurer, I could easily show someone what was actually available, but other treasurers are sometimes intimidated. Recently, a treasurer was pretty much hounded for a report that didn't even exist in the software. The person called me and I told them to ask the examiner/auditor to at least show them in the compliance supplement what he was looking for so it was clearer what report to provide. But if a treasurer pretty much says the report requested isn't available (which amounted to the BVA on the AOS GAAP website, but the examiner/auditor seemed to think those were generated monthly in-house, and they are not), there should be at least some modicum of common sense to understand the limitations of the classic software. I doubt redesign would offer a "monthly BVA" either. Since day-to-day operations are cash with just final reporting done in GAAP, there's no need for a monthly BVA anyway."

He went on to say, "This is probably a regional issue and goes back to inconsistency among regions, but it reflects the frustration from treasurers during audits. Just not sure if the person making the request knew exactly what he wanted, but he left the treasurer feeling frustrated trying to accommodate the request. My suggestion would be for AOS to provide a list of reports desired during audits and what they want on those reports and then run them by the AOS committee to say "yes or no" whether or not those reports actually exist, and if not, what would be a replacement report for AOS to request during audits. It would save everyone a lot of headaches on site."

Entities use different accounting systems with different reporting capabilities. So, reports available at one entity may not be available at another entity. For every audit engagement, our auditors conduct a pre-engagement meeting with the entity's management. Generally for larger entities, we provide a timeline of information to be provided by the client. The person referred to "run them by the AOS committee" which gives the impression that every engagement is identical, every transaction is accounted for in an identical manner and that the audit is an exercise in doing the same thing at each client. That is not the case and auditing is not a science, there are variables in each engagement. If they are questions related to a request from our audit staff, the entity's management is encouraged to discuss the issue with the audit manager, senior audit manager and/or the chief auditor of the region.

