

CHAPTER 1

BUDGETARY AND CERTAIN RELATED REQUIREMENTS

The Ohio Constitution provides certain local governments the power to tax. The budgetary process is a plan to coordinate expenditures and resources. The State Legislature has adopted laws to **control** expenditures using tax budgets and appropriations.

The Auditor of State believes budgeting, properly used, provides the most important monitoring control a government has. *It is impossible to incur a cash deficit if a government complies with the budgetary law!* Additionally, the budget is an instrument of public policy: A governing board expresses its desires for using a government's limited resources through its appropriations.

Appendix C to the *Ohio Compliance Supplement* includes Ohio Rev. Code 5705 (i.e., the budget law) definitions of "subdivision," "taxing authority," and "taxing unit." You should refer to these definitions from Ohio Rev. Code Section 5705.01, to determine the applicability of Chapter 1 requirements to the entity you are auditing. Appendix F includes matrices showing the applicability of this chapter's requirements to various governmental types.

If you find no budgetary noncompliance at year end, you should also test for budgetary overexpenditures or appropriations exceeding estimated resources prior to year end, since we consistently find some governments permitting violations to occur during the year and correcting these violations only at year end. However, if you find noncompliance at year end, you need *not* test for prior periods, since we already know noncompliance occurred.

Legal Level of Budgetary Control

Government Accounting, Auditing, and Financial Reporting defines the "legal level of budgetary control" as "the level at which spending in excess of budgeted amounts would be a violation of law." In Ohio, the legal level of control is the level at which the local government's legislative authority passes the appropriation measure.

Ohio Rev. Code 5705.38(C) requires the following minimum level of budgetary control for "subdivisions" other than schools: "Appropriation measures shall be classified so as to set forth separately the amounts appropriated for each office, department, and division, and, within each, the amount appropriated for personal services."

Ohio Administrative Code 117-6-02 requires schools to appropriate at least at the fund level. Governments may adopt more stringent legal levels of budgetary control if they wish.

Since Ohio Admin. Code 117-2-02(C)(1) permits governments to adopt more stringent legal levels of control than the aforementioned laws require, it is possible for the level to vary from entity to entity, or even from fund to fund within an entity. However, once established by the local government, the legal level of control should be the same throughout the fiscal year. As such, this is the level auditors should use to test compliance.

Governments following generally accepted accounting principles or an Other Comprehensive Basis of Accounting (OCBOA) must comply with the following budgetary presentation requirements from GASB Codification 2400.103 -- .105:

.103 Governments may present the budgetary comparison schedule using the same format, terminology, and classifications as the budget document, or using the format, terminology, and classifications in a statement of revenues, expenditures, and changes in fund balances. Regardless of the format used, the schedule should be accompanied by information (either in a separate schedule or in notes to RSI) that reconciles budgetary information to GAAP information, as discussed in this section and in Section 1700. Notes to RSI should disclose the budgetary basis of accounting and excesses of expenditures over appropriations in individual funds presented in the budgetary comparison, as discussed in Section 2300, "Notes to Financial Statements," paragraph .106.5 [NCGAI 6, ¶5; GASBS 34, ¶131; GASBS 37, ¶19]

.104 Where financial statements prepared in conformity with GAAP do not demonstrate finance-related legal and contractual compliance, the governmental unit should present such additional schedules and narrative explanations in the comprehensive annual financial report as may be necessary to report its legal compliance responsibilities and accountabilities. In extreme cases, preparation of a separate legal-basis special report may be necessary. [NCGAS 1, ¶12]
Comprehensive Annual Financial Reports

.105 The comprehensive annual financial report (CAFR) should include budgetary comparison schedules for individual nonmajor special revenue funds and other governmental funds of the primary government (including its blended component units). [NCGAS 1, ¶139 and ¶155, as amended by GASBS 14 and GASBS 34, ¶130]

There is no prescribed minimum for reporting budget-versus-actual information for governments using the Auditor of State's cash-basis financial reports. These reports routinely present this information at an aggregated level as footnote disclosures. However, auditors should still test legal compliance at the legal level of budgetary control. Auditor of State Bulletin 97-010 provides useful guidance and examples to help understand budgetary requirements.¹

Other sources of Guidance: In addition to this OCS Chapter, Section D.IV of the AOS' *Ohio Township Handbook* and Chapter 3 of the AOS' *Village Officer's Handbook* include many questions and answers related to RC 5705 requirements. You can access these publications at www.auditor.state.oh.us then click on *Publications* and *Local Government Manuals and Handbooks*.

¹ As of the date of this OCS edition, Bulletin 97-10 still provides useful guidance in understanding certain budgetary issues. However, a few specific legal requirements have changed. You should refer to the latest ORC for updated requirements. Some of the changes since the AOS issued 97-10 are: (1) The legal sources for the level of budgetary control; (2) changes in the dollar limitations on amounts requiring fiscal officer certification; (3) changes in certain blanket certification requirements; (4) the *Budgeted Revenue and Expenditure* section now applies to all "subdivisions."

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Section A: General Budgetary Requirement

1-1 Compliance Requirement: Ohio Rev. Code Section 5705.28 - Adoption of tax budget.

Summary of Requirement: On or before July 15 (January 15 for school districts), in each year, the taxing authority of each subdivision or other taxing unit must adopt a tax budget for the succeeding fiscal year.

Before June 1 in each year, the board of trustees of a school district library entitled to participate in appropriations or revenue of a school district, or having a tax proposed by the board of education of a school district, is to adopt a tax budget for the ensuing fiscal year and file such budget with the board of education. On or before July 15, a board of education receiving such a tax budget is to adopt such a tax budget on behalf of the library district.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> • Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files • Legislative and Management Monitoring • Management’s identification of changes in laws and regulations • Management’s communication of changes in laws and regulations to employees 		
Suggested Audit Procedures - Compliance (Substantive) Tests		
Read the minutes and determine if a tax budget was adopted on or before the required date.		
Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):		

1-2 Compliance Requirement: Ohio Revised Code Sections 5705.281 - The county budget commission may waive the requirement requiring subdivisions to submit tax budgets.²

Summary of Requirements: The county budget commission, by an affirmative vote of a majority of the commission including an affirmative vote by the county auditor, may waive the requirement that the taxing authority of a subdivision adopt and submit a tax budget. The budget commission shall require such a taxing authority to provide such information as may be required by the commission to perform its duties under chapter 5705, including dividing the rates of each of the subdivision's or taxing unit's tax levies as provided under section 5705.04 of the Revised Code.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> • Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees 		

² Note: Senate Bill 55, effective January 8, 2004, extended these waivers to libraries. See the new OCS step for 5705.281 in the *Additional Public Library Requirements* in Section C of this Chapter.

Suggested Audit Procedures - Compliance (Substantive) Tests
<p>Inspect documentation from the County Budget Commission that waives the subdivisions requirement to file a tax budget.</p> <p>If the tax budget was waived:</p> <ol style="list-style-type: none">1. Obtain a copy of the budget commission’s correspondence notifying the subdivision of the waiver. Document the submission requirements specified in the communication.2. Through inspection of documents, reviews of minutes, or other such procedures, determine whether any significant substitute requirements were met.
<p>Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):</p>

<p>1-3 Compliance Requirement: Ohio Rev. Code Section 5705.34 - Certifying tax levies.</p> <p>Summary of Requirement: Each taxing authority is to pass an ordinance or resolution to authorize the necessary tax levies. Each such authority is to certify the levies to the county auditor before October 1st (April 1 for school districts), unless a later date is approved by the tax commissioner.</p> <p>If the government is a Township Board of Park Commissioners that is appointed by the Board of Township Trustees and oversees a Township Park District that contains only unincorporated territory, see Division (C) of Ohio Rev. Code Section 511.27.</p>		
<p>In determining how the government ensures compliance, consider the following:</p>	<p>What control procedures address the compliance requirement?</p>	<p>W/P Ref.</p>
<ul style="list-style-type: none"> • Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files • Legislative and Management Monitoring • Management’s identification of changes in laws and regulations • Management’s communication of changes in laws and regulations to employees 		
<p>Suggested Audit Procedures - Compliance (Substantive) Tests</p>		
<p>Read the minutes to determine if the taxing authority has authorized the necessary rates and certified them to the county auditor on or before the required date.</p>		
<p>Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):</p>		

1-4 Compliance Requirement: Ohio Rev. Code Section 5705.36 - Certification of available revenue.

Summary of Requirement: On or about the first day of each fiscal year, the fiscal officers of subdivisions and other taxing units are to certify to the county auditor the total amount from all sources available for expenditures from each fund in the tax budget along with any unencumbered balances existing at the end of the preceding year.

Except, a taxing authority shall exclude the following from unencumbered fund balances:

- Budget stabilization reserves [§ 5705.13, 5705.29(G)]
- Nonexpendable trust principal balances and any additions to principal not from the fund’s reinvested earnings [§ 5705.131]

The certification for a school district must separately show the amount of any notes and unpaid outstanding expenses that were due prior to June 30 which are to be paid from advancements of property tax settlement money.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> • Accounting system capable of recording estimates and comparing them to actual results. • Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files • Legislative and Management Monitoring • Comparisons or Reconciliations of Certified Amounts with Government's Books/Records • Management’s identification of changes in laws and regulations • Management’s communication of changes in laws and regulations to employees 		

Suggested Audit Procedures - Compliance (Substantive) Tests	
<p>Inspect the copy of the certificate retained by the subdivision showing the total amount from all sources which is available for expenditures and the balances existing at the end of the preceding year.</p> <p>Through inquiry, knowledge of the client, and review of documents (such as the record of minutes and accounting ledgers), determine whether the client has established any of the reserve balance accounts, or nonexpendable trust funds described.</p> <p>If reserve balance accounts or nonexpendable trust funds have been established, calculate or inspect the client's or budget commission's calculations that the certification excludes balances in those accounts/funds.</p> <p>For school districts, calculate or inspect the client's or budget commission's calculations that the certification includes any spending reserve available for appropriation during the current fiscal year.</p> <p>For school district receiving an advance on the August property tax settlement, determine through inquiry, inspection of ledgers, vouching, or other such means, whether significant payments were made on notes or outstanding expenses which were due prior to June 30 (since some districts routinely request advances to take advantage of short-term investment opportunities, you should consider whether these payments could have been made in the absence of the advance, without placing undue distress on the district).</p> <p>If such notes or outstanding expenses have been identified, compare the amounts to the amounts separately identified on the district's copy of the certificate.</p>	
<p>Audit implications (adequacy of the system and controls, and the direct and material effects of noncompliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):</p>	

<p>1-5 Compliance Requirement: Ohio Rev. Code Section 5705.36 - Amended Certificates</p> <p>Summary of Requirements: 5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources.</p> <p>5705.36(A)(3) requires obtaining an increased amended certificate from the budget commission if the legislative authority intends to appropriate and expend excess revenue. 5705.36(A)(4) requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriation.</p> <p>The total appropriations made during a fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources which was certified prior to making the appropriation or supplemental appropriation.</p>		
<p>In determining how the government ensures compliance, consider the following:</p>	<p>What control procedures address the compliance requirement?</p>	<p>W/P Ref.</p>
<ul style="list-style-type: none"> • Accounting system capable of recording estimates and comparing them to actual results. • Reconciliations of amended certified amounts with amounts recorded in the accounting system. • Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files • Legislative and Management Monitoring • Management’s identification of changes in laws and regulations • Management’s communication of changes in laws and regulations to employees 		
<p>Suggested Audit Procedures - Compliance (Substantive) Tests</p>		
<p>Analyze budget variances throughout the year. If significant, determine if an amended certificate should have been obtained.</p> <p>Inspect amended certificates of estimated resources for proper modifications.</p>		
<p>Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):</p>		

**Clarifying guidance
Added regarding legal level
of control.**

1-6 Compliance Requirement: Ohio Rev. Code Section 5705.38- Annual appropriation measure.

Summary of Requirements:

5705.38(A) requires that on or about the first day of each fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based upon the actual year end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until no later than April 1. This does not apply to school district appropriations.

5705.38(B) provides that a board of education shall pass its annual appropriation measure by the first day of October. If a school district's annual appropriation measure is delayed as permitted by law (see below), the board may pass a temporary measure for meeting the ordinary expense of the district until it passes an annual appropriation measure.

As discussed in Auditor of State Bulletin 98-012 there are two circumstances when school district certificates/certifications would be issued after October 1:

1. A certificate/certification would be issued after October 1 when a district has borrowed against its spending reserve. This certificate/certification would not be issued until second half personal property taxes are settled.
2. A certificate/certification would be issued after October 1 when the delivery of a tax duplicate is delayed under Ohio Rev. Code §323.17 because a subdivision in the county has placed a levy on the November ballot which, if approved, will go on the current tax list and duplicate.

If a school district is in either of these two situations, passage of the annual appropriation measure should be delayed until the necessary certificates/certifications are received.

Legal Level of Control: Minimum Requirements³

1. Ohio Admin. Code 117-2-02(C)(1) states in part: "The legal level of control is the level (e.g.

³ We should not recommend that governments adopt the highest level of control the statutes allows. Appropriating at lower levels than the minimums the ORC or OAC require provides the legislative authority with more control over disbursements. However, appropriating at very low levels can significantly increase the volume of appropriation amendments requiring legislative approval as well as possibly requiring additional disbursement codes (more function, object codes, etc.). Conversely, appropriating at higher levels may simplify appropriation measures, but in doing so, the legislative authority effectively delegates more spending decisions to the fiscal officer. The legislative authority should choose the level of control they feel meets their need to control expenditures. Also, the legislative authority may choose differing levels of control for different funds, as long as they meet at least the minimum statutory requirements.

fund, program or function, department, object) at which spending in excess of budgeted amounts would be a violation of law. This is established by the level at which the legislative body appropriates. For all local public offices subject to the provisions of Chapter 5705 of the Revised Code, except school districts and public libraries, the minimum legal level of control is described in Section 5705.38 of the Revised Code (see 2 below). For school districts, the minimum legal level of control is prescribed in Rule 117-6-02 of the Administrative Code (See 3 below). For public libraries, the minimum legal level of control is prescribed in Rule 117-8-02 of the Administrative Code (See 4 below). The legal level of control is a discretionary decision to be made by the legislative authority, *unless otherwise prescribed by statute.*"

2. Ohio Rev. Code 5705.38(C) requires the following minimum level of budgetary control for "subdivisions" other than schools: "Appropriation measures shall be classified so as to set forth separately the amounts appropriated for each office, department, and division, and, within each, the amount appropriated for personal services."⁴
3. Ohio Admin. Code 117-6-02 prescribes the following for school districts' legal level of control: At a minimum, appropriation measures shall be classified to set forth separately the amounts appropriated by fund. The appropriation measure as passed by the school board shall be the legal level of control. This is the level at which compliance with statutory budgetary requirements will be determined. **The AOS recommended that a board of education pass appropriations at a more detailed level. This is, however, a discretionary decision for the board of education based on the degree of control the board of education wishes to maintain over the financial activity of the school district.**
4. Ohio Admin. Code 117-8-02 The library's legislative body shall adopt appropriation measures. These measures establish the legal level of control.
5. Ohio Admin. Code 117-2-02(C)(1) also states in part: all local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted appropriation balances.

Amounts / Funds Not Subject to Budgeting

- The nonexpendable principal of nonexpendable trust funds. Appropriating nonexpendable principal would authorize the fiscal officer to spend the principal in violation of the trust agreement. [5705.36(A)]
- For some time, AOS policy has been that agency funds do not require budgeting. Agency funds account for money a government holds in an agency capacity on behalf of another person or entity. Therefore a government has minimal discretion in spending this money. Accordingly the legislative body need not authorize a purpose for spending the money.

⁴ **IMPORTANT:** Governments may have appropriated at higher levels than 5705.38 prescribes, based on guidance this office previously issued, such as in Bulletin 97-10. Therefore, we should not issue noncompliance findings to governments that relied on this advice. Instead, we should inform them they should correct this matter prior to preparing their next original appropriation.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> • Accounting system capable of recording appropriations and comparing them to actual results. • Reconciling appropriation totals to totals recorded in the accounting system. • Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files • Legislative and Management Monitoring • Management’s identification of changes in laws and regulations • Management’s communication of changes in laws and regulations to employees 		
Suggested Audit Procedures - Compliance (Substantive) Tests		
<p>Read the minutes and determine if an annual appropriation measure has been passed by the required date.</p> <p>If a school district has delayed adoption of an annual appropriation measure, discuss the reasons for the delay and trace to supporting documentation.</p> <p><u>Scan appropriation measures to determine whether they meet at least the minimum legal level of control 5705.38(C) prescribes.</u></p> <p><u>Determine if the accounting system “integrates” budgetary data at the legal level of control. This means the accounting system should report appropriations, encumbrances, unencumbered cash balances, and estimated receipts, compared to actual results.</u></p>		
<p>Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):</p>		

<p>1-7 Compliance Requirement: Ohio Rev. Code Section 5705.39 - Appropriations limited by estimated resources.</p> <p>Summary of Requirements: This section provides in part that total appropriations from each fund shall not exceed the total estimated resources. No appropriation measure is effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.</p> <p>As discussed in Auditor of State Bulletin 97-012, if a local government is participating in a grant or loan program whereby proceeds will be received after the expenditures are incurred, it is possible that if properly budgeted, appropriations for one fiscal year will exceed the available amount on the certificate of estimated resources. However, an advance should be used to prevent a negative fund balance. Negative variances in grant funds, between appropriations and certified available resources, should be investigated to determine the cause of the variance.</p>		
<p>In determining how the government ensures compliance, consider the following:</p>	<p>What control procedures address the compliance requirement?</p>	<p>W/P Ref.</p>
<ul style="list-style-type: none"> • Accounting system reports deficit budgetary balances if appropriations exceed estimated resources. • Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files • Comparisons of Proposed Appropriations with Certified Estimated Revenues • Legislative and Management Monitoring • Management’s identification of changes in laws and regulations • Management’s communication of changes in laws and regulations to employee 		
<p>Suggested Audit Procedures - Compliance (Substantive) Tests</p>		
<p>Compare the appropriation measures with the appropriation from each fund and determine that the appropriations do not exceed the official or amended estimate of resources (estimated revenues plus unencumbered fund balances).</p> <p>Determine whether the county auditor sent a “does not exceed” certificate to the government.</p>		
<p>Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable</p>		

conditions/material weaknesses, and management letter comments):

1-8 Compliance Requirement: Ohio Rev. Code Section 5705.40 - Amending or supplementing appropriations, contingencies.

Summary of Requirements: Any appropriation measure may be amended or supplemented if the entity complies with the same laws used in making the original appropriation. However, no appropriation may be reduced below an amount sufficient to cover all unliquidated and outstanding contracts or obligations against them. “Transfers” * may be made by resolution or ordinance from one appropriation item to another. Subject to certain limitations, the annual appropriation measure may contain an appropriation for contingencies.

Rulings filed in the case of C. B. Transportation, Inc. v. Butler County Board of Mental Retardations, 60 Ohio Misc. 71, 397 N.E.2d 781 (C.P. 1979), as well as Burkholder v. Lauber, 6 Ohio Misc. 152 (1965), held that a board or officer whose judgment and discretion is required, was chosen because they were deemed fit and competent to exercise that judgment and discretion and unless power to substitute another in their place has been given, such board or officer cannot delegate these duties to another. Following such reasoning, a local government’s governing board would be prohibited from delegating duties statutorily assigned to it, such as the ability to amend appropriations as provided for in Ohio Rev. Code section 5705.40.

* “Transfers” in this context mean reallocations of appropriations. These do not refer to transfers of cash between funds.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> • Accounting system capable of recording appropriations and comparing them to actual results. • Reconciling appropriation totals to totals recorded in the accounting system. • Policies and Procedures Manuals • Knowledge and Training of personnel • Comparison of Outstanding Encumbrances and Balances to Proposed Amendments • Legislative and Management Monitoring • Management’s identification of changes in laws and regulations • Management’s communication of changes in laws and regulations to employees 		

Suggested Audit Procedures - Compliance (Substantive) Tests	
<p>Inquire (or determine from reading the minutes) if amended or supplemental appropriation measures have been passed. If so, inspect the amended certificate executed by the county budget commission.</p> <p>Inspect the government's records throughout the period to determine if updates and adjustments were properly and timely posted.</p> <p>Match appropriations amendments, supplements and transfers with resolutions or ordinances.</p>	
Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):	

**County Commissioner
Authorization Section
revised per SB 82
Effective Feb.12, 2004**

1-9 Compliance Requirements: Ohio Rev. Code Section 5705.38, 5705.41 (A), (B),(C) and (D). 5705.42-Restrictions on appropriating and expending money.

Summary of Requirements: The authorization of a bond issue is deemed an appropriation of the proceeds of the bond issue for the purpose for which such bonds were issued. No expenditure shall be made from any bond fund until first authorized by the taxing authority. [Section 5705.41(A)].

Similarly, Federal grants or loans are “deemed appropriated for such purpose by the taxing authority”⁵ as provided by law and shall be recorded as such by the fiscal officer of the subdivision, and is deemed in process of collection [5705.42]

No subdivision or taxing unit is to expend money unless it has been appropriated. [Section 5705.41(B)].

No subdivision is to expend money except by a proper warrant drawn against an appropriate fund. [Section 5705.41(C)].

No orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury **or in the process of collection**⁶ to the credit of an appropriate fund free from any previous encumbrances. [Section 5705.41(D)].⁷

The statute provides the following exceptions to this basic requirement:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$100 for counties, or less than \$3,000 (~~\$1,000 prior to April 7, 2003~~) for other political subdivisions, may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority. [Section 5705.41(D)].

Summary of Requirements (continued):

Continuing Contracts to be Performed in Whole or in Part in an Ensuing Fiscal Year - Where a continuing contract is to be performed in whole or in part in an ensuing fiscal year, only the amount required to meet those amounts in the fiscal year in which the contract is made need be certified. (1987 Op. Atty. Gen. 87-069).

Per Unit Contracts - Where contracts are entered into on a per unit basis, only the amount estimated to become due in the current fiscal year need be certified. (1987 Op. Atty. Gen. 87-069).

Contract or Lease Running Beyond the Termination of the Fiscal Year Made - Pursuant to Section 5705.44, Ohio Rev. Code, where a contract or lease runs beyond the termination of the fiscal year in which it is made, only the amount of the obligation maturing in the current fiscal year need be certified. The remaining amount is a fixed charge required to be provided for in the subsequent fiscal year's appropriations.

The Attorney General, in 1987 Op. Atty. Gen. No. 87-069, has clarified the application of the exceptions set forth above. In summary, he has indicated that:

If a government subject to Ohio Rev. Code Section 5705.41 (D) enters into a continuing contract under which no goods or services will be delivered during the current fiscal year and payment will not be due until delivery, no amount need be certified as available during the current fiscal year. Pursuant to Ohio Rev. Code Section 5705.44, the amount remaining unpaid at the end of a fiscal year to become due in the next fiscal year must be included in the annual appropriation measure for the next fiscal year as a fixed charge.

If under a continuing contract it cannot be determined whether delivery of goods or services and the obligation to make payment will take place in the current or an ensuing fiscal year, the total amount due under the contract must be certified as available during the current year.

If under a continuing contract delivery of goods or services is to occur in the current fiscal year with the obligation to make payment deferred until an ensuing fiscal year, the amount required to meet the

⁵ “Deemed appropriated” means the legislative body can appropriate the amounts only for the purposes the grant / loan / bond proceeds etc., agreement describes. AOS Bulletin 97-012 concluded that amounts “deemed appropriated” still require formal appropriation by the legislative body per 5705.40. Of at least equal control / compliance importance is whether the fiscal officer recorded the appropriation in the accounting system, at the legal level of control, which OAC 117-2-02(C)(1) requires.

⁶ It is permissible to certify a purchase without sufficient cash “in the bank” if a government is reasonably certain cash will be on hand in time to pay the invoice when due (i.e. is “in the process of collection”). For example, the Ohio EMA disburses Homeland Security grants only when the local government certifies to OEMA they have an invoice on hand requiring payment. Since the government will receive OEMA’s cash in time to pay the vendor, the CFO can certify the acquisition even if there is no cash in the fund at the time of the certification. (This assumes there is sufficient appropriation for the payment).

⁷ Under ORC Sections 9.10, 9.11 and 1306.06 and OAG Opinion 90-082, the fiscal officer need not manually sign each certification. Electronic or mechanical signatures are permissible. However, ORC Section 9.10 expressly prohibits using rubber stamp signatures.

obligation for goods or services delivered during the current fiscal year must be certified as available in that fiscal year.

If a government subject to Ohio Rev. Code Section 5705.41 (D), enters into a contract that is not a continuing contract, the total amount due under the contract must be certified as available in the fiscal year in which the contract is made, regardless of when delivery of goods or services will be made or when payment will become due.

County Commissioner Authorization - A board of county commissioners, by resolution, may exempt purchases of \$1,000 (~~\$750 prior to February 12, 2004~~) or less from the prior certification requirement. The resolution must specify the dollar limit applicable to such purchases and whether it applies to all purchases, is limited to certain classes of purchases, or is limited to specific purchases. The board must notify the county auditor in writing of its intention to adopt such a resolution and the scope of the resolution. The county auditor has 15 days to comment on the resolution before it may be adopted by the board. Where such a resolution has been adopted, any person authorized to make purchases, within 3 business days (or other time limit the commissioners resolve) of making a purchase exempted under the resolution, must file with the county auditor a written or electronic document stating the purpose, amount, appropriation line item and date of the purchase, and the name of the vendor.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> • Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files/Checklists • Review/Comparison/Recomputations of Purchase Documents • Budgetary/Purchasing Accounting/Monitoring System • Legislative and Management Monitoring • Management’s identification of changes in laws and regulations • Management’s communication of changes in laws and regulations to employees -- Policies and Procedures Manuals 		

Suggested Audit Procedures - Compliance (Substantive) Tests

<ol style="list-style-type: none"> 1. Determine whether the governing board passed a policy regarding the use of electronic or mechanical signatures in accordance with ORC Sections 9.10, 9.11 and 1306.06 and OAG Opinion 90-082. 2. Review certifications to determine whether prohibited rubber stamp signatures were used. 3. Compare total expenditures and contract commitments (including outstanding encumbrances) from each fund with appropriations and determine if the expenditures and commitments are within the appropriations for each fund. 4. For selected “line items,” compare total expenditures and contract commitments (including outstanding encumbrances) at the legal level of control within selected funds with appropriations. Determine if the expenditures and commitments are within the appropriation at the legal level of control. 5. Search for material unrecorded liabilities and/or encumbrances. Refer to minutes and records immediately following the fiscal year cutoff date. 6. Compare the date of the fiscal certificates with invoice dates, noting whether or not the certificate date precedes the invoice/obligation date. Note: <ul style="list-style-type: none"> • The obligation date may precede the invoice date. If separately identified, use the obligation date when determining compliance. • <u>As interpreted by AOS Bulletin 97-012, if the government does not expect to complete the project in the current year, the remainder of the project must be appropriated immediately in the subsequent year(s).</u> 	
<p>Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):</p>	

1-10 Compliance Requirement: Ohio Rev. Code Section 5705.41 (D) - "Blanket" fiscal officer certificates.

Summary of Requirements: Fiscal officers may prepare so-called "blanket" certificates for a sum not exceeding an amount established by resolution or ordinance adopted by the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

In addition to regular blanket certificates, a subdivision's fiscal officer may also issue so-called "super blanket" certificates for any amount for expenditures and contracts from a specific line-item appropriation account in a specified fund for most professional services, fuel, oil, food items and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the fiscal year or, in the case of counties, beyond the quarterly spending plan established by the county commissioners. More than one super blanket certificate may be outstanding at one particular time for a particular line-item appropriation account.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> • Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files/Checklists • Periodic Inspection/Monitoring of Blanket Purchase Orders • Use of a log to record blanket certificates issued, track the period outstanding, and monitor the number of regular blanket certificates outstanding per account • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees 		

Suggested Audit Procedures - Compliance (Substantive) Tests	
<p>Inspect a representative number of “regular blanket” certificates and determine that:</p> <ul style="list-style-type: none"> • The amount is established by an ordinance or resolution passed by a majority of the legislative body. (If the legislative authority passed this in the prior years, agree to permanent file documentation.) • They do not run beyond the fiscal year end. • They do not exceed the amount the legislative body established. • Only one certificate is outstanding per line item appropriation. <p>For subdivisions using “super blanket” certificates, inspect the certification of the fiscal officer and determine whether:</p> <ul style="list-style-type: none"> • The certificates were for professional services, fuel, oil, food items or any other specific recurring and reasonably predictable operating expense and, • They do not run beyond the fiscal year (or quarterly spending plan, if a county adopted a plan). 	
<p>Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):</p>	

<p>1-11 Compliance Requirement: Ohio Revised Code Section 9.34 - Establishing different fiscal years for one or more <u>funds</u> for subdivisions other than school districts or county school financing districts.</p> <p>Summary of Requirements: Ohio Rev. Code 9.34 prescribes fiscal years for certain government units. It states that the fiscal year of the state and every school district shall begin on July 1 and end on June 30. It also states that the fiscal year of every school library district and all political subdivisions or taxing districts⁸ except for school districts shall begin on January 1 and end on December 31.</p> <p>All laws that relate to levying of taxes, the collection, appropriation and expenditure of revenues or the making of financial reports refer and apply to the appropriate fiscal year as defined in this section.</p> <p>However, ORC 9.34 also allows a political subdivision, other than a school district or a county school financing district, to use a different fiscal year or other fiscal period for one or more of its funds, including a fiscal year based upon the fiscal year of an entity providing money for the fund (i.e., a grantor agency) or the fiscal period of a capital project.⁹</p>		
<p>In determining how the government ensures compliance, consider the following:</p>	<p>What control procedures address the compliance requirement?</p>	<p>W/P Ref.</p>
<ul style="list-style-type: none"> • Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files/Checklists • Presence of an Effective Accounting System • Legislative and Management Monitoring • Management’s identification of changes in laws and regulations • Management’s communication of changes in laws and regulations to employees 		

⁸ As used in this section, school library district, subdivision and taxing district have the same meaning assigned in Section 5705.01 of the Ohio Rev. Code. See the OCS 5705.01 Appendix. Therefore, this requirement does not apply to some entities, such as agricultural societies, community improvement corporations, etc.

⁹ GASB only requires budgetary financial statements for funds having annual appropriated budgets. Therefore, an entity need not include annual budgetary statements for capital project funds for which budgets are adopted on a project-length basis. Also, an entity need not include annual budgetary statements for other funds for which budgets are adopted on a fiscal year or period other than the entity’s. However, the notes to the financial statements should disclose the principles used to budget these funds.

Suggested Audit Procedures - Compliance (Substantive) Tests	
<p>You should consider all laws affected by fiscal year considerations in designing controls tests and legal compliance tests for affected material funds. For example, many budgetary laws require certifications from the county auditor before a government can appropriate and spent money; these laws should be applied to the fiscal year or other period the fund uses.</p> <p>If an entity uses a different fiscal year end for anything except a grant fund or a capital projects fund, inspect the approval letter from the Auditor of State permitting this practice.</p>	
Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):	

1-12 Compliance Requirement: Ohio Rev. Code Sections 118.021 - 118.023, 118.03, 118.05 - .06, 118.10, 118.12 - .13, and 118.15 fiscal watch and fiscal emergency for a municipal corporation, county or township.

Summary of Requirements:

In accordance with Ohio Rev. Code Section 118.021, a municipal corporation, county or township may undergo a fiscal watch review to determine whether it is approaching a state of fiscal emergency. The review will be initiated by a written request to the Auditor of State.

Pursuant to 118.022, any one or more of the following conditions are grounds for a **fiscal watch**:

(1)(a) All accounts that were due and payable from the general fund of a municipal corporation, county, or township at the end of the preceding fiscal year that had been due and payable for at least thirty days at the end of the fiscal year or to which a penalty was added for failure to pay by the end of the fiscal year, less the year-end balance in the general fund, exceeded one-twelfth of the general fund budget for that year, or

(b) All accounts that were due and payable at the end of the preceding fiscal year from all funds of the municipal corporation, county, or township and that had been due and payable for at for at least thirty days at the end of the fiscal year or to which a penalty was added for failure to pay by the end of the fiscal year, less the year-end balance in the general fund and in the respective special funds available to pay those accounts, exceeded one-twelfth of the available revenues during the preceding fiscal year, excluding nonrecurring receipts, of the general fund and of all special funds from which those accounts are payable.

OR

(2) The aggregate of deficit amounts of all deficit funds at the end of the preceding fiscal year, less the total of any year-end balance in the general fund and in any special fund that may be transferred as provided in Ohio Rev. Code § 5705.14 to meet that deficit, exceeded one-twelfth of the total of the general fund budget for that year and the receipts to those deficit funds during that year other than transfers from the general fund.

OR

(3) At the end of the preceding fiscal year, moneys and marketable investments in or held for the unsegregated treasury of the municipal corporation, county, or township, minus outstanding checks and warrants, were less in amount than the aggregate of the positive balances of the general fund and those special funds, the purposes of which the unsegregated treasury is held to meet, and that deficiency exceeded one-twelfth of the total amount received into the unsegregated treasury during the preceding fiscal year.

OR

Summary of Requirements (continued):

- (4) Based on the AOS' examination of the financial forecast approved by the legislative authority of a municipal corporation, county, or township, the AOS certifies that the general fund deficit at the end of the current fiscal year will exceed one-twelfth of the general fund revenue from the preceding fiscal year.

Pursuant to 118.023, upon a determination that any of the above listed conditions are present, the Auditor of State shall issue a written declaration of a fiscal watch.

Pursuant to 118.03, any one or more of the following are conditions of a **fiscal emergency**:

- (1) The existence, at the time of the determination by the AOS under Ohio Rev. Code § 118.04 of a default on any debt obligation for more than thirty days.

OR

- (2) The existence, at the time of the determination by the AOS under Ohio Rev. Code § 118.04 of a failure for lack of cash in the funds to make payment of all payroll to the employees of a municipal corporation, county, or township in the amounts and at the times required by law, ordinances, resolutions, or agreements, which failure of payment has continued:

- (a) For more than thirty days after such time for payment, or
- (b) Beyond a period of extension, or beyond the expiration of ninety days from the original time for payment, whichever occurs first, if the time for payment has been extended for more than thirty days by the written consent of at least two-thirds of the employees affected by such failure to pay, acting individually or by their duly authorized representatives. The failure of one county office, board, or commission to meet payroll does not in itself constitute a fiscal emergency.

OR

- (3) An increase, by action of the county budget commission pursuant to Ohio Rev. Code §5705.31(D) in the minimum levy of the municipal corporation, county, or township for the current or next fiscal year which results in a reduction in the minimum levies for one or more other subdivisions or taxing districts.

OR

- (4) The existence of a condition in which all accounts that, at the end of its preceding fiscal year, were due and payable from the general fund and that either had been due and payable for at least thirty days at the end of the fiscal year or to which a penalty has been added for failure to pay by the end of the fiscal year, including, but not limited to, final judgments, fringe benefit payments due and payable, and amounts due and payable to persons and other governmental entities and including any interest and penalties thereon, less the year-end balance in the general fund, exceeded one-sixth of the general fund budget for that year, or in which all accounts that, at the end of its preceding fiscal year, were due and payable from all funds of the municipal

corporation, county, or township and that either had been due and payable for at least thirty days at the end of that fiscal year or to which a penalty has been added for failure to pay by the end of the fiscal year, less the year-end balance in the general fund and in the respective special funds lawfully available to pay such accounts, exceeded one-sixth of the available revenues during the preceding fiscal year, excluding nonrecurring receipts, of the general fund and of all special funds from which such accounts lawfully are payable. Accounts due and payable shall not include any account, or portion thereof, that is being contested in good faith.

OR

- (5) The existence of a condition in which the aggregate of deficit amounts of all deficit funds at the end of its preceding fiscal year, less the total of any year-end balance in the general fund and in any special fund that may be transferred as provided in Ohio Rev. Code § 5705.14 to meet such deficit, exceeded one-sixth of the total of the general fund budget for that year and the receipts to those deficit funds during that year other than from transfers from the general fund.

OR

- (6) The existence of a condition in which, at the end of the preceding fiscal year, moneys and marketable investments in or held for the unsegregated treasury of the municipal corporation, county or township, minus outstanding checks and warrants, were less in amount than the aggregate of the positive balances of the general fund and those special funds the purposes of which the unsegregated treasury is held to meet, and such deficiency exceeded one-sixth of the total amount received into the unsegregated treasury during the preceding fiscal year.

Pursuant to 118.04, the Auditor of State shall determine the existence of fiscal emergency conditions. The existence of any such condition constitutes a fiscal emergency.

Suggested Audit Procedures - Compliance (Substantive) Tests

If the municipal corporation, county or township is currently in fiscal watch, review the entity’s progress and determine whether any of the fiscal watch conditions currently exist. If during audit work and based on the evaluation of the fiscal watch conditions, the auditor notes an improvement (i.e., fiscal watch conditions no longer exist) or a deterioration (i.e., fiscal emergency conditions now exist), the auditor should contact the engagement chief auditor. If after evaluation the chief auditor concludes the entity should be removed from fiscal watch or should be placed in fiscal emergency, the chief auditor should contact the Chief Deputy Auditor or his designee.

If the municipal corporation, county or township is currently in fiscal emergency review the entity’s detailed financial plan and recovery plan. An effective recovery plan should identify the steps necessary for the entity to fully recover from fiscal watch or fiscal emergency and identify target dates to achieve each component of the recovery plan. The recovery plan should be periodically updated for any changes in circumstances affecting the entity. Determine whether the entity has violated any statutory requirements to follow the plan.

- Determine whether the entity has established a financial planning and supervision commission. [Ohio Rev. Code § 118.05]
- Determine whether the mayor, county commissioners or township trustees have submitted (within 120 days) a detailed financial plan outlining the actions to be taken to eliminate all fiscal emergency conditions; satisfy any judgments, past due accounts payable and all past due and payable payroll and fringe benefits; eliminate deficits in all deficit funds; balance the budgets and avoid future deficits in any funds; maintain current payments for payroll, fringe benefits and accounts; restore the ability of the entity to market long-term general obligation bonds under provisions of law applicable to the entity; and other requirements of Ohio Rev. Code § 118.06.
- Determine whether the entity has developed an effective financial accounting and reporting system to comply with Ohio Rev. Code Chapter 117. [Ohio Rev. Code § 118.10]
- Determine whether expenditures made are in accordance with the approved financial plan subject to the requirements of Ohio Rev. Code § 118.12.
- Determine whether the appropriations measures and tax budget are consistent with the financial plan. [Ohio Rev. Code § 118.13]
- Determine whether the debt obligations have been approved by the commission and the ordinances authorizing the issuance contain all required elements. [Ohio Rev. Code § 118.15 – 118.99. [Ohio Rev. Code § 118.15]

If after evaluation the chief auditor concludes the entity should be removed from fiscal emergency, the chief auditor should contact the Chief Deputy Auditor or his designee.

If such information comes to the attention of an IPA while conducting an audit, the IPA should contact the regional chief auditor.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):

Section B: Additional School District Requirements

Compliance requirements 1-13 through 1-16 apply only to school districts. (Except, 1-13 now applies to community schools.)

**Revised per HB 364,
effective 4/8/03**

1-13 Compliance Requirement: Ohio Rev. Code Section 5705.391 and Ohio Admin. Code § 3301-92-04: School boards (including community schools, as described on the next page, per ORC 3314.03(A)(11)(d)) must adopt spending plan; school districts to prepare 5 year projections.

Summary of requirements for public school districts (i.e. districts that are not community schools):
Ohio Rev. Code Section 5705.391 (A)

The board must adopt, as a part of its annual appropriation measure, a “spending plan” (to be amended as the appropriations are amended). The “spending plan”, which is a defined term that does not mean the regular annual appropriation budget 5705.38 requires, should indicate expenses and expenditures of all appropriated funds for the fiscal year.

A copy of each appropriation measure and related spending plan is to be submitted to the superintendent of public instruction.¹⁰ This plan should indicate the following:

- all revenues available for appropriation and their source;
- the nature and amount of expenditures;
- outstanding and unpaid expenses incurred on the date the appropriation measure is adopted;
- the schedule of payment, and
- other information the superintendent of public instruction requires to determine whether the district will incur expenses that will impair its ability to operate its schools with the revenue available.

¹⁰ The “superintendent of public instruction” is a State official. The SPI considers filing the 5 year projection under Ohio Rev. Code Section 5705.391(B) sufficient to comply with this division.

Ohio Rev. Code section 5705.391(B)

School districts must prepare 5 year projections of revenues and expenditures as part of the spending plans. Most of the guidance on how to prepare these projections is found in Ohio Admin. Code § 3301-92-04. The plan must be submitted to the Department of Education upon the adoption of an annual appropriation measure, but no later than October 31 of any fiscal year.

For fiscal years ended June 30, 2005 or later, the revised 5 year projection must be filed with the Department of Education between April 1 and May 31 of each fiscal year (Ohio Admin. Code Section 3301-92-04(F)).

Districts must update projections if the revenue assumption or revenue estimates used as a basis for a "412" certificate differ from the existing five year projection (Ohio Admin. Code Section 3301-92-04(F)).

The rules allow the Auditor of State and the Ohio Department of Education to prescribe the format and content of the 5 year projection. These guidelines are fairly complex (see Bulletin 98-015 for more information). The Auditor of State and the Ohio Department of Education generally are responsible for reviewing these projections (and related assumptions) for conformity with the requirements. The independent auditor is expected to evaluate whether the data in the projections for the current period are reasonably supported by the client's documentation.

Summary of requirements for community schools:

To meet this requirement, community schools must submit the document available at :

http://www.ode.state.oh.us/community_schools/Documents/fi_documents.asp

Then click on *Five-Year Budget Forecast*.

You can view the forecast a school submitted at:

<http://fyf.oecn.k12.oh.us/fyforecast/>

The School's board should approve this plan.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> • Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files/Checklists • Legislative and Management Monitoring • Management’s identification of changes in laws and regulations • Management’s communication of changes in laws and regulations to employees 		
Suggested Audit Procedures - Compliance (Substantive) Tests		
<p>Inspect the spending plans adopted with the temporary, annual, and any revisions of the annual, appropriation resolutions.</p> <p>Inspect documentation indicating a copy of each was sent to the superintendent of public instruction (this would normally be satisfied by inspecting the electronically prepared document). <i>Alternative procedure:</i> determine that the 5 year projection under Ohio Rev. Code Section 5705.391(B) was filed with the superintendent of public instruction. (Filing the 5 year projection satisfies this compliance requirement.)</p> <p>Compare actual revenues and expenditures to projections. Inspect documentation that the district updated its projections between April 1 and May 31.</p> <p>If contracts, etc., subject to §5705.412 were entered into during the period, inspect documentation indicating the related 5 year projections were updated.</p> <p>Foot and crossfoot the 5 year projections.</p> <p>Inspect documentation supporting the 5 year projections. Evaluate for reasonableness.</p> <p>Read the client’s assumptions. Perform analytical procedures and evaluate whether the assumptions are reasonable and the resulting projections are in accordance with those assumptions.</p> <p>Consider if the projections indicate any possible “going concern” conditions [AU § 341] or fiscal distress conditions [OCS Section 1-16].</p>		

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):

1-14 Compliance Requirement: Ohio Rev. Code Section 5705.412 - Restriction upon **school district expenditures** and certifying adequate revenues. Application: City, local, exempted village and joint vocational school districts.

Summary of Requirements: Ohio Rev. Code §5705.412 requires the **treasurer, superintendent and president of the board of education** to certify that adequate revenues will be available to maintain all personnel and programs for the current fiscal year and for a number of days in the succeeding fiscal years equal to the number of days instruction was held or is scheduled for the current fiscal year. For a district in fiscal emergency under Ohio Rev. Code chapter 3316, the district need not obtain a certificate of adequate revenue pursuant to Ohio Rev. Code Section 5705.412 when taking action that otherwise would be subject to that certification requirement (OAG Opinion 2000-028).

Term of certificate:

- The certificate attached to an appropriation measure covers only the fiscal year in which the appropriation measure is effective.
- The certification must be attached to all appropriation measures *except* for temporary measures when the temporary measure (1) does not appropriate more than twenty-five percent of the total resources available last year for any fund, (2) the measure will not be in effect for more than thirty days after the earliest date the district could pass an annual appropriation measure, (3) and an amended certificate of available revenues has not been certified to the district under Ohio Rev. Code §5705.36.
- The certificate attached to a **qualifying contract** covers the term of the contract.
- The certificate attached to a wage or salary schedule covers the term of the schedule.
- A “*qualifying contract*” is “. . . any agreement for the expenditure of money under which aggregate payments from the funds included in the school district’s five-year forecast under section 5705.391 of the revised code [see OCS Section 1-13] will exceed the lesser of the following amounts . . . ”:
 - \$500,000;
 - 1% of the general fund’s total estimated revenues as certified in the district’s most recent certificate of estimated resources under Ohio Rev. Code § 5705.36 [see OCS Sections 1-4 and 1-5]

Summary of Requirements (continued):

Tax levies: The certification of an appropriation measure may not anticipate the renewal or replacement of an existing property tax levy nor the approval to extend an existing income tax levy beyond its current expiration. All other certifications may anticipate the renewal or replacement of existing property tax levies and the approval to extend an existing income tax levy beyond its current expiration (OAC 3301-92-05 (B)).

A school district must include the additional certification under Section 5705.412 along with the certification required under Section 5705.41 *except* under the following circumstances:

- for current payrolls of, or contracts of employment with, ~~regular~~ any employees or officers of the school district.¹¹
- when increasing the wages or salaries enabling the school board to comply with division (B) of Ohio Revised Code Section 3317.13, which addresses the minimum salary schedule for teachers

Section 5705.412 certificates *should* be executed for:

- appropriation measures (except certain temporary measures; see above);
- increased salary or wage schedules¹² and
- any other “qualifying contracts”, including 1) negotiated agreements (e.g. professional association [“union”] contracts) and, 2) contracts for benefits (e.g., major health insurance contracts)

Obligations that have not been certified as required are considered void. No payments may be made on void obligations.

Penalties: Anyone who knowingly does any of the following, is liable for the full amount paid on the obligation, up to \$10,000:

- executing an obligation contrary to §5705.412,
- expending or authorizing the expenditure of public funds contrary to §5705.412, or

¹¹ For example, contracts with individual teachers do not require a “412” certificate, though the negotiated agreement and/or teaching staff salary schedule generally would. Similarly, an employment contract with an individual administrator, who is not covered by a board adopted salary schedule would not require “412” certification. Also, you should regard the HB 3 (125th General Assembly) change of “regular” to “any” as a clarification, not a substantive change in law.

¹² Increased salary schedules that are part of a contract previously lawfully certified under section 5705.412 need not be re-certified before they take effect. However, the district may have to adjust revenues and expenditures, in the section 5705.391(B) five-year projection, in the year the increased salary or wage schedule takes effect in order to properly certify its annual appropriation measure.

<p>➤ authorizing or making payment of public funds on a void obligation</p>		
<p>The Auditor of State is required to refer contractual or wage schedule noncompliance to the District’s statutory legal counsel.</p> <p>Districts should maintain a continuing record of contracts which have been certified and adequate documentation to substantiate the certifications (OAC 3301-92-05(E)).</p> <p>The rules for 5705.412 (Ohio Admin Code section 3301-92-05 (B) - (D)) provide guidance on projecting revenues to future periods for purposes of the certifications.</p>		
<p>In determining how the government ensures compliance, consider the following:</p>	<p>What control procedures address the compliance requirement?</p>	<p>W/P Ref.</p>
<ul style="list-style-type: none"> • Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files/Checklists • Preparation and review of 5 year projections under § 5705.391(B) • Legislative and Management Monitoring • Management’s identification of changes in laws and regulations • Management’s communication of changes in laws and regulations to employees 		

Suggested Audit Procedures - Compliance (Substantive) Tests	
<ol style="list-style-type: none"> 1. Scan minutes, contracts files, etc., to identify appropriation measures (except certain temporary measures), increased salary or wage schedules, and qualifying contracts. 2. Prepare a schedule of appropriation measures, increased salary or wage schedules, and qualifying contracts for which "412" certificates were not executed during the fiscal year. 3. If a qualifying contract, etc., should have been certified and the auditor cannot obtain documentation that it was, send the Board President a letter during the audit in substantially the form indicated in the sample immediately following this OCS Section¹³. Send copies to the parties indicated in the sample letter attached. 4. Select a representative number of qualifying contracts, etc., entered into during the fiscal year(s) under audit. Inspect the "412" certificates and the supporting documentation, including the 5 year projections that were available to district officials at the time of the execution of the qualifying contracts, etc. Evaluate for reasonableness and conformity with the rules. 5. Compare qualifying contract, etc., dates with related certification dates and note any differences. 	
<p>Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):</p>	

¹³ If the district substantially complied with § 5705.412 certification provisions for appropriation measures, increased salary and wage schedules, and "qualifying contracts", the auditor may waive sending this letter and report the matter in the appropriate auditor's compliance report.

[DATE]

[Board President]
[Name & Type] School District
[Street Address]
[City], Ohio [Zip]

Re: Notice of Potential Ohio Rev. Code § 5705.412 Violation

Dear [Board President]:

While performing our audit of your District for the year ended June 30, YYYY, we noted a **[pick one: “qualifying contract”/annual appropriation measure/increased salary or wage schedule]** that did not have attached a contemporaneously executed certificate of adequate revenue as required by Ohio Rev. Code § 5705.412. **[Describe the contract, appropriation, or schedule at issue so that they know exactly which one we are questioning.]**.

Ohio Rev. Code § 5705.412, as amended, in effect from June 30, 2000, provides:

[N]o school district shall adopt any appropriation measure, make any qualifying contract, or increase during any school year any wage or salary schedule unless there is attached thereto a certificate, signed as required by this section, that the school district has in effect the authorization to levy taxes including the renewal or replacement of existing levies which, when combined with the estimated revenue from all other sources available to the district at the time of certification, are sufficient to provide the operating revenues necessary to enable the district to maintain all personnel and programs for all the days set forth in its adopted school calendars for the current fiscal year and for a number of days in succeeding fiscal years equal to the number of days instruction was held or is scheduled for the current fiscal year...

The certificate shall be signed by the treasurer and president of the board of education and the superintendent of the school district, unless the district is in a state of fiscal emergency declared under Chapter 3316 of the Revised Code, in which case the certificate shall be signed by a member of the district’s financial planning and supervision commission who is designated by the commission for this purpose.

.....

The law also provides, “[e]very qualifying contract made or wage or salary schedule adopted or put into effect without such a certificate shall be void, and no payment of any amount due thereon shall be made.”

Section 5705.412 specifically directs the Auditor of State’s Office to determine each school district’s compliance with the statute’s requirements.

If there is a certificate that was signed by **[you, the superintendent and the treasurer / the designated member of the financial planning commission]** at or about the time the **[qualifying contract/schedule/appropriation]** was made, please provide me with a copy of such certificate immediately. If no such certificate was executed at or about the time the **[qualifying contract/schedule/appropriation]** was made, the District has thirty (30) days to provide our Office with a properly executed certificate and appropriate supporting documentation. Appropriate supporting documentation is:

- the 5 year projection required by Ohio Admin Code § 3301-92-04, or,
- if such documentation was not available at the time of the required certification, the spending plan the District was required to prepare and submit to the Superintendent of Public Instruction pursuant to Ohio Rev. Code § 5705.391 (A), or
- any other documentation reflecting the District’s analysis of the financial impact of the **[qualifying contract/schedule/appropriation]**.

Section 5705.412 clearly provides that any **[contract/schedule/appropriation]** that is not certified is void as a matter of law. Therefore, you should also be aware that if you do not supply us with a properly executed certificate within the next thirty (30) days, § 5705.412 provides that any payments made on the **[contract/schedule/appropriation]** could be subject to repayment and recovery.

If you have any questions, please do not hesitate to call me.

Very truly yours,

MARY TAYLOR, CPA
AUDITOR OF STATE

[Your Name]
Chief Auditor, [Name] Region

- cc: [Board Member]
[Board Member]
[Board Member]
[Board Member]¹⁴
[Superintendent]
[Treasurer]
[Statutory Legal Counsel]
- bcc: Robert Hinkle
Karen Huey

¹⁴ Send a copy to each board member.

1-15 Compliance Requirements:

Ohio Rev. Code §§ 3315.17 and .171 (textbooks); 3315.18 and .181 (capital); 3317.012 (adjusts base cost); 3317.02 (defines formula amount); Ohio Admin Code §§ 3301-92-01 (textbooks), -02 (capital)

Summary of Requirements: These laws and regulations require every city, local, exempted village and joint vocational school district, to establish two reserves:

- 1) the textbooks and instructional materials reserve and
- 2) the capital (acquisition) and maintenance reserve

The reserves are to be accounted for in the district's general fund using any reasonable accounting method.

The capital acquisition and textbooks reserves have several of the same characteristics:

- The reserves must be calculated and set-aside annually.
- If the set-aside amount is not spent in one year it is carried forward to the next year.
- The reserve must be represented by (restricted) cash at year-end.
- The reserve is calculated by multiplying the base amount by a percentage.
- The base represents the sum of certain specific prior fiscal year receipts.
- The base and annual set-aside formula are the same.
- The amount of the required reserve may be reduced (offset) by resources received during the year whose use is restricted to the purpose of one of the reserves.
- A schedule showing the balance of the set-aside carried forward from the previous year, a calculation of the current year set-aside, qualifying expenditures, any reductions to the required amount from receipts similarly restricted, and the year-end balance of the reserve¹⁵ must be submitted with the school district's annual report.

Summary of Requirements (continued):**Annual Set-Aside Calculation:**

- Calculate the reserve by multiplying a **percentage** of the **"formula amount"**¹⁶ by the district's **"student population"**¹⁷. The **preceding year's** "formula amount" and "student population" are

¹⁵ A board may withdraw cash contributions exceeding statutory minimums from these reserves by resolution.

Report any excess contributions in external financial reports as "designations" of governmental fund balance [GASB Cod. §1800.141].

¹⁶ "Formula amount" is the base cost per pupil as determined by Ohio Rev. Code Sections 3317.02 and .012. For FY 2004, the amount is \$5058. For FY '05, the amount is \$5,169.

¹⁷ *Student population* is a defined term. The Ohio Department of Education is responsible for calculating

used for the calculation:

$[(\% \times \text{Formula Amount}) \times \text{Student Population}]$

The percentage is set at 3% by statute, though the Auditor of State has been given some discretion to establish alternate percentages¹⁸.

- Annual election to follow pre S.B. No. 345 *textbook* and *capital* set-aside calculation:

In lieu of following the amended requirements, the board of education *annually* may elect (by resolution) to follow the textbook and/or capital set-aside requirements (from the ORC and the Admin. Code provisions) as they existed prior to July 1, 2001. (Audit programs D and E follow this OCS Section, and describe both options.)

This election must be made within 90 days after the beginning of the fiscal year for which the election is to apply.

Other textbook and instructional material requirements:

- The statute allows a district to spend the textbook reserve for things other than textbooks if certain conditions in the statute are satisfied.
- Fiscal year expenditures exceeding current year or accumulated set-aside requirements in the *textbooks and instructional materials* set-aside may be carried forward to offset future years' textbooks and instructional materials set-aside requirements. Actual cash balances in excess of required set-asides also may be carried forward to offset future year(s) textbook and instructional materials set-aside requirements¹⁹.

the student population based on information the district submits (3315.17(F)).

¹⁸ No alternative percentages have been established the date of this document.

¹⁹ An actual cash balance in excess of required set-aside in the capital and maintenance account may also be carried forward to offset future year(s) set-aside requirements, as these amounts represent discretionary contributions. A Board can withdraw these by resolution. (Also, report these as "designations" in governmental fund financial statements [GASB 1800.141].)

Summary of Requirements (Continued):		
Other capital and maintenance provisions established by S.B. No. 345:		
<ul style="list-style-type: none"> ➤ Within the capital and maintenance set-aside, the board of education <i>may</i> establish a separate account solely for depositing funds transferred from the budget stabilization reserve (discussed in Ohio Compliance Supplement Section 1-15 (A)) which was required by Ohio Rev. Code Section 5705.29(F) and (I) prior to April 10, 2001. ➤ Funds deposited into the separate account and interest on those funds²⁰, may only be used for the district’s share of basic project costs for any project undertaken in accordance with Ohio Rev. Code Chapter 3318 (School Facilities Commission projects). (See OCS Chapter 2 for a discussion of certain ORC Chapter 3318 programs.) 		
In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> • Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files/Checklists • Presence of an effective accounting system • Legislative and Management Monitoring • Management’s identification of changes in laws and regulations • Management’s communication of changes in laws and regulations to employees 		
Suggested Audit Procedures - Compliance (Substantive) Tests		
Special programs for auditing these reserves immediately follow. If the district <u>has not</u> elected to follow the pre SB 345 base calculation use Audit Programs A and B . If the district has elected to follow the pre SB 345 base calculation, use Audit Programs D and E .		

²⁰ These funds and interest deposited into the capital and maintenance reserve may be treated as deposits to reduce the annual capital and maintenance contribution otherwise required.

1-15 (A) Compliance Requirements:

Ohio Rev. Code § 5705.29 (F) (budget stabilization); Ohio Admin. Code § 3301-92-03 and; Temporary Law, Section 4, Senate Bill No. 345 of the 123rd General Assembly.

Summary of Requirements: Effective April 10, 2001, S.B. No. 345 eliminated the requirement that districts establish and maintain a budget stabilization reserve. The Act provides requirements for the disposition of any budget reserve balance that may have existed at April 10, 2001.

Any balance (this includes the amount representing required Bureau of Workers' Compensation (BWC) deposits and the amount representing other required deposits) remaining in the previously required budget reserve at April 10, 2001, may at the board's discretion be:

- Returned to the general fund²¹;
- Left in the reserve account and used by the board to offset any budget deficit the district may experience in future years²²; or
- Used for the district's portion of basic project costs for any School Facilities Commission Project. (See Ohio Compliance Supplement Chapter 2 for a discussion of these projects.)

²¹ The district must maintain documentation to support the use of any BWC balance for permitted purposes (see *Use of BWC Portion*).

²² To exercise this option, the Board must adopt a resolution and comply with the budget reserve provisions in Ohio Rev. Code 5705.13(A) (OCS Section 1-26).

Summary of Requirements (continued):Use of BWC Portion:

Any balance in the budget reserve constituting a **BWC** refund or rebate, may be used solely:

- to offset a budget deficit²³;
- for school facility construction, renovation, or repair²⁴ (may transfer to a separate account in the capital and maintenance set-aside as discussed above²³);
- for textbooks or instructional materials,²⁵ including science equipment for laboratories;
- for purchase of school buses²³; or
- for professional development of teachers

Use of Other Portion:

The reserve balance not representing a required BWC contribution, may be:

- Retained in the reserve account and used to offset a budget deficit;²²
- Returned to the unreserved general fund balance (and used for any purpose permissible for the general fund);
- Transferred to a separate account in the capital and maintenance set-aside as discussed above.²⁶

²³ The district must maintain documentation to support the use of any BWC balance for permitted purposes (see *Use of BWC Portion*).

²⁴ To count as a qualifying expenditure against the capital and maintenance set-aside, or the textbook and instructional materials set-aside, these monies must be deposited into the respective set-asides and used for qualifying expenditures. Deposits in excess of the required deposit should be reported as *designations* for external financial reporting purposes.

²⁵ To exercise this option, the Board must adopt a resolution and comply with the budget reserve provisions in Ohio Rev. Code 5705.13(A) (OCS Section 1-26).

²⁶ Deposit in a separate capital and maintenance set-aside account counts toward meeting the required capital and maintenance set-aside deposit. Deposits in excess of the required deposit should be reported as *designations* for external financial reporting purposes.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> • Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files/Checklists • Presence of an effective accounting system • Legislative and Management Monitoring • Management’s identification of changes in laws and regulations • Management’s communication of changes in laws and regulations to employees 		
Suggested Audit Procedures - Compliance (Substantive) Tests		
<ol style="list-style-type: none"> 1. The disposition of the budget reserve should have been audited in 2001. Refer to the permanent file if the reserve is still being maintained by the district for adherence to the district’s chosen plan of disposition. Compare what the district has done with the reserve assets during the period of the current audit with the district’s disposition plan. 2. Vouch to determine whether any BWC balance was used in accordance with the board’s resolution and solely: <ul style="list-style-type: none"> • to offset a budget deficit (must establish an ORC 5705.13 (A) budget reserve with the balance subject to the 5% limitation); • for school facility construction, renovation, or repair; • for textbook or instructional materials, including science lab equipment; • for purchase of school buses; or • for professional development of teachers 3. For BWC balances not retained in an ORC 5705.13(A) budget reserve and not deposited into the capital or textbook set-asides, determine whether the district has established procedures to demonstrate that BWC balances are used for permitted purposes (e.g. use of a special cost center within the general fund) 		
<p>Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):</p>		

Audit Program - A
AUDITING THE TEXTBOOKS AND INSTRUCTIONAL MATERIAL RESERVE

If a district elected to apply the pre SB 345 base calculation, use Audit Program D.

Step No.	Procedure for Consideration	Done By or N/A	Date Comp.	X- ref
1.	Testing note accuracy.			
a.	Foot and crossfoot the note.			
b.	Foot and crossfoot the client's underlying calculations (if any).			
2.	Trace beginning of the year balance to prior audited financial statements or working papers.			
3.	Test the annual reserve calculation by multiplying the percentage ²⁷ by the "formula amount" ²⁸ and multiplying the result by the district's "student population" ²⁹ . The preceding year's "formula amount" and "student population" should be used for this calculation: <div style="text-align: center;">[(% x Formula Amount) x Student Population]</div>			
a.	This information is available for each school district and joint vocational school district on the Ohio Department of Education's website: http://www.ode.state.oh.us As of June, 2005 the specific location on ODE's website is: http://www.ode.state.oh.us/school_finance/foundation/			
4.	Vouch expenditures charged to the Reserve during the year for compliance with Ohio Admin Code § 3301-92-01 (G):			
a.	Allowable: textbooks, instructional materials, instructional supplies, instructional software, equipment directly associated with student instruction.			
b.	Unallowable: uses not directly associated with student instruction, such as, employee labor cost, purchased services (except computer maintenance), facilities maintenance, and administrative items.			

²⁷ The percentage is set at 3% by statute, though the Auditor of State has been given some discretion to establish alternate percentages. As of the date of this document no alternative percentage has been established.

²⁸ *Formula amount* is the base cost per pupil as determined by Ohio Rev. Code Sections 3317.02 and .012. For FY 2004, the amount is \$5058. For FY '05, the amount is \$5,169.

²⁹ *Student population* is a defined term. The Ohio Department of Education is responsible for calculating the student population based on information submitted by the district (3315.17(F)).

Audit Program - A
AUDITING THE TEXTBOOKS AND INSTRUCTIONAL MATERIAL RESERVE

Step No.	Procedure for Consideration	Done By or N/A	Date Comp.	X- ref
5.	Trace “offsets” to appropriate documentation supporting the client’s calculations and assertions and to and from the current year working papers:			
a.	Permanent improvement levy authorized by Ohio Rev. Code § 5705.21 to the extent the proceeds are restricted by the district Board to expenditure for textbooks, instructional software, and instructional materials, supplies and equipment			
b.	Proceeds of securities whose use is restricted to expenditures for textbooks, instructional software, and instructional materials, supplies and equipment.			
c.	Proceeds of school district income tax levied under Ohio Rev. Code Chapter 5748 for permanent improvements, to the extent the proceeds are restricted to expenditures for textbooks, instructional materials, supplies and equipment.			
d.	Amount received for textbooks and instructional materials under section 50.16 of H.B. 215 of the 122nd General Assembly (textbook subsidy).			
e.	Other revenue source identified by the Auditor of State, in consultation with the Department of Education, in rules adopted by the Auditor of State ³⁰ .			
f.	Expenditures in excess of current year or accumulated set-aside requirements in the textbooks and instructional materials set-aside may be carried forward to offset future years’ textbooks and instructional materials set-aside requirements. Actual cash balances in excess of required set-asides may also be carried forward to offset future year(s) textbook and instructional materials set-aside requirements.			
6.	Read any other information included in the report (e.g., the introductory and statistical sections of a CAFR), and determine whether it is consistent with the note. If the information is materially inconsistent or misstated, consult with Accounting & Auditing Support if the client refuses to make necessary changes.			
7.	Prepare a brief narrative for the working papers that describes the nature, timing, and extent of our tests of the reserve.			

³⁰ As of the date of this audit program, the AOS has identified no such revenues.

Audit Program – B
AUDITING THE CAPITAL IMPROVEMENTS AND MAINTENANCE RESERVE

If the district elected to apply the pre SB 345 base calculation, use Audit Program E.

Step No.	Procedure for Consideration	Done By or N/A	Date Comp.	X- ref
1.	Testing note accuracy.			
a.	Foot and crossfoot the note			
b.	Foot and crossfoot the client’s underlying calculations (if any).			
2.	Trace beginning of the year balance to prior audited financial statements or working papers.			
3.	Test the annual reserve calculation by multiplying the percentage ³¹ by the “formula amount” ³² and multiplying the result by the district’s “student population” ³³ . The preceding year’s “formula amount” and “student population” should be used for this calculation: [(% x Formula Amount) x Student Population]			
a.	This information is available for each school district and joint vocational school district on the Ohio Department of Education’s website: http://www.ode.state.oh.us As of June 2005 the specific location on ODE’s website is: http://www.ode.state.oh.us/school_finance/foundation/			
4.	Vouch expenditures charged to the Reserve during the year for compliance with Ohio Admin Code § 3301-92-02 (G):			
a.	Allowable: acquisition price; direct materials; labor and overhead for a qualifying project; project professional fees; site prep; demolition\removal of existing assets; freight and handling; capital lease principal.			
b.	Unallowable: expenditures not for acquisition, replacement, enhancement, maintenance and repair of permanent improvements (property, asset, or improvements with a useful life of 5 years or more).			

³¹ The percentage is set at 3% by statute, though the Auditor of Sate has been given some discretion to establish alternate percentages. As of the date of this document no alternative percentage has been established.

³² *Formula amount* is the base cost per pupil as determined by Ohio Rev. Code Sections 3317.02 and .012. For FY 2004, the amount is \$5058. For FY ’05, the amount is \$5,169.

³³ *Student population* is a defined term. The Ohio Department of Education is responsible for calculating the student population based on information submitted by the district (3315.17(F)).

Audit Program – B
AUDITING THE CAPITAL IMPROVEMENTS AND MAINTENANCE RESERVE

Step No.	Procedure for Consideration	Done By or N/A	Date Comp.	X- ref
5.	Trace “offsets” to appropriate documentation supporting the client’s calculations and assertions and to and from the current year’s working papers:			
a.	Permanent improvement levy authorized by Ohio Rev. Code §5705.21 to the extent the proceeds are restricted by the district Board to expenditure for the acquisition, replacement, enhancement, maintenance, or repair of permanent improvements			
b.	Proceeds of securities whose use is restricted to expenditures for the acquisition, replacement, enhancement, maintenance, or repair of permanent improvements. ³⁴			
c.	Insurance proceeds received as a result of the damage to or theft or destruction of a permanent improvement to the extent a Board of Education places the proceeds in a separate fund for the acquisition, replacement, enhancement, maintenance, or repair of permanent improvements			
d.	Proceeds received from the sale of a permanent improvement to the extent the proceeds are paid into a separate fund for the construction or acquisition of permanent improvements			
e.	Proceeds received from a tax levy authorized by Ohio Rev. Code §3318.06 to the extent the proceeds are available to be used for the maintenance of capital facilities. (Classroom facilities)			
f.	Proceeds of certificates of participation issued as a part of a lease-purchase agreement entered into under Ohio Rev. Code Section 3313.375.			
g.	Proceeds received from the sale of a permanent improvement to the extent the proceeds are paid into a separate fund for the construction or acquisition of permanent improvements.			

³⁴ Actual capital expenditures in excess of current year or accumulated set-aside requirements from bond or note proceeds in the capital improvements and maintenance reserve - OR - the proceeds from the related permanent improvement levy or other levy to pay the debt - may be carried forward to offset future years’ capital improvements and maintenance reserve set-aside requirements. Actual cash balances in excess of required set-asides may also be carried forward to offset future year(s) set-aside requirements.

Audit Program – B
AUDITING THE CAPITAL IMPROVEMENTS AND MAINTENANCE RESERVE

Step No.	Procedure for Consideration	Done By or N/A	Date Comp.	X- ref
h.	Proceeds of any school district income tax levied under Ohio Rev. Code Chapter 5748 to the extent the proceeds are available for the acquisition, replacement, enhancement, maintenance, or repair of permanent improvements.			
i.	Money transferred from the general fund (USAS 001) to the permanent improvement fund (USAS 003) [note: expenditures from the PI fund related to these transfers do not then count as an offset or as allowable reserve expenditures].			
j.	Other revenue source identified by the Auditor of State, in consultation with the Department of Education, in rules adopted by the Auditor of State ³⁵ .			
6.	Read any other information included in the report (e.g., the introductory and statistical sections of a CAFR), and determine whether it is consistent with the note. If the information is materially inconsistent or misstated, consult with Accounting & Auditing Support if the client refuses to make necessary changes.			
7.	Prepare a brief narrative for the working papers that describes the nature, timing, and extent of our tests of the note.			

³⁵ As of the date of this audit program the AOS has identified no such revenues.

Audit Program - D³⁶
AUDITING THE TEXTBOOKS AND INSTRUCTIONAL MATERIAL RESERVE

Use this audit program if the district has elected to apply the pre SB 345 base calculation as discussed in Ohio Compliance Supplement section 1-15

Step No.	Procedure for Consideration	Done By or N/A	Date Comp.	X- ref
1.	Testing note accuracy.			
a.	Foot and crossfoot the note.			
b.	Foot and crossfoot the client's underlying calculations, including the current year required set-aside percentage (3%) times the base.			
2.	Trace beginning of the year balance to prior audited financial statements or working papers.			
3.	Trace cash-basis property tax revenue (Ohio Rev. Code Chapter 5705 amounts) to the client's calculations and to and from the prior-year working papers (determine that all audit adjustments and reclassification entries which the auditee agreed to post are properly reflected in the papers) or to other acceptable documentation, such as County Auditor Tax Settlement Sheets:			
a.	General fund property tax amounts			
b.	Emergency levy fund property tax amounts			
c.	Operating revenue from a multi-purpose property tax levy			
d.	Inside millage allocated to a capital projects fund			
e.	Property tax receipts allocated to a debt service fund for general fund tax and revenue anticipation debt			
f.	Payments received in lieu of property taxes			
g.	Proceeds from the sale of delinquent tax liens			
4.	Trace cash-basis income tax revenue (Ohio Rev. Code Chapter 5748 amounts) to the client's calculations and to and from the prior-year working papers or other acceptable documentation, such as remittance advices from the State:			
a.	General fund income tax amounts			
b.	Income tax receipts allocated to a debt service fund for general fund tax and revenue anticipation debt			
c.	School district's share of city income tax based upon a development agreement			

³⁶ Audit Program C was *Auditing the Budget Reserve*. Most of this no longer applies. The steps that still apply were moved to other programs.

Audit Program - D
AUDITING THE TEXTBOOKS AND INSTRUCTIONAL MATERIAL RESERVE

Step No.	Procedure for Consideration	Done By or N/A	Date Comp.	X- ref
5.	Trace cash-basis formula aid (school foundation) revenue (Ohio Rev. Code §3317.022(A) [non-vocational schools] or §3317.06 [vocational schools]) to the client’s calculations and to and from the prior-year working papers or other acceptable documentation:			
a.	This information is available for each school district and joint vocational school district on the Ohio Department of Education’s website: http://www.ode.state.oh.us As of June 2005 the location on ODE’s website is: http://www.ode.state.oh.us/school_finance/foundation/			
b.	<u>For “guarantee” districts, use the amount from line 19 on the fiscal year 6/30/05 Form SF3 (formerly SF-12)</u> ³⁷			
6.	Vouch expenditures charged to the Reserve during the year for compliance with Ohio Admin Code § 3301-92-01 (G):			
a.	Allowable: textbooks, instructional materials, instructional supplies, instructional software, equipment directly associated with student instruction.			
b.	Unallowable: uses not directly associated with student instruction, such as, employee labor cost, purchased services (except computer maintenance), facilities maintenance, administrative items.			
7.	Trace “offsets” to appropriate documentation supporting the client’s calculations and assertions and to and from the current year working papers:			
a.	Permanent improvement levy authorized by Ohio Rev. Code § 5705.21 to the extent the proceeds are restricted by the district Board to expenditure for textbooks, instructional software, and instructional materials, supplies and equipment			

³⁷ This amount is included in a separate column on ODE’s web site.

Audit Program - D
AUDITING THE TEXTBOOKS AND INSTRUCTIONAL MATERIAL RESERVE

Step No.	Procedure for Consideration	Done By or N/A	Date Comp.	X- ref
b.	Proceeds of securities whose use is restricted to expenditures for textbooks, instructional software, and instructional materials, supplies and equipment.			
c.	Proceeds of school district income tax levied under Ohio Rev. Code Chapter 5748 for permanent improvements, to the extent the proceeds are restricted to expenditures for textbooks, instructional materials, supplies and equipment.			
d.	Amount received for textbooks and instructional materials under section 50.16 of H.B. 215 of the 122nd General Assembly (textbook subsidy).			
e.	Other revenue source identified by the Auditor of State, in consultation with the Department of Education, in rules adopted by the Auditor of State ³⁸ .			
f.	Starting with the fiscal year ending June 30, 2000, expenditures in excess of current year or accumulated set-aside requirements in the textbooks and instructional materials set-aside may be carried forward to offset future years' textbooks and instructional materials set-aside requirements. Actual cash balances in excess of required set-asides may also be carried forward to offset future year(s) textbook and instructional materials set-aside requirements.			
8.	Read any other information included in the report (e.g., the introductory and statistical sections of a CAFR), and determine whether it is consistent with the note. If the information is materially inconsistent or misstated, consult with Accounting & Auditing support if the client refuses to make necessary changes.			
9.	Prepare a brief narrative for the working papers that describes the nature, timing, and extent of our tests of the reserve.			

³⁸ As of the date of this audit program no such revenues have been identified.

Audit Program – E
AUDITING THE CAPITAL IMPROVEMENTS AND MAINTENANCE RESERVE

Use this audit if the district has elected to apply the pre SB 345 base calculation
as discussed in Ohio Compliance Supplement section 1-15

Step No.	Procedure for Consideration	Done By or N/A	Date Comp.	X- ref
1.	Testing note accuracy.			
a.	Foot and crossfoot the note			
b.	Foot and crossfoot the client’s underlying calculations, including the current year required set-aside percentage (3%) times the base.			
2.	Trace beginning of the year balance to prior audited financial statements or working papers.			
3.	Trace cash-basis property tax revenue (Ohio Rev. Code Chapter 5705 amounts) to the client’s calculations and to and from the prior year’s working papers (determine that all audit adjustments and reclassification entries which the auditee agreed to post are properly reflected in the papers) or other acceptable documentation, such as County Auditor Tax Settlement sheets:			
a.	General fund property tax amounts			
b.	Emergency levy fund property tax amounts			
c.	Operating revenue from a multi-purpose property tax levy			
d.	Inside millage allocated to a capital projects fund			
e.	Property tax receipts allocated to a debt service fund for general fund tax and revenue anticipation debt			
f.	Payments received in lieu of property taxes			
g.	Proceeds from the sale of delinquent property tax liens			
4.	Trace cash-basis income tax revenue (Ohio Rev. Code Chapter 5748 amounts) to the client’s calculations and to and from the prior year’s working papers or other acceptable documentation, such as State remittance advices:			
a.	General fund income tax amounts			
b.	Income tax receipts allocated to a debt service fund for general fund tax and revenue anticipation debt			
c.	School district’s share of city income tax based upon a development agreement			

Audit Program – E
AUDITING THE CAPITAL IMPROVEMENTS AND MAINTENANCE RESERVE

Step No.	Procedure for Consideration	Done By or N/A	Date Comp.	X- ref
5.	Trace cash-basis formula aid (school foundation) revenue (Ohio Rev. Code § 3317.022(A) [non-vocational schools] or §3317.06 [vocational schools]) to the client’s calculations and to and from the prior year’s working papers or other acceptable documentation:			
a.	This information is available for each school district and joint vocational school district on the Ohio Department of Education’s website: http://www.ode.state.oh.us As of June 2005, the specific location on ODE’s website is: http://www.ode.state.oh.us/school_finance/foundation/reports/			
b.	<u>For “guarantee” districts, use the amount from line 19 on the fiscal year 6/30/05 Form SF3 (formerly SF-12)³⁹.</u>			
6.	Vouch expenditures charged to the Reserve during the year for compliance with Ohio Admin Code § 3301-92-02 (G):			
a.	Allowable: acquisition price; direct materials; labor and overhead for a qualifying project; project professional fees; site prep; demolition\removal of existing assets; freight and handling; capital lease principal.			
b.	Unallowable: expenditures not for acquisition, replacement, enhancement, maintenance and repair of permanent improvements (property, asset, or improvements with a useful life of 5 years or more).			

³⁹ This amount is included in a separate column on ODE’s web site.

Audit Program – E
AUDITING THE CAPITAL IMPROVEMENTS AND MAINTENANCE RESERVE

Step No.	Procedure for Consideration	Done By or N/A	Date Comp.	X- ref
7.	Trace “offsets” to appropriate documentation supporting the client’s calculations and assertions and to and from the current year’s working papers:			
a.	Permanent improvement levy authorized by Ohio Rev. Code §5705.21 to the extent the proceeds are restricted by the district Board to expenditure for the acquisition, replacement, enhancement, maintenance, or repair of permanent improvements			
b.	Proceeds of securities whose use is restricted to expenditures for the acquisition, replacement, enhancement, maintenance, or repair of permanent improvements. ⁴⁰			
c.	Insurance proceeds received as a result of the damage to or theft or destruction of a permanent improvement to the extent a Board of Education places the proceeds in a separate fund for the acquisition, replacement, enhancement, maintenance, or repair of permanent improvements			
d.	Proceeds received from the sale of a permanent improvement to the extent the proceeds are paid into a separate fund for the construction or acquisition of permanent improvements			
e.	Proceeds received from a tax levy authorized by Ohio Rev. Code §3318.06 to the extent the proceeds are available to be used for the maintenance of capital facilities. (Classroom facilities)			
f.	Proceeds of certificates of participation issued as a part of a lease-purchase agreement entered into under Ohio Rev. Code Section 3313.375.			
g.	Proceeds received from the sale of a permanent improvement to the extent the proceeds are paid into a separate fund for the construction or acquisition of permanent improvements.			

⁴⁰ Actual capital expenditures in excess of current year or accumulated set-aside requirements from bond or note proceeds in the capital improvements and maintenance reserve - OR - the proceeds from the related permanent improvement levy or other levy to pay the debt - may be carried forward to offset future years’ capital improvements and maintenance reserve set-aside requirements. Actual cash balances in excess of required set-asides may also be carried forward to offset future year(s) set-aside requirements.

Audit Program – E
AUDITING THE CAPITAL IMPROVEMENTS AND MAINTENANCE RESERVE

Step No.	Procedure for Consideration	Done By or N/A	Date Comp.	X- ref
h.	Proceeds of any school district income tax levied under Ohio Rev. Code Chapter 5748 to the extent the proceeds are available for the acquisition, replacement, enhancement, maintenance, or repair of permanent improvements.			
i.	Money transferred from the general fund (USAS 001) to the permanent improvement fund (USAS 003) [note: expenditures from the PI fund related to these transfers do not then count as an offset or as allowable reserve expenditures].			
j.	Other revenue source identified by the Auditor of State, in consultation with the Department of Education, in rules adopted by the Auditor of State ⁴¹ .			
8.	Read any other information included in the report (e.g., the introductory and statistical sections of a CAFR), and determine whether it is consistent with the note. If the information is materially inconsistent or misstated, consult with Accounting & Auditing Support if the client refuses to make necessary changes.			
9.	Prepare a brief narrative for the working papers that describes the nature, timing, and extent of our tests of the note.			

⁴¹ As of the date of the 2005 OCS’ issuance, the AOS has identified no such revenues.

1-16 Compliance Requirement: Ohio Rev. Code Sections 3316.03, and 3316.031 - School fiscal caution, fiscal watch and fiscal emergency.

Summary of Requirements:

A **fiscal watch** *shall* be declared if any of the following conditions are met:

- (1)(a) An operating deficit has been certified for the current fiscal year by the Auditor of State and the deficit exceeds 8% of the school district's general fund revenue for the preceding fiscal year (such a certification would be prompted by a resolution of the board of education or by a request from the state superintendent of public instruction [Ohio Rev. Code 3313.483]; and
- (b) There was not a vote in favor of levying a tax that could possibly cause (a) above to no longer apply.

OR

- (2) The school district has outstanding debt securities [issued under Ohio Rev. Code § 3316.06(A)(4)] and the financial planning and supervision commission has been canceled [under Ohio Rev. Code 3316.16] (this situation deals with a down grade to fiscal watch from fiscal emergency).

OR

- (3)(a) The superintendent of public instruction has declared the district to be under fiscal caution [under Ohio Rev. Code § 3316.031] and determined the declaration of a state of fiscal watch necessary to prevent further fiscal decline; and

The Auditor of State determines that the decision of the superintendent is reasonable.

A **fiscal watch** *may* be declared if all of the following conditions are met:

- (1) An operating deficit has been certified for the current fiscal year by the Auditor of State and the deficit exceeds 2%, but does not exceed 8%, of the school district's general fund revenue for the preceding fiscal year; and
- (2) There was not a vote in favor of levying a tax that could possibly cause (1) above to no longer apply; and
- (3) The Auditor of State determines there is no reasonable cause for the deficit or that the declaration of fiscal watch is necessary to prevent further fiscal decline.

Summary of Requirements (continued):

A **fiscal emergency** *shall* be declared if any of the following conditions are met:

- (1)(a) A certified operating deficit exceeds 15% of the general fund revenue for the preceding fiscal year (such a certification would be prompted by a resolution of the board of education or by a request from the state superintendent of public instruction [Ohio Rev. Code § 3313.483]; and
- (b) There was not a vote in favor of levying a tax that could possibly cause (a) above to no longer apply.

OR

- (2) The school district board fails to submit a plan acceptable to the state superintendent of public instruction within 120 days of being declared in a state of fiscal watch.

OR

- (3) The superintendent of public instruction has reported that the district is not materially complying with the provisions of an original or updated financial plan (related to a fiscal watch declaration) and the state superintendent has determined the declaration of a state of fiscal emergency necessary to prevent further fiscal decline.; and

The Auditor of State determines that the decision of the superintendent is reasonable.

OR

- (4) A declaration of fiscal emergency is required by division (D) of section 3316.04 of the Revised Code (that is, if the district is currently in a declared Fiscal Watch and refinances or restructures certain debt).

A **fiscal emergency** *may* be declared if all of the following conditions are met:

- (1) An operating deficit has been certified for the current fiscal year by the Auditor of State and the deficit exceeds 10%, but does not exceed 15%, of the school district's general fund revenue for the preceding fiscal year; and,
- (2) There was not a vote in favor of levying a tax that could possibly cause (1) above to no longer apply; and,
- (3) The auditor of state determines that a declaration of fiscal emergency is necessary to correct the district's financial problems and to prevent further fiscal decline.

Summary of Requirements (continued):

In addition to fiscal watch and fiscal emergency, Ohio Rev. Code § 3316.031 establishes a third category of fiscal distress called “**fiscal caution**”. In accordance with rules established under this category, the Auditor of State is responsible for referring certain deficiencies to the Ohio Department of Education. The following is ODE’s fiscal caution criteria:

Failure to correct any of the following situations could eventually lead to the Auditor of State declaring a school district to be in a state of Fiscal Watch or Fiscal Emergency.

1. When a district fails to submit or update a five-year forecast as required by section 5705.391 of the Revised Code or by Administrative Rule 3301-92-04.
2. When there is a potential current year deficit with no acceptable plan in place to avoid the projected deficit.
3. When a district notified under division (B) of section 5705.391 of the Revised Code fails to submit an acceptable plan to address a **potential future year deficit** within the timeframe allowed.
4. Whenever the Department discovers any other “fiscal practices or conditions” that could lead to a declaration of Fiscal Watch or Emergency through the examination of a school district’s five-year forecast required under division (B) of section 5705.301 of the Revised Code.
5. When the Auditor of State certifies a deficit between 2% and 8% of prior year general fund revenue and elects not to place the district in Fiscal Watch, the district must be placed in Fiscal Caution as required by section 3316.031(B)(3) of the Revised Code.
6. When the Auditor of State declares that a school district’s financial records are unauditabile.
7. When the Auditor of State reports that a district has not complied with section 5705.412 of the Revised Code by attaching a signed certificate to an appropriation measure, qualifying contract or salary schedule.
8. When the Auditor of State identifies reportable conditions, material weaknesses, direct and material legal noncompliance or management letter comments which, in the opinion of the Auditor, the aggregate effect of all such reported issues has an significant effect on the financial condition of the district.

Suggested Audit Procedures - Compliance (Substantive) Tests

<p>If the district is currently in fiscal watch or fiscal emergency review the district’s recovery plan. An effective recovery plan should identify the steps necessary for the district to take to fully recover from fiscal watch or fiscal emergency and identify target dates to achieve each component of the recovery plan. The recovery plan should be periodically updated for any changes in circumstances affecting the district. Verify that statutory requirements to follow the plan are not being violated by the district.</p> <p>While performing audit work, be alert to information relative to the current fiscal year which may suggest the district will be unable to open, or remain open, for instruction on all days set forth in its adopted school calendar, pay all obligated expenses (current year operating deficit is reasonably possible), or otherwise suggests one of the fiscal distress conditions may exist. Such information might come to the auditor’s attention while:</p> <ul style="list-style-type: none"> ➤ Reviewing minutes ➤ Making audit inquiries ➤ Reviewing audit period and current year interim financial reports ➤ Reviewing correspondence with legal counsel ➤ Reviewing the matters for attention form and draft audit report ➤ Performing other such audit procedures <p>If during audit work and based on knowledge of the district, such information does come to the auditor’s attention, the engagement chief auditor should be contacted. If after evaluation the Chief Auditor concludes there are or may be significant financial problems, the chief auditor should contact the Chief Deputy Auditor or his designee.</p> <p>Auditor of State Audit Memo 2001-09 provides additional guidance regarding fiscal caution.</p> <p>If such information comes to the attention of an IPA during an audit, contact the regional chief auditor.</p>	
<p>Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):</p>	

Section C: Additional Public Library Requirements

The following three steps (compliance requirements 1-17 through 1-19) apply only to libraries:

1-17 Compliance Requirements: Ohio Rev. Code Section 5705.23 - Special levy for library purposes; submission to electors.

Summary of Requirements: The board of library trustees of any county, municipal corporation, school district, or township public library by a vote of two-thirds of all its members may pass a resolution indicating a desire to raise taxes outside the ten-mill limitation. The resolution declares it necessary to levy a tax for either current expenses of the library or for the construction of any specific permanent improvement or class of improvement which the board of library trustees is authorized to make or acquire and which could be included in a single bond issue.

The question of this additional tax levy is to be submitted by the taxing authority of the political subdivision to whose jurisdiction the board is subject, to the electors of the subdivision or, if the resolution so states, to the electors residing within the boundaries of the library district.

The tax levy may be in effect for any specified number of years or for a continuing period of time, as set forth in the resolution.

The library may borrow up to 50% of the total estimated proceeds of a current expense levy to be collected during the first year of the levy.

The Library may issue Anticipation Notes in an amount not to exceed 50% of the total estimated proceeds of the levy for permanent improvements to be collected in each year over the period of ten years after the issuance of such notes.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> • Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files/Checklists • Legislative and Management Monitoring • Effectiveness of Oversight Government's Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees 		
Suggested Audit Procedures - Compliance (Substantive) Tests		
<p>Trace resolutions to the minutes, noting that they were passed by at least two-thirds of all board members.</p> <p>Obtain a copy of the taxing authority's resolution(s) and agree it to the resolution(s) certified to it by the library trustees.</p> <p>Vouch a representative selection of expenditures made with tax levy proceeds and determine that the proceeds were being used for the purpose(s) stated in the resolution(s).</p> <p>If the library issued anticipation notes, compare the proceeds from the notes to the total anticipated proceeds of the levy. The note proceeds should not exceed 50% of the levy.</p>		
<p>Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):</p>		

<p>1-18 Compliance Requirement: Ohio Rev. Code Section 5705.28(B)(1) - Adoption of tax budget; school library district tax budget; estimated revenues and expenditures of departments, boards, commissions and authorities; public libraries receiving library and local government support funds.</p> <p>Summary of Requirements: Before the first day of June in each year, the board of trustees of a school library district entitled to participate in any appropriation or revenue of a school district or to have a tax proposed by the board of education of a school district shall file with the board of education of the school district a tax budget for the ensuing fiscal year. On or before the fifteenth day of July in each year, the board of education of a school district to which a school library district tax budget was submitted under this division shall adopt such tax budget on behalf of the library district, but such budget shall not be part of the school district's tax budget.</p>		
<p>In determining how the government ensures compliance, consider the following:</p>	<p>What control procedures address the compliance requirement?</p>	<p>W/P Ref.</p>
<ul style="list-style-type: none"> • Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files/Checklists • Legislative and Management Monitoring • Effectiveness of Oversight Government's Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees 		
<p>Suggested Audit Procedures - Compliance (Substantive) Tests</p>		
<p>For a school library district entitled to participate in any appropriation or revenue, or tax proposed by a board of education: Inspect documentation indicating a tax budget was submitted before June 1.</p>		
<p>Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):</p>		

**New Requirement: SB 55
Effective January 8, 2004**

1-19 Compliance Requirement: Ohio Revised Code Sections 5705.281(B) - By affirmative vote (including the affirmative vote of the county auditor), a county budget commission may waive any or all of the following requirements for a library receiving all of that county's county library and local government support fund, or that receives all of that funding distributed to libraries.

Summary of Requirements: Unless waived, school libraries must file a tax budget per 5705.28 if (1) they participate in any appropriation or revenue of a school district, or (2) if a school library proposes to have a school district's board of education propose a tax on the library's behalf.

Unless waived, a library's trustees desiring to receive county library and local government support fund money must certify to the taxing authority its estimate of revenues and expenditures. Unless waived, that taxing authority must include the full amounts the library trustees request in the taxing authority's 5705.28 tax budget of receipts and disbursements.

When the budget commission waives these requirements, the commission shall still require the library to provide information it requires related to the commission's duties.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> • Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees 		

Suggested Audit Procedures - Compliance (Substantive) Tests

Inspect documentation from the County Budget Commission that waives the requirement to file this information.

If the tax budget was waived:

1. Obtain a copy of the budget commission's correspondence notifying the subdivision of the waiver. Document the submission requirements specified in the communication.
2. Through inspection of documents, review of minutes, or similar procedures, determine whether any significant substitute requirements were met.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):

Section D: Generic Requirements for Revenues, Funds, and Transfers

Compliance requirements 1-20 through 1-26 generally apply to a variety of local governmental units.

<p>1-20 Compliance Requirements: Ohio Rev. Code Sections 5705.02, 5705.07 and 5705.18 - Ten-mill limitation.</p> <p>Summary of Requirements: Generally, the aggregate amount of taxes that may be levied on any taxable property in any one year is not to exceed ten mills on each dollar of tax valuation. This limitation is known as the <i>ten-mill limitation</i>, or <i>inside millage</i>. The ten-mill limitation may only be exceeded (a) by a vote of the people, or (b) by a charter that provides for a higher limitation which may be levied without a vote of the people.</p>		
<p>In determining how the government ensures compliance, consider the following:</p> <ul style="list-style-type: none"> • Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files • Legislative and Management Monitoring • Effectiveness of County Budget Commission's/County Auditor's Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees 	<p>What control procedures address the compliance requirement?</p>	<p>W/P Ref.</p>
<p>Suggested Audit Procedures - Compliance (Substantive) Tests</p>		
<p>Inspect the tax budget for the year and determine if the ten-mill limitation was exceeded.</p> <p>If the ten-mill limitation was exceeded, inspect the document entitled <i>Resolution Accepting Amounts and Rates as Determined by the Budget Commission and Authorizing the Necessary Tax Levies and Certifying Them to the County Auditor</i>, indicating it was authorized by a vote of the people or was authorized by appropriate charter provisions. Secure copies for the permanent files, if appropriate.</p>		
<p>Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):</p>		

<p>1-21 Compliance Requirement: Ohio Rev. Code Section 5705.09 - Establishing funds.</p> <p>Summary of Requirements: Each subdivision must establish the following funds:</p> <ul style="list-style-type: none"> ➤ General fund; ➤ Sinking fund whenever the subdivision has outstanding bonds other than serial bonds; ➤ Bond retirement fund, for the retirement of serial bonds, notes, or certificates of indebtedness; ➤ A special fund for each special levy; ➤ A special bond fund for each bond issue; ➤ A special fund for each class of revenues derived from a source other than the general property tax, which the law requires to be used for a particular purpose; ➤ A special fund for each public utility operated by a subdivision; ➤ A trust fund for any amount received by a subdivision in trust. 		
<p>In determining how the government ensures compliance, consider the following:</p> <ul style="list-style-type: none"> • Policies and Procedures Manuals • Knowledge and Training of personnel • Presence of Effective Accounting System • Legislative and Management Monitoring • Periodic Reviews of Fund Ledgers • Management’s identification of changes in laws and regulations • Management’s communication of changes in laws and regulations to employees 	<p>What control procedures address the compliance requirement?</p>	<p>W/P Ref.</p>
<p>Suggested Audit Procedures - Compliance (Substantive) Tests</p>		
<p>Inquire of responsible officials whether the funds required have been established. During revenue tests, be alert for whether funds that should have been established pursuant to this section have been established.</p> <p>Inspect authority (e.g., board resolution) to establish the fund.</p> <p><u>Note: Establishing funds required by this ORC Section does not require AOS approval.</u></p>		
<p>Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):</p>		

1-22 Compliance Requirement: Ohio Rev. Code Section 5705.10 - Distributing revenue derived from tax levies, proceeds from sale of bond issue, and proceeds from sale of permanent improvement.

Summary of Requirements:

- All revenue derived from the following must be paid into the general fund:
 - the general levy for current expense within the ten-mill limitation,
 - any general levy for current expense authorized by vote in excess of the ten-mill limitation, and from
 - sources other than the general property tax, unless its use for a particular purpose is prescribed by law
- All revenue derived from general or special levies for debt charges which is levied for the debt charges on serial bonds, notes, or certificates of indebtedness having a life less than five years, must be paid into the bond retirement fund. All such revenue which is levied for the debt charges on all other bonds, notes, or certificates of indebtedness is to be paid into the sinking fund.
- All revenue derived from a special levy is to be credited to a special fund for the purpose for which the levy was made.
- All revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose is to be paid into a special fund for such purpose.
- All proceeds from the sale of public obligations or fractionalized interests in public obligations as defined in Ohio Rev. Code section 133.01, except premium and accrued interest, are to be paid into a special fund for the purpose of such issue. Any interest earned on money in the special fund may be used for the purposes for which the indebtedness was authorized or may be credited and used for an authorized fund or account. The premium and accrued interest received from such sale is to be paid into the subdivision's sinking fund or the bond retirement fund.
- If a permanent improvement of the subdivision is sold, the amount received from it may be paid into the sinking fund, the bond retirement fund, or into a special fund for the construction or acquisition of permanent improvements.
- Proceeds from the sale of a public utility are to be paid into the sinking fund or bond retirement fund to the extent necessary to provide for the retirement of the outstanding indebtedness incurred in the construction or acquisition of such utility.
- Proceeds from the sale of property other than a permanent improvement are to be paid into the fund from which such property was acquired or is maintained, or if there is no such fund, into the general fund.

Money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> • Policies and Procedures Manuals • Knowledge and Training of personnel • Presence of Effective Accounting System • Periodic Reviews/Comparisons of Budgeted and Actual Revenues • Independent Inspection/Comparison of Revenues to Source Documents • Legislative and Management Monitoring • Management’s identification of changes in laws and regulations • Management’s communication of changes in laws and regulations to employees 		
Suggested Audit Procedures - Compliance (Substantive) Tests		
<p>Trace a representative number of receipts from tax levies, bond issues, and sales of permanent improvements, to the funds.</p> <p>Inspect accounting ledgers or month end reports as of fiscal year end and for selected periods during the year. Determine whether significant negative fund balances existed.</p>		
<p>Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):</p>		

1-23 Compliance Requirement: Ohio Rev. Code Section 5705.12 - Permission to establish funds.

Summary of Requirement: In addition to the funds provided for by Ohio Rev. Code Sections 5705.09, 5705.121, 5705.13, and 5705.131 the taxing authority of a subdivision may establish other funds, with the approval of the Auditor of State. The subdivision may provide by ordinance or resolution that money derived from special sources other than the general property tax shall be paid directly into such funds.

Approval to establish a new fund is unnecessary when statutes (such as those listed above) already authorize or require it.

It is necessary to request the Auditor of State's permission to establish any fund not specifically authorized by statute or when the purpose of the fund is not identified in Ohio Rev. Code §5705.09 (A) - (H). Situations requiring Auditor of State approval include:

- When management wishes to create a new fund in order to capture additional financial information about a specific source of revenue or a specific activity;
- When the fund will account for restricted gifts or bequests that will not be held in trust; and
- When management wants to impose internal restrictions on the use of otherwise unrestricted resources.

In some circumstances, the AOS deems the use of additional funds unnecessary and will not approve the request. See AOS Bulletin 99-006 for additional information.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> • Policies and Procedures Manuals • Knowledge and Training of personnel • Presence of Effective Accounting System • Periodic Reviews of Fund Ledgers • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees 		
Suggested Audit Procedures - Compliance (Substantive) Tests		

<p>If there is evidence new funds were established during the period, trace funds' establishments to the minutes. Determine code section under which established.</p> <p>If not established under State statute, inspect Auditor of State approval letters for funds created during the current audit period.</p> <p>Read ordinances and resolutions regarding how monies derived from special sources are to be used. Trace a representative number of receipts into the funds or accounts required by the ordinances or resolutions.</p>	
<p>Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):</p>	

1-24 Compliance Requirements: Ohio Rev. Code Sections 5705.14, 5705.15, and 5705.16 - Transfer of funds.

Summary of Requirements: No transfer can be made from one fund of a subdivision to any other fund, except as follows: ⁴²

- The unexpended balance in a bond fund that is no longer needed for the purpose for which such fund was created shall be transferred to the sinking fund or bond retirement fund from which such bonds are payable. [RC 5705.14(A)]
- The unexpended balance in any specific permanent improvement fund, other than a bond fund, after the payment of all obligations incurred in the acquisition of such improvement, shall be transferred to the sinking fund or bond retirement fund of the subdivision. However, if such money is not required to meet the obligations payable from such funds, it may be transferred to a special fund for the acquisition of permanent improvements, or, with the approval of the court of common pleas of the county in which such subdivision is located, to the general fund of the subdivision. [RC 5705.14(B)]
- The unexpended balance in the sinking fund or bond retirement fund of a subdivision, after all indebtedness, interest, and other obligations for the payment of which such fund exists have been paid and retired, shall be transferred, in the case of the sinking fund, to the bond retirement fund, and in the case of the bond retirement fund, to the sinking fund. However, if the transfer is impossible by reason of the nonexistence of the fund to receive the transfer, the unexpended balance may be transferred to any other fund of the subdivision with the approval of the court of common pleas of the county in which such division is located. [RC 5705.14(C)]
- The unexpended balance in any special fund, other than an improvement fund, may be transferred to the general fund or to the sinking fund or bond retirement fund after the termination of the activity, service, or other undertaking for which such special fund existed, but only after the payment of all obligations incurred and payable from such special fund. [RC 5705.14(D)]
- Money may be transferred from the general fund to any other fund of the subdivision by resolution of the taxing authority. [RC 5705.14(E)]
- Moneys retained by a county in accordance with Ohio Rev. Code Section 4501.04 (auto registration distribution fund), or in accordance with Ohio Rev. Code Sections 5735.27 (gasoline excise tax fund), may be transferred from the fund into which they were deposited to the sinking fund or bond retirement fund from which any principal, interest, or charges for which such moneys may be used is payable. [RC 5705.14(F)]

⁴² GASB 2300.120 (and therefore OCBOA presentations) requires certain disclosures regarding the amounts and purposes of transfers in the notes to the financial statements.

Summary of Requirements (continued):

- Moneys retained or received by a municipal corporation under Ohio Rev. Code section 4501.04 (motor vehicle license tax), or division (A) (1) or (2) of Ohio Rev. Code section 5735.27 (motor vehicle fuel excise taxes), may be transferred from the fund into which they were deposited to the sinking fund or bond retirement fund from which any principal, interest, or charges for which such moneys may be used is payable. [RC 5705.14(G)]
- Money may be transferred from the County Mental Retardation and Developmental Disabilities general fund to the County Mental Retardation and Developmental Disabilities capital fund established under Ohio Rev. Code section 5705.091, or to any other fund created for purposes of the County Board of Mental Retardation and Developmental Disabilities so long as it is spent for the particular purpose of the transfer. An unexpended balance in an account may be transferred back to the County Mental Retardation and Developmental Disabilities general fund. Transfers shall be done by resolution of the Board of County Commissioners. [RC 5705.14(H)]
- Except in the case of transfers from the general fund, transfers can be made only by resolution of the taxing authority passed with the affirmative vote of two thirds of the members. Transfers from the general fund require a resolution passed by a simple majority of the board members (i.e., a two thirds vote is not required for general fund transfers though a resolution is required)⁴³ [RC 5705.14 & .16]

Per 5705.15 & .16: In addition to the transfers listed above, which Ohio Rev. Code Section 5705.14 authorizes, the taxing authority of any political subdivision, with the approval of the Tax Commissioner and of the Court of Common Pleas, may transfer from one fund to another any public funds under its supervision, *except* the proceeds or balances of:

- loans,
- bond issues,
- special levies for the payment of loans or bond issues,
- the proceeds or balances of funds derived from any excise tax levied by law for a specified purpose, and
- the proceeds or balances of any license fees imposed by law for a specified purpose.

⁴³ Transfers require a resolution specifying the funds to pay and receive the money. This resolution should be separate from appropriation resolutions.

<p>In determining how the government ensures compliance, consider the following:</p>	<p>What control procedures address the compliance requirement?</p>	<p>W/P Ref.</p>
<ul style="list-style-type: none"> • Policies and Procedures Manuals • Periodic Reviews/Comparisons of Budgeted and Actual Transfers • Independent Inspection/Comparison of Transfers to Source Documents • Knowledge and Training of personnel • Presence of Effective Accounting System • Legislative and Management Monitoring • Management’s identification of changes in laws and regulations • Management’s communication of changes in laws and regulations to employees 		

<p>Suggested Audit Procedures - Compliance (Substantive) Tests</p>	
<p>Inspect documents authorizing transfers during the audit period and determine that transfers involving balances described below met the requirements above:</p> <ul style="list-style-type: none"> • Unexpended bond balance; • Permanent improvement balance; • Bond retirement; • Special fund; • Auto registration; • Resolution; • Municipal corporation; • Mental Retardation. <p>Determine if transfers were made that meet one or more of the <u>exceptions</u> listed above.</p> <p>Determine if any <u>significant</u> transfers were made from the proceeds or balances of:</p> <ul style="list-style-type: none"> • loans, • bond issues, • special levies for the payment of loans or bond issues, • the proceeds or balances of funds derived from any excise tax levied by law for a specified purpose, or • the proceeds or balances of any license fees imposed by law for a specified purpose. 	
<p>Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):</p>	

1-25 Compliance Requirements: Though no statutory provisions directly address inter-fund advances, the following requirements are in part derived from Ohio Rev. Code Sections: 5705.10 (restriction on the purpose for which funds may be used); 5705.14, 5705.15, and 5705.16 (transfer of funds); 5705.39 (appropriations limited to estimated resources); 5705.41 (restriction on appropriation/ expenditure of money); and 5705.36 (certification of available revenue). Auditor of State Bulletin 97-003 sets forth the requirements for inter-fund advances and provides additional guidance for recording such transactions.

Summary of Requirements: Inter-fund cash advances may be a desirable method of resolving cash flow problems without the necessity of incurring additional interest expense for short-term loans and to provide the necessary "seed" for grants that are allocated on a reimbursement basis. The intent for cash advances is to require repayment within the current or succeeding year. Inter-fund cash advances are subject to the following requirements:

- Any advance must be clearly labeled as such, and must be distinguished from a transfer. Transfers are intended to reallocate money permanently from one fund to another and may be made only as authorized in Sections 5705.14 to 5705.16 of the Revised Code. Advances, on the other hand, *temporarily* reallocate cash from one fund to another and involve an expectation of repayment;
- In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the "creditor" fund) for the same purpose for which the fund receiving the cash (the "debtor" fund) was established;
- The reimbursement from the debtor fund to the creditor fund must not violate any restrictions on use of the money to be used to make the reimbursement; and
- Advances must be approved by a formal resolution of the taxing authority of the subdivision which must include:
 - A specific statement that the transaction is an advance of cash, and
 - An indication of the money (fund) from which it is expected that repayment will be made.

Summary of Requirements (Continued):Other Budgetary Considerations

The advances-out (initial loan and repayment) in the creditor (loaning) and debtor (borrowing) funds do not require appropriation as advances represent temporary allocations of resources. However, an amended official certificate of estimated resources should be obtained to reflect the reduced fund balance in the creditor fund and the increased fund balance in the debtor fund. Creditor fund appropriations must be evaluated based on the reduced estimated resources, and appropriation reductions may be required. Prior to obligation of advanced funds the debtor fund must have sufficient appropriations to cover the anticipated expenditures.

Additionally, when a cash advance is outstanding at the beginning of a fiscal year in which repayment is expected, an adjustment is required to the total resources available for expenditure in the creditor and debtor funds. The unencumbered cash balance of the creditor fund must be increased by the amount of repayment expected during the fiscal year to produce the "carryover balance available for appropriation." Similarly, the unencumbered cash balance in the debtor fund must be reduced by the amount of repayment expected during the fiscal year to produce "carryover balance available for appropriation." This adjustment is made on the "certificate of the total amount from all sources available for expenditures, and balances" filed with the County Budget Commission pursuant to Section 5705.36 of the Revised Code.

Conversion to a Transfer

If, after an advance is made, the taxing authority determines that the transaction should, in fact, be treated as a transfer (repayment is no longer expected) the following procedures should be followed:

- The necessary formal procedures for approval of the transfer should be completed including, if necessary, approval of the commissioner of tax equalization and of the court of common pleas (see ORC 5705.14, 5705.15 and 5705.16);
- The transfer should be formally recorded on the records of the subdivision; and
- The entries recording the cash advance should be reversed.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> • Policies and Procedures Manuals • Knowledge and Training of personnel • Presence of Effective Accounting System • Independent Inspection/Comparisons of Advances and Source Documentation • Legislative and Management Monitoring • Management’s identification of changes in laws and regulations • Management’s communication of changes in laws and regulations to employees 		
Suggested Audit Procedures - Compliance (Substantive) Tests		
<p>If advance transactions occurred, review authorizing legislation and accounting records. Determine whether the advance transactions were in amounts and between accounting funds approved in the authorizing legislation.</p> <p>Based on knowledge of the entity’s operations and review of levy legislation or other appropriate documents, determine whether the creditor fund’s purpose was reasonably consistent with the debtor fund’s purpose.</p> <p>Determine whether prior period advances are outstanding. If advances have not been repaid within a reasonable period or within the period specified (if any) in the authorizing legislation, determine through inquiry of appropriate client officials when the advance will be repaid.</p> <p>If the client no longer intends for the advance to be repaid or repayment is unlikely, recommend that the client take appropriate steps to convert the advance to a transfer following the above procedures.</p> <p>If advances have been converted to transfers, determine whether the requirements summarized in Ohio Compliance Supplement Section 1-24 have been complied with.</p>		
<p>Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):</p>		

1-26 Compliance Requirement: Ohio Rev. Code Section 5705.13(A) - Reserve balance accounts and funds; Ohio Rev. Code Section 5705.13(B) – special revenue fund may be established to accumulate cash for paying severance payouts or salaries when the number of pay periods exceeds the usual and customary number for a year; Ohio Rev. Code Section 5705.13(C) – capital projects fund(s) may be established to accumulate resources for the acquisition, construction, or improvement of fixed assets.

Ohio Rev. Code § 5705.13(A) allows a taxing authority of a subdivision to establish, by resolution, a reserve balance account⁴⁴ for each of the three following purposes:

1. **Budget stabilization:** may be created in the general fund or in any special fund used for operating purposes and the aggregate amount reserved in the account must not exceed 5% of the fund's revenue for the preceding fiscal year. The reserve balance is excluded from the unencumbered balance when certifying available balances at year-end. The reserve for budget stabilization may be reduced or eliminated at any time by the taxing authority.
2. **Self-insurance program:** may be created in the general fund or in the internal service fund established to account for the operation of the program. The amount to be reserved must be based on sound actuarial principles and the taxing authority may rescind the reserve balance account at any time. There is no limit on the amount that may be reserved.
3. **Retrospective Ratings Plan for Workers' Compensation:** may be created in the general fund or in the internal service fund established to account for the program. The amount to be reserved must be based on sound actuarial principles and the taxing authority may rescind the reserve balance account at any time. There is no limit on the amount that may be reserved.

Ohio Rev. Code § 5705.13(B) allows a taxing authority to establish a special revenue fund to accumulate cash to pay accumulated leave, or paying or for paying salaries when the number of pay periods exceeds the usual and customary number for a year. This leave includes payments for accumulated sick leave and vacation leave, or for payments in lieu of taking compensatory time off, upon the termination of employment or retirement. Money may be transferred to this fund from any fund from which the termination or salary payments could lawfully be made. The reserve must be established by resolution or ordinance and the taxing authority may rescind the fund at any time with the accumulated resources being returned to the fund from which they came. Amounts accumulated in this fund should be reasonable based on the taxing authority's estimated liability for benefits. There is no limit on the amount that may be reserved.

⁴⁴ ORC § 5705.13 refers to these accounts as "reserve" accounts. However, for financial reporting, accounts established under ORC § 5705.13(A) should be reported as *designated* fund balance rather than *reserved*, because these accounts are established at the governing body's discretion (NCGAS1 par. 117-122).

<p>Summary of Requirements (continued):</p> <p>Ohio Rev. Code § 5705.13(C) provides that a taxing authority may create, by resolution, one or more capital projects funds to accumulate resources for the acquisition, construction, or improvement of fixed assets, including motor vehicles. Each fund must be created by ordinance or resolution. The resolution or ordinance must identify the asset(s) to be acquired, the amount needed to be accumulated, the period over which the amount will be accumulated (with a limit of ten years from the date of the resolution or ordinance), and the source of the resources. Despite ORC 5705.14 through .16, money may be transferred to the capital projects fund from any other fund that could acquire, construct or improve the fixed assets. If a contract for the fixed asset(s) has not been entered into before the ten-year period expires, the money is returned to the fund from which it was transferred or that was originally intended to receive it. The taxing authority may rescind a capital projects fund at any time with the accumulated resources being returned to the fund from which they came.</p>		
<p>In determining how the government ensures compliance, consider the following:</p> <ul style="list-style-type: none"> • Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files/Checklists • Legislative and Management Monitoring • Management’s identification of changes in laws and regulations • Management’s communication of changes in laws and regulations to employees 	<p>What control procedures address the compliance requirement?</p>	<p>W/P Ref.</p>
<p>Suggested Audit Procedures - Compliance (Substantive) Tests</p>		
<p>If reserve balance accounts have been established:</p> <ul style="list-style-type: none"> • Determine through vouching, review of minutes, and inspection of accounting ledgers and authorizing legislation, whether reserve accounts were only established in the general fund, special fund used for operating purposes or appropriate internal service fund and for permitted purposes (budget stabilization, self-insurance program, or retrospective ratings program for worker’s compensation). • Recalculate reserve percentages and inspect worksheets and accounting ledgers to determine whether the aggregate amount reserved exceeded the 5 % cap (budget stabilization account). (Testing should not be limited to year end.) • For self-insurance and worker’s compensation reserve accounts, compare amounts reserved to estimates received from the entity’s actuary. 		

<p>If a “severance payout reserve” or “capital improvement reserve” fund has been established:</p> <ul style="list-style-type: none"> • Review minutes, ordinances and resolutions to determine whether the fund has been established by resolution or ordinance. • If a capital improvement reserve fund has been established, review the authorizing legislation to determine whether the assets; amount required; accumulation period (not to exceed ten years); and source of funding have been identified. • Select a representative number of disbursement transactions from the fund. Through vouching, determine whether the transactions were only for related activities as indicated above, and in accordance with the purpose stated in the authorizing legislation. • Trace a representative number of transfers to the reserve fund and determine whether the transfers were from funds permitted to make the disbursements for which the reserve fund was established. • Determine through inspection of worksheets, ledgers and other such documents, whether records reasonably provide for the return of accumulated resources, to the fund from which they were originally transferred or the fund intended to receive them (If records do not reasonably provide for the proper return of resources, this situation would generally result in a recommendation; a noncompliance citation should not be made). • If the reserve fund was rescinded or if the ten-year period has elapsed prior to entering into a contract (capital improvement reserve fund), determine through inspection of worksheets and accounting ledgers whether the accumulated resources were returned to the fund from which they were originally transferred or the fund intended to receive them. 	
<p>Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):</p>	

Section E: Additional County Requirements

The following compliance requirement only applies to counties.

<p>1-27 Compliance Requirement: Ohio Rev. Code Section 5101.144 requires that each county deposit all funds its public children services agency receives, regardless of source, into a special fund in the county treasury known as the children services fund.</p>		
<p>In determining how the government ensures compliance, consider the following:</p> <ul style="list-style-type: none"> • Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files/Checklists • Legislative and Management Monitoring • Management’s identification of changes in laws and regulations • Management’s communication of changes in laws and regulations to employees 	<p>What control procedures address the compliance requirement?</p>	<p>W/P Ref.</p>
<p>Suggested Audit Procedures - Compliance (Substantive) Tests</p>		
<p>During revenue tests, trace a representative number of children services agency receipts to the fund.</p>		
<p>Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):</p>		

Section F: Additional County Hospital Requirement

The following section applies only to county hospitals:

<p>1-28 Compliance Requirement: Ohio Rev. Code Section 339.06 - Organization of board of trustees; funds; administrator. (County Hospitals)</p> <p>Summary of Requirements: The board of county hospital trustees must submit its proposed budget for the next fiscal year to the board of county commissioners for approval, by November 1.</p> <p>If hospital tax levies, or the amount appropriated to the county hospital by the county commissioners in the annual appropriation measure for the county for the fiscal year, differ from the amount shown in the approved budget, the board of county commissioners may require the board of county hospital trustees to revise the hospital budget accordingly. If so, the board of trustees is not allowed to spend those funds until its budget for that calendar year is submitted to and approved by the board of county commissioners.</p> <p>After that, the monies may be disbursed by the board of county hospital trustees, consistent with the approved budget, on a voucher signed by signatories designated and approved by the board of county hospital trustees. [Section 339.06(B)].</p>		
<p>In determining how the government ensures compliance, consider the following:</p> <ul style="list-style-type: none"> • Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files/Checklists • Legislative and Management Monitoring • Management’s identification of changes in laws and regulations • Management’s communication of changes in laws and regulations to employees 	<p>What control procedures address the compliance requirement?</p>	<p>W/P Ref.</p>
<p>Suggested Audit Procedures - Compliance (Substantive) Tests</p>		
<p>Inspect documentation indicating a proposed budget was submitted by November 1 to the board of county commissioners.</p> <p>Scan ledgers or other documents for expenditures in excess of the approved budget. Inspect vouchers for signatures of those persons designated and approved by the board of trustees.</p>		
<p>Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):</p>		

Section G: Additional College Requirements

The following section applies only to certain colleges (community colleges, state community colleges, and technical colleges; this does *not* include universities):

<p>1-29 Compliance Requirement: Ohio Rev. Code Sections 3354.10(A), 3357.10, 3358.06, and 5705.41(D) - Treasurer's fiscal certificates.</p> <p>Summary of Requirement: No orders or contracts of the boards of trustees of community college districts [Section 3354.10(A)], technical colleges [Section 3357.10], and state community colleges [Section 3358.06] involving the expenditure of money shall become effective until the treasurer certifies that funds are available.</p>		
<p>In determining how the government ensures compliance, consider the following:</p> <ul style="list-style-type: none"> • Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files/Checklists • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees 	<p>What control procedures address the compliance requirement?</p>	<p>W/P Ref.</p>
<p>Suggested Audit Procedures - Compliance (Substantive) Tests</p>		
<p>Search for material unrecorded liabilities and/or encumbrances. Refer to minutes and records immediately following the fiscal year cutoff date.</p> <p>Compare the date of the fiscal certificates with invoice dates, noting whether or not the certificate date precedes the invoice date.</p> <p><i>(NOTE: This audit procedure can be part of expenditure tests.)</i></p>		
<p>Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):</p>		