

## OAPT June 13, 2017

### Principals of Public Finance



### Accounting Issues

- 🔗 On behalf payments by Grantor or bank
  - Not posted to ledgers
  - Not budgeted
  - Related capital asset not reported
- 🔗 Intergovernmental Revenue posted as taxes
  - Homestead: Rollback
- 🔗 Adjustments in ledger with no backup
- 🔗 Estimated receipts not posted in ledger
- 🔗 Approved appropriation not posted in ledger
- 🔗 Inter-Fund transfers without adequate backup
- 🔗 Illegal payments for goods or services out of restricted funds

### Compliance Issues

- 🔗 Inter-Fund transfers out of Restricted Funds
- 🔗 Inter-Fund transfers not approved by Council
- 🔗 Inter-Fund Advances out of Restricted Funds
  - AOS Bulletin #1997-003
- 🔗 Non-Allowable expenses paid out of Restricted Funds
  - ie.. Operating expenses paid out of Capital Project Funds
- 🔗 Appropriation > Certified Estimated Resources

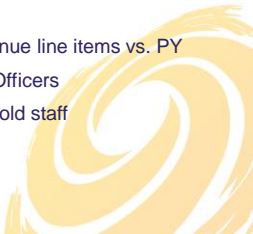
### Compliance Issues

- 🔗 Supplemental appropriations not sent to County Auditor
- 🔗 Not appropriating down to at least ORC .5705.38C
  - Fund/Function/Dept/Personal Services/Other
- 🔗 Lack of obtaining prior certification for expenses
- 🔗 Not following own ordinances


## Internal Control Issues

- ⦿ No accounting policy manuals
  - ⦿ No procedure policy manuals
  - ⦿ No or limited communication with key departments
    - City Engineer
    - Grant Department
    - City Manager or Village Administrator
  - ⦿ Lack of segregated duties
  - ⦿ No rotation of duties/cross training
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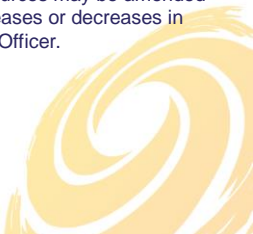
## Internal Control Issues

- ⦿ No mandatory vacations
  - ⦿ No or limited background checks on new hires
  - ⦿ No surprise internal audits
  - ⦿ No or limited review of CY Revenue line items vs. PY
  - ⦿ No or limited training for Fiscal Officers
  - ⦿ No or limited training for new or old staff
- 

## Internal Control Issues

- ⦿ Lack of supervision & documentation
  - ⦿ Access to vendor files
  - ⦿ Access to software programs
  - ⦿ Lack of disaster recovery programs
  - ⦿ Fraud assessments not performed
- 

## ESTIMATED RESOURCES

- The certificate of estimated resources establishes a limit on the amounts that the Governing Board may appropriate.
  - The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by Fiscal Officer.
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## WHAT IS AN APPROPRIATION?

- The appropriation resolution is the Governing Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated resources.

## Original Budget

- Permanent Appropriations as passed by legislative body
- + Automatic carryovers from PY (encumbrances)
- -----
- Original Budget

Amended Certificate of Estimated Resources in place at the time the Permanent Appropriations are passed.

## Final Amended Budget

- Original Budget
  - + All adjustments to the budget applicable to the FY
  - -----
  - Final Amended Budget
- AOS Bulletin 1997-010 – AOS does not recognize *retroactive* amendments (aka made after the FYE)

## Budgetary

### • Noncompliance Showing on BVA

#### → Appropriations exceed Estimated Resources –

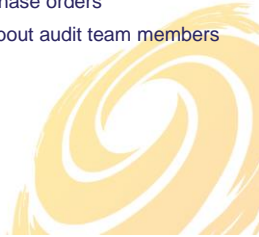
- Negative Ending Fund Balance amount in Original or Final Budget column
- This indicates the Government budgeted more than they were legally permitted

#### → Expenditures exceed Appropriations –

- Negative amount in Variance column for Total Expenditures
- This indicates the Government spent more than they budgeted

## Pre-Audit Preparation

- 🕒 Hold meetings with auditors throughout the year
  - Call with questions about anything & everything
  - Call about Y/E close out & budgetary compliance. Close out unnecessary purchase orders
  - Have crucial conversation about audit team members



## Pre-Audit Preparation

- 🕒 Request from auditors anticipated audit dates
- 🕒 Notification to auditors when Y/E closeout is completed.
- 🕒 Notification to auditors when financial statements are to be ready
- 🕒 Notification to all departments that auditors coming in
- 🕒 Key personnel vacation/ out of office schedules



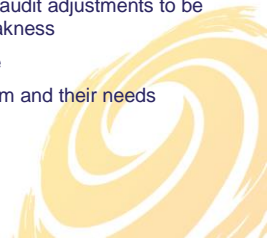
## Pre-Audit Preparation

- 🕒 Obtain list of standard items auditors will need and have ready
  - Keep folder for auditors throughout the year
  - Electronic form becoming more popular



## Pre-Audit Preparation

- 🕒 Meeting with GAAP Conversion Team
  - Discuss P/Y posted and proposed adjustments
  - Why? SAS now requires audit adjustments to be reported as significant weakness
  - Estimated completion date
  - Cooperation with audit team and their needs



## Pre-Audit Preparation

- 📌 Meetings with City Engineer/equivalent/consultants throughout year
  - Project listings
  - Project funding sources
 

ODOT	USDA
OPWC	Other
OWDA	Leases
- Get copies of the funding agreements

## Pre-Audit Preparation

- 📌 Preparation of Schedule of Expenditures of Federal Awards
  - Client's responsibility Common audit deficiency
  - Federal schedule is incomplete (missing grants, missing CFDA numbers, missing payments)
  - Direct vendor payments not reported
    - ODOT grants
- 📌 Recommendations:
  - Review ledgers for all grant revenue
  - Obtain grant agreements to determine federal vs state
  - Utilize tools on grantor websites
  - Meet with engineers, grant coordinators, & department heads
  - Get grant copies

## Pre-Audit Preparation

- 📌 Review websites prior to year-end for non-cash transactions:
  - OPWC <http://www.obm.ohio.gov/miscpages/aosdt/>
  - OWDA [www.owda.org](http://www.owda.org) >Loan info>/Audit & Accounting info

## Audit Entrance Conference

- 📌 Schedule and hold audit entrance conference
  - Involve audit committee or equivalent
- 📌 Clarify preferred communication method and personnel involvement
  - Daily interruptions
  - Weekly update on audit progress
  - Email v/s phone v/s physical interruption

## Audit Entrance Conference

- 🕒 Set expectations - lead time required for items requested
  - Who is pulling what information
- 🕒 Concerns you have and would like to be addressed
- 🕒 Discuss security of information
  - Are you ok with auditors taking information out of your offices?

## Audit Entrance Conference

- Hours auditors can be on site
- Handling of delicate issues (fraud, non-compliance, lack of cooperation, etc)
- Discussion of progress made on PY audit findings & management letter
- Who to contact when not satisfied
- 

## Location for Auditors

- 🕒 Space
  - Availability of room
  - Size of audit team
  - Tables / Desks
  - Availability of copiers
  - Internet hook up
  - Phone
    - List of Dept phone #s and contacts

## During the Audit

- 🕒 Instruct team to cooperate with auditors
  - Gather information timely
- 🕒 Try to stick to your schedule
- 🕒 Have information requested available
- 🕒 Hold weekly meetings with auditors

## Folder to Maintain for Auditors

- 📁 Budgetary
  - Estimated Resources
  - Appropriations
  - Year-end certification of balances
  - Tax budget & newspaper publication
  - Certification of Tax Levies
  - New tax levies



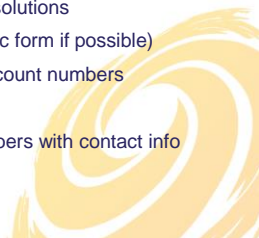
## Folder to Maintain for Auditors

- 📁 New union agreements
- 📁 New debt issues
  - Instrument
  - Related authorization
  - Amortization schedules



## Folder to Maintain for Auditors

- 📁 County Tax Settlement Sheets
- 📁 Establishment of new funds
- 📁 Significant ordinances and resolutions
- 📁 Bank reconciliations (electronic form if possible)
- 📁 Listing of bank accounts & account numbers
- 📁 New Depository agreements
- 📁 Listing of Council/Board Members with contact info



## Folder to Maintain for Auditors

- 📁 Employee handbook
- 📁 City Charter
- 📁 Accounting procedure narratives/manuals
- 📁 Legal advice



## Bank Reconciliations

- 🕒 Cash is your most vulnerable asset!
- 🕒 Timely reconciliations is the most critical internal control over cash
- 🕒 Significant increase in entities with issues reconciling
  - Employee turnover
  - Complex transactions / banking arrangements
    - Multiple bank accounts
    - Sweep/ZBA accounts
    - Credit cards
  - Reductions in staff
    - DO NOT LET THIS FALL BEHIND!!

## Bank Reconciliations, con't

- 🕒 Detection of Errors
  - Everyone makes mistakes...even your bank
    - It's your responsibility to identify and notify the bank so they can be resolved
    - Common bank errors
      - discrepancies in deposit and check amounts
      - overcharging of bank fees
      - transactions posted to the wrong accounts
      - fraudulent charges
    - You have a **limited amount of time** to dispute fraudulent charges

## Bank Reconciliations, con't

- 🕒 Detection of Errors, con't
  - Accounting staff errors
    - Common internal errors
      - Transposition of deposits
      - Deposits posted twice or not at all
  - Errors in your accounting system need identified and corrected in a timely manner
    - Management relies on monthly reports
    - Using inaccurate data to make purchasing and budgeting decisions could = disaster!

## Bank Reconciliations, con't

- 🕒 Reconcile all bank accounts
  - Payroll clearing (ZBA accounts)
    - Typically have a balance at month end
    - Need to identify exactly what makes up that balance
      - Should be outstanding checks and/or employee withholdings
      - Most common problem area
      - Undetected errors in withholdings could = fines and penalties
  - Segregated accounts
    - Examples: utilities, income tax, sheriff, courts
    - Courts also need to reconcile their book cash balance to an "Open Items" report in their system



## Bank Reconciliations, con't

### Managing the Process

- Ideally, should be performed by individual who is not responsible for accounting or authorizing bank transactions
  - Accounts payable clerk should not be responsible for writing checks and reconciling the main operating account
- Management-level employee should review and approve reconciliation each month, including:
  - Verify all amounts and examining detailed supporting documentation
  - Special attention to reconciling items that are being carried over from month to month
  - Reviewing outstanding checks, particular attention to dates written
  - Investigating stale checks; voiding and re-issuing or turning into unclaimed funds

## Bank Reconciliations, con't

### Managing the Process, con't

- Must be signed and dated by preparer and reviewer
  - To validate existence of open items
  - Serves as evidence during audit
- DO NOT LET THIS FALL BEHIND!
  - Avoid audit citations (or being deemed **Unauditable** by AOS)
  - Deter fraud

## Best Practices for Cash Basis Information

### Posting Issues

- Ensure all direct vendor payments (from State or Others) are properly recorded and budgeted for
- Review new debt issued during the year (including refundings)
  - Review posting in system by comparing to the Sources & Uses statement
  - Post at gross (including premium, discount, issuance costs, etc)
  - Adjust budgets as necessary

### Check revenue and expense classifications

- Revenue – Taxes vs. Intergovernmental
- Miscellaneous revenue
- Debt Payments (proper fund, principal vs. interest)

## Debt Refunding

### Bonds are issued to repay existing bonds

### Advance or Current

### Common cause of audit adjustments/findings

- Even if you do not receive or pay any money, **you still need to record all gross activity (including premiums and issuance costs)**
- Also need to amend budgets
  - Amended Certificate of Estimated Resources
  - Appropriations
- Not posting activity/amending budgets could = material noncompliance!
- Example

## Compensated Absences

Two methods can be used to measure the amount of the liability for unused sick leave payable upon termination:

1. **Termination Method** - a government estimates the amount of sick leave that will be paid out upon termination based on its experience in making such payments.

- ❖ This is the preferred method – easier for client and GAAP preparer. Also, easier to audit.
- ❖ Must have several years of history available to switch to this method.

## Compensated Absences

2. **Vesting Method** - The accrued sick leave liability would be based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments. Accruals for those employees who are expected to become eligible in the future should be based on assumptions concerning the probability that individual employees or classes or groups of employees will become eligible to receive termination payments.

## Compensated Absences

Vesting Method Continued:

- Must update all employees' pay rates and sick leave balances annually
- Must update for changes in government's severance policies annually
  - Maximum days allowed to accrue
  - Payout percentages and maximums

## Compensated Absences

- Common mistake made - Must calculate liability for all employees who are currently eligible to retire and those who are expected to become eligible
  - Eligible – based on OPERS/OPF/STRS/SERS guidelines
  - Expected to become eligible – must be determined by client based on their history of severance payouts

## Compensated Absences

### Sick Leave

- Matured Compensated Absences Payable
  - Current liability reported on both modified and full accrual basis
  - Represents known severance payments due as of the balance sheet date
  - Based on actual payments, not an estimate
- Due Within One Year/Due in More than One Year
  - Long-term liability reported on full accrual basis only
  - Estimated utilizing the vesting or termination method

## Compensated Absences

### Estimating Due Within One Year

- Based on severance payments known or expected to be paid in subsequent FY
- Client budget amounts for severance payments
- Average annual severance payments in prior years
- Other – test for reasonableness

## Compensated Absences

### Vacation Leave:

Governments record a liability for vacation leave if it meets **both** of the following conditions:

- Leave is related to employee services already rendered
- It is probable the leave will be paid

## Compensated Absences

### Accrued Vacation Continued:

- The only time vacation liability should be recorded on the modified basis is if it is included in "Matured Compensated Absences Payable". For example, employees who left service / retired prior to year end, and were paid out their unused vacation balance subsequent to year-end. This liability would be reflected in the same account and amount on both the Balance Sheet and the Statement of Activities.

## Compensated Absences

### Early Retirement Incentives:

#### Per GASB Interpretation 6 -

- ❖ A government's *unmatured long-term indebtedness (other than "specific fund debt" of proprietary and trust funds)* **should be reported as general long-term liabilities, rather than governmental fund liabilities.** This requirement applies not only to formal debt issues, such as bonds, but also to other forms of general long-term indebtedness, including compensated absences, claims and judgments, special termination benefits, landfill closure and postclosure care costs, and "other obligations" that are not due for payment in the current period.

## Compensated Absences

### Early Retirement Incentives Continued:

#### Per GASB Interpretation 6 -

- ❖ Compensated absences, claims and judgments, special termination benefits, and landfill closure and postclosure care costs should be recognized as governmental fund liabilities and expenditures to the extent the liabilities are "normally expected to be liquidated with expendable available financial resources,"...
- ❖ Governments, in general, are normally expected to liquidate liabilities with expendable available financial resources to the extent that the liabilities *mature (come due for payment)* each period.

## Compensated Absences

### Early Retirement Incentives Continued:

- Conclusion: ERI's with scheduled payments over a multiple years should be reported as long-term liabilities on full accrual basis only
  - Must separate between Due Within One Year and Due in More Than One Year

## GASB 68 – Pension Plans

- ❖ GASB 68 and 71: New Pension Standards (Effective for CY2015)

Pension Standard	Amends	Objective
GASB 68 <i>Accounting and Financial Reporting for Pensions</i>	GASB 27	requires recognition of net pension liability and a more comprehensive measure of pension expense for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers
GASB 71 <i>Pension Transition for Contributions made Subsequent to Measurement Date</i>	GASB 68	to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability

## GASB 68 – Pension Plans

### Impact on Basic Financial Statements

- 🔗 Employers must report:
  - Their proportionate share of net pension liability (NPL)
  - Annual pension expense
  - Restate beginning balance to implement retroactively
- 🔗 Full Accrual only
- 🔗 Allocate to business-type activities
- 🔗 No changes to governmental fund statements
- 🔗 Expanded Note Disclosures
- 🔗 Required Supplementary Information Schedules (RSI)

## GASB 68 – Pension Plans

### Reporting by Accounting Basis

Component	GAAP	OCBOA	Regulatory (GAAP Mandated)
Pension Expense	X		
Deferred Outflows	X		
Deferred Inflows	X		
Net Pension Liability	X	Only in Notes	Only in Notes
Expanded Note Disclosures	X	X	X
RSI Tables	X		

## GASB 68 – Pension Plans

### Source of GASB 68 Components

Accounting Line Item	Financial Statement	Source of Data
Pension Expense	Statement of Activities	Pension Plan
Deferred Outflows – Employer Contributions	Statement of Net Position	Employer
Deferred Outflows – all other factors	Statement of Net Position	Pension Plan
Deferred Inflows	Statement of Net Position	Pension Plan
Net Pension Liability	Statement of Net Position	Pension Plan
Expanded note disclosures	Notes to BFS	Pension Plan w/ some Employer calculations
Restatement : NPL and Deferred Outflows	Statement of Activities and Notes to BFS	Pension Plan

## GASB 68 – Pension Plans

### Components of Deferred Outflows/Inflows

- 🔗 Actuarial gains and losses (economic experience)
- 🔗 Differences between projected and actual investment earnings
- 🔗 Changes in actuarial assumptions
- 🔗 Change in employer proportion from one measurement date to the next (begins in year subsequent to initial implementation of GASB 68)

## GASB 68 - Pension Plans

- 🕒 What changed for year #2?
- 🕒 The Good News = No restatement required 😊
- 🕒 The Bad News = Must calculate the change in proportionate share
- 🕒 Proportionate Share – allocation of pension liability based on employer's contributions as a percent of all employer contributions to the pension plan

## GASB 68 - Pension Plans

- 🕒 Calculating Change in Proportionate Share
  - Must recalculate Year #1 net pension liability (NPL), deferred outflows (except payments made subsequent to the measurement date), and deferred inflows using the Proportionate Share % for Year #2
  - All changes are netted together, and will result in an overall Deferred Outflow or Deferred Inflow

## GASB 68 - Pension Plans

- 🕒 Must amortize deferred inflows/deferred outflows (except for deferred outflows for payments made subsequent to the measurement date)
  - All items from prior year
  - All items from current year
  - Pension Plans will provide templates for this

## GASB 68 – Pension Plans

### Required Supplementary Info (RSI)

- 🕒 Two 10-Year Schedules
  - 1<sup>st</sup> Schedule focuses on:
    - Proportionate Share of NPL
    - Covered Payroll
  - 2<sup>nd</sup> Schedule focuses on contribution amounts:
    - Statutorily Required and Actual
    - Covered Payroll
- 🕒 Notes to RSI

## GASB 68 – Pension Plans

### Terminology

- 📌 NPL – Net Pension Liability
  - = Total Pension Liability - Plan Net Position (Pension Assets)
- 📌 Proportionate Share – allocation of pension liability based on employer's contributions as a percent of all employer contributions to the pension plan
- 📌 Measurement Date – plan valuation date selected by employer to report its share of NPL in its F/S (must be within 1 FY of FYE)
- 📌 Deferred Inflows/Outflows – elements of change in NPL that will be amortized in future years
- 📌 Pension Expense – Change in NPL adjusted for contributions, certain current year deferred inflows/outflows and amortizing previous deferrals

## GASB 68 – Pension Plans

### Resources

- 📌 AOS GASB 68 Samples
  - <https://ohioauditor.gov/references/gasb68.html>
- 📌 AOS GASB 68 Technical Bulletin
  - <http://ohioauditor.gov/publications/bulletins/2015/006.pdf>
- 📌 STRS
  - <https://www.strsoh.org/employer/GASB.html>
- 📌 SERS
  - <https://www.ohsers.org/gasb-67-and-68>
- 📌 OP&F
  - [https://www.op-f.org/\(S\(1oqrk0dykqjd423q02drduq\)\)/Employers/GASB.aspx](https://www.op-f.org/(S(1oqrk0dykqjd423q02drduq))/Employers/GASB.aspx)
- 📌 OPERS
  - <https://www.opers.org/finance/index.shtml>

## Changes to Pooled Collateral

- 📌 Ohio Pooled Collateral System (OPCS)
  - Monitored by Treasurer of State of Ohio
  - Financial institutions can pledge a single pool of collateral to the Treasurer of State for all public depositors
  - OPCS website portal will be used to collect and report data
  - Reduces collateral required to 102% (or less if permitted by State)
  - If your financial institution does not participate, you will have to have specific collateral at 105%

## Changes to Pooled Collateral

- 📌 Ohio Pooled Collateral System (OPCS)
  - Financial institutions will report balances in the portal daily
  - Treasurer of State will then
    - Price collateral daily
    - Compare total market value to total amount of public deposits
    - Report results
  - You will be responsible for:
    - Periodically reviewing balances on the portal for accuracy
    - Confirm your account details (balances and contact information) at least annually
    - Can be done via a portal account or a hard copy will be mailed to you
      - One portal account for all financial institutions

GASB 77

## Tax Abatement Disclosures

### Definition

- Simplest form:
  - **A reduction or loss in tax revenues**
- A reduction in tax revenues (property, income or sales) that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.
  - written or "explicitly" understood

### Common Programs in Ohio

- Community Reinvestment Areas
- Enterprise Zone Agreements
- Tax Increment Financing Agreements (TIFs)
- Income Tax

### Disclosure Principles

- Distinguish between tax abatements resulting from agreements entered into:
  - 1) by the reporting government
  - 2) by other governments and that reduce the **reporting** government's tax revenues
- Individually or aggregated
- Disclose in period agreement is entered into and continue until agreement expires



## Disclosure Principles

- 🕒 For agreements entered by the reporting govt (1):
  - Organize by each major tax abatement program
  - such as an business economic development program
- 🕒 For agreements entered by other govts (2):
  - Organize by the govt that entered into the agreement and the specific tax being abated (i.e. property, sales, income)

## Disclosures – when entered BY the Govt

- 🕒 Brief description:
  - Name and purpose of the Abatement Program
  - Specific taxes abated
  - Authority under which the abatement was entered into
  - Criteria that makes a recipient eligible to receive an abatement
  - Mechanism by which taxes are abated, to include:
    - How the tax abated recipients taxes are reduced (reduction in value)
    - How the abated amount is determined (specific amount or % owed)

## Disclosures – when entered BY the Govt

- 🕒 Brief description (cont.)
  - Provision for recapturing abated taxes, if any, including the conditions under which abated taxes become eligible to recapture
  - Types of commitments made by the recipients of the tax abatements (ex. # of new jobs).

## Disclosures – when entered BY the Govt

- 🕒 Gross amount (accrual basis) of tax revenues reduced/abated during the current reporting period
- 🕒 If amounts are received or are receivable from other govts in association with a forgone tax revenue:
  - Name of the government(s)
  - Authority under which the amounts were or will be paid
  - Amount received/receivable from other governments

## Disclosures – when entered by ANOTHER Govt

- 🕒 Brief description
  - names of govts in agreement and specific taxes abated
- 🕒 Gross amount (accrual basis) in which the govts tax revenues were reduced/abated during the reporting period
- 🕒 Amounts received/receivable from other governments associated with forgone tax revenues
  - To include by government and the authority under which amounts were or will be billed.

## Recapture (“Clawback”) Provisions

- 🕒 Some agreements allow to recapture abated taxes if commitment is not met by tax payer. Must Disclose:
  - Criteria in which abated taxes may be recaptured
  - Amount recaptured during the year
  - Amount “eligible” to be recaptured as of the end of the reporting period but not yet recaptured

## Exceptions

- 🕒 Does not apply if the individual/entity must first perform their commitment before the govt commits to abating taxes. Agreement/commitment of the government must first be in place.
- 🕒 Most TIF’s
  - Property owner is still making compensation payments in the same amount as the tax; however, it is redirected and restricted as to use.
  - Be sure to still evaluate the agreement.

## Who Must Implement

- 🕒 All entities who are “mandated” by ORC to prepare GAAP, even if they prepare:
  - GASB 34 look-alike cash basis F/S
  - Cash basis F/S using AOS-Regulatory Basis of Accounting
- 🕒 Any entity the prepares GAAP F/S
  - even if not mandated by ORC

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## Resources

- 📄 Article by Chad Welty, Principal @ Rea & Associates  
→ <http://www.reacpa.com/article/full-disclosure/>
- 📄 AOS Technical Bulletin 2017-001  
→ <https://ohioauditor.gov/publications/bulletins/2017/2017-001.pdf>



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## Questions?



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## Contact:

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