



Dave Yost
Ohio Auditor of State

ANNUAL

2017

REPORT

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2017 ANNUAL REPORT



AUDITOR DAVE YOST AND HIS SENIOR STAFF

From left: Chief Legal Counsel Mark Altier, Ohio Performance Team Director Scott Anderson, Public Integrity Assurance Team Director Mark Porter, Chief of Staff Brenda Rinehart, Auditor Dave Yost, Senior Policy Advisor Carrie Bartunek, Deputy Chief of Staff Kevin Servick, Chief Deputy Auditor Bob Hinkle, Director of Policy and Legislative Affairs Shawn Busken, and Director of Communications Ben Marrison.

Our Mission Statement



The Auditor of State's office strives for clean, accountable and efficient governments for those we serve, the people of Ohio. We are professionals.

We work under objective standards, driven by numbers and facts without regard to politics.

Every day, we work to achieve truth in a smarter, streamlined government.



DAVE YOST • OHIO AUDITOR OF STATE

The Honorable Governor John R. Kasich
The Honorable Secretary of State Jon Husted
The State Librarian Beverly Cain
The Citizens of Ohio

Dear Citizens of Ohio,

With the end of fiscal year 2017, my staff can look back with pride at their work, which has saved or helped recover millions of dollars for Ohio taxpayers at every level of government. From the smallest township or school district to major state agencies, this office has helped Ohio's governments boost efficiency, safeguard fiscal stability and ensure accountability to the public.

This annual report summarizes these efforts and some of the initiatives that were launched or came to fruition during this fiscal year. Highlights included:

Cyberfraud prevention

With costly cybercrime a growing problem for Ohio's local governments, our office launched a series of cybersecurity training programs across Ohio. From March through May, hundreds of local-government officials turned out to learn how to thwart online criminals who try to steal valuable information or make it inaccessible until the victim pays a ransom to regain access. More sessions are planned.

Charter School Summit

In August, we convened a two-day Charter School Summit of education leaders from around the state to provide training, advice and inspiration to those who operate, regulate and participate in these alternative public schools. The event also was a platform for our call to reform the way charter schools are funded, by paying for performance instead of attendance.

Financial Health Indicators

The Financial Health Indicators, an initiative unveiled in January, is a diagnostic tool that gives Ohio's cities and counties advance warning when they are headed for financial problems. Seventeen measures of fiscal health make a city or county's financial condition comprehensible at a glance, providing an invaluable resource to government officials, voters and taxpayers.

Open enrollment

Faced with near-constant financial challenges, school district officials often see open enrollment as a way to increase revenues by admitting students from outside their districts. But without careful accounting of costs, open enrollment can be fool's gold, harming rather than helping the school district's bottom line. A November special report offered guidance to school officials on how to make the most of open enrollment's promise.

Food stamp fraud

Following a 2016 audit of Ohio's Supplemental Nutrition Assistance Program (SNAP) that uncovered evidence of significant fraud, our office worked with Ohio Rep. Tim Schaffer and Ohio Sen. Matt Huffman to promote legislation to curb food stamp fraud by requiring that food stamp cards bear a photo of the recipient. This will discourage selling food stamp cards and make it more apparent if a card is being used by an unauthorized person. House Bill 50 is under consideration in the Legislature.

It's an honor to serve the citizens of this great state.

Sincerely,

A handwritten signature in blue ink that reads "Dave Yost".

Dave Yost
Auditor of State

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INITIATIVES

CYBERFRAUD PREVENTION

As more and more cyber criminals target local governments, the Auditor of State's office ramps up its training across the state.

With costly cyber crime a growing problem for Ohio's local governments, Auditor Dave Yost launched a series of cyberfraud training programs across Ohio in the spring of 2017.

From March through May, hundreds of local-government officials signed up and turned out to learn about online threats with names such as ransomware, phishing, spear-phishing and whaling – each of them a means of gaining access to the victim's computers to steal valuable information or make it inaccessible until the victim pays a ransom to regain access. More training was planned for later in 2017 as well.

In 2016, online scammers hit Big Walnut School District in Delaware County, in an attempt to steal more than \$38,000, an eastern Ohio county court had to pay a \$2,500 ransom to regain access to its computers after they were infected with a virus, and Peru Township in Morrow County paid \$200 to stop an attack on the fiscal officer's computer. This year, Licking County was the target of an attack that shut down the county's computers for a week.

The training sessions spanned the state, from Elyria to Hamilton, Dayton to Steubenville, Marietta to Findlay and Ashland to Delaware.

"We've all seen and heard about the criminals who try to steal our personal funds. These scammers would like nothing more than to get their sticky fingers on our tax dollars,



Fraud investigator Nicole Beckwith trains 45 North Olmsted employees on how to recognize cyberfraud.

too," Auditor Yost said. "We need to be vigilant because they are becoming increasingly sophisticated in how they attempt to steal money through the internet."

The sessions taught local officials how to recognize the signs of a cyber scam, protect email addresses that often are the key that helps scammers gain access to the victim's computers, strengthen procedures that govern disbursement of public funds, and to back up computer data, because this is the best way to thwart a ransom demand.

Even as technology evolves and presents new threats to local governments and taxpayers, the mission of the Auditor of State remains the same -- to protect public institutions and taxpayers.



Auditor Yost discusses the charter school experience with three graduates: from left, Damani Barnes, Khadidja Diouf and Anna Marie Ridenour.

CHARTER SCHOOL SUMMIT

Convened in August 2016 by Auditor Yost, the two-day Summit provided inspiration and education to 320 attendees.

In August, Auditor Yost convened a two-day Charter School Summit of education leaders from around the state to provide training, advice and inspiration to those who operate, regulate and participate in providing education through these alternative public schools. The event also was a platform for his call to reform the way charter schools are funded.

More than 320 people attended to learn about recent changes in Ohio laws regulating charter schools, share best practices and be inspired by nationally known speakers who reminded listeners of the great responsibility and privilege of educating children.

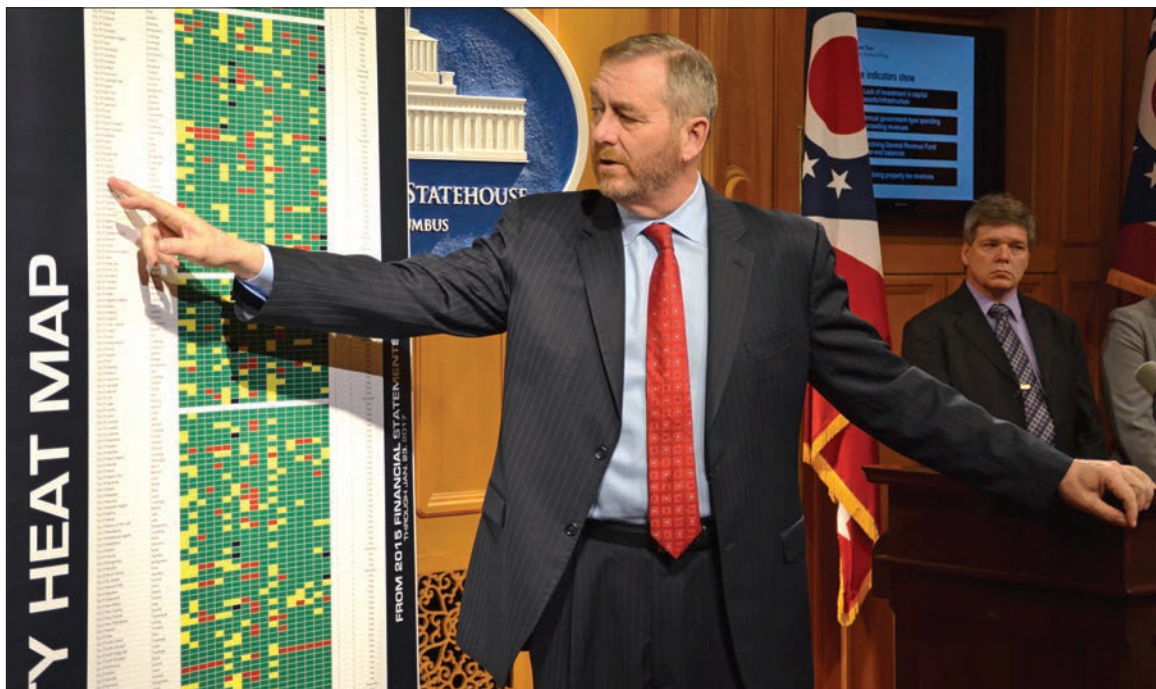
The summit included two dozen workshops including training in record-keeping and enrollment, teacher development and retention, public-private partnerships and board governance.

At this conference, Auditor Yost called on participants and state lawmakers to consider a new approach to funding charter schools, by paying for academic achievement rather than attendance.

“Learning-based funding – course completion – would mean schools get paid when they deliver a piece of education,” Yost said. “The unit could be as large as a year’s work or as little as an approved unit.”

Taxpayers aren’t paying merely to achieve attendance, Yost said, but for citizens who can read, write, do math and think. Paying schools based on educational results is a win for students and a win for taxpayers.

At a time when charter schools are under a microscope and the center of controversy, the summit underlined the Auditor’s commitment to ensuring that alternative public schools live up to their promise to Ohio’s children.



FINANCIAL HEALTH INDICATORS

When a disaster happens, there is no way to travel back in time and avert it. But we can look back and identify the warning signs that pointed to the unfortunate outcome. That knowledge can help others avoid the same mistakes.

That’s the idea behind the Financial Health Indicators, an initiative unveiled in January by Auditor Yost to give cities and counties advance warning when they are headed for financial problems, so that they can take steps to avoid a bad outcome.

Auditor’s staff looked at the financial pasts of local governments that ended up in fiscal distress, to identify the early warning signs of trouble. The result was 17 measures fiscal health, based on financial information supplied by each of Ohio’s cities and counties.

Applying those measures to the recent financial data of the state’s 88 counties and 247 cities, the Financial Health Indicators offer a fiscal health checkup for each local government, and advance warning to those on the path to financial distress.

The “fiscal physical” helps identify early warning signs of trouble.

“Not every financial problem can be avoided, but this tool provides an early warning system to help identify those that can,” said Auditor Yost.

The report, available online at <http://www.ohioauditor.gov/fhi/>, displays the information for each local government as a series of 17 color-coded tabs. Green signifies a positive outlook for that indicator, yellow is cautionary and red signals a potential critical problem. A single yellow or red indicator does not indicate imminent financial danger, but the more indicators showing red or yellow, the

closer the local government is to experiencing fiscal stress. Each tab is backed up by explanatory charts and narratives for those who want to take a deeper dive into the data.

The Financial Health Indicators make a city or county’s financial condition comprehensible at a glance without the need to be a financial expert, making it an invaluable resource not only to city officials, but to residents, voters and taxpayers, who can use the Indicators to hold their elected officials accountable.

OPEN ENROLLMENT



In a special report in 2016, the Auditor’s office examined the financial impact of school district open-enrollment policies, based on audits of four districts that rely on open-enrollment revenue.

Faced with near-constant financial challenges, school district officials often see open enrollment as a way to increase revenues by admitting students from outside their districts. While these students are a source of additional revenue because they bring with them a state subsidy of nearly \$6,000 each, without careful accounting of costs, open enrollment can be fool’s gold, harming rather than helping the school district’s bottom line.

This danger was underlined in a November special report from the Auditor of State titled “Weighing the costs and benefits of Open Enrollment.” By carefully examining the financial details of open enrollment in four Ohio school districts in 2015, auditors showed how a focus on open-enrollment revenue can blind school officials to associated costs that sometimes far outweigh the revenue gained.

State auditors found that the open-enrollment policy in Hubbard Exempted Village School District in Trumbull County led to a net revenue gain of \$1 million, while open enrollment in Coventry Local School District in Summit County resulted in a net loss of \$1 million. In Lake County, Madison Local School District showed a net gain of \$178,000, while Austintown Local School District in Mahoning County missed breaking even by \$25,000.

The key, auditors found, was for districts to carefully account for the additional costs in staff, classroom space and other resources that districts incur when they admit outside students.

“Open enrollment is a complex equation with no single solution,” Auditor Yost said. “School districts considering this educational option should tailor policies to their priorities, constantly monitor their outcomes and adjust accordingly.”

This groundbreaking report offers vital guidance to school officials trying to manage costs, improve efficiency and maximize revenue.

It can be found at https://ohioauditor.gov/publications/open_enrollment_report.pdf.



Auditor Yost spoke to Congress in Washington, D.C. in July 2016 regarding the office's audit of and findings for potential fraud in the SNAP program.

FOOD STAMP FRAUD

The Auditor's office has called for legislation to help reduce fraud by requiring photos on EBT cards.

In February, Auditor Yost, with Ohio Rep. Tim Schaffer and Ohio Sen. Matt Huffman, introduced legislation seeking to reduce food-stamp fraud by requiring photos of recipients on food-stamp cards.

The legislation was spurred by a June 2016 audit of the state's \$2.5 billion Supplemental Nutrition Assistance Program (SNAP), which serves 1.6 million Ohioans. The audit found structural weaknesses in the SNAP program that leave it open to fraud. It also identified several categories of suspicious transactions involving SNAP benefit cards that suggest fraud is occurring.

Appearing before the U.S. House Committee on Agriculture a few days after the release of the audit, Yost told Congress, "The main goal of the audit was not to find cases of fraud, but to search for structural weaknesses in the program that heighten risk. Our findings lead me to conclude that there are likely millions of dollars in fraud in Ohio's \$2.5 billion program."

The SNAP program is intended to pay for food for economically disadvantaged families, but some benefit cards are used in unauthorized ways, such as being sold for cash and drugs. Fraudulent use is suspected when a food-stamp card is used for frequent transactions in the same amount, there are significant numbers of even-dollar transactions at small retailers, repeated requests are made to replace "lost" cards, many invalid attempts to type a card's PIN are recorded, and there is frequent manual entry of card details.

More than 118,000 people receiving Ohio SNAP benefits were found to have spent nearly \$29 million of that aid out of state, which could mean the recipient doesn't live in Ohio, is receiving benefits in multiple states or that the card was sold to the person using it out of state.



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OFFICE DIVISIONS

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AUDIT DIVISION

The Auditor of State is the constitutional officer responsible for auditing all public offices in Ohio — more than 5,900 entities. This includes cities, villages, schools, universities, counties, fire districts, townships, cemeteries, libraries, state and county agencies, and commissions.



Financial Audit Section

The Financial Audit Section is responsible for conducting audits of all public entities as required by Ohio law. Generally, the Auditor of State's office is required to perform financial and compliance audits of each public entity at least once every two fiscal years. The office must review the methods, accuracy and legality of the accounts, financial reports, records and files of all public entities and, where applicable, express an opinion on whether a public entity's financial statements are fairly presented.

Additionally, it is the responsibility of the Financial Audit Section to determine whether an entity has complied with the laws, rules, ordinances

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Chief Deputy Auditor Bob Hinkle, left, Assistant Chief Deputy Auditor Marnie Carlisle, and Assistant Chief Deputy Auditor Leanna Abele

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and orders pertaining to the office. The Auditor of State's office released 4,311 audit reports from July 1, 2016 through June 30, 2017, which include traditional financial and compliance audits, agreed-upon procedure (AUP) engagements and basic audits performed by both the Auditor of State's office and Independent Public Accounting (IPA) firms. In 108 of these audit reports, auditors issued findings for recovery totaling \$4,585,831.

The Auditor of State's office and contracted IPAs began auditing the financial statements filed via the Hinkle System during fiscal year 2016. The Hinkle System is an internet-based application that allows certain financial statement, debt and demographic data to be entered, uploaded and transmitted to the Auditor's office, satisfying the filing requirements prescribed by the Ohio Revised Code and Ohio Administrative Code.

During FY 2017, over 95 percent of the almost 5,500 public offices required to file submitted financial statements and other information to the Auditor's office via the Hinkle System.

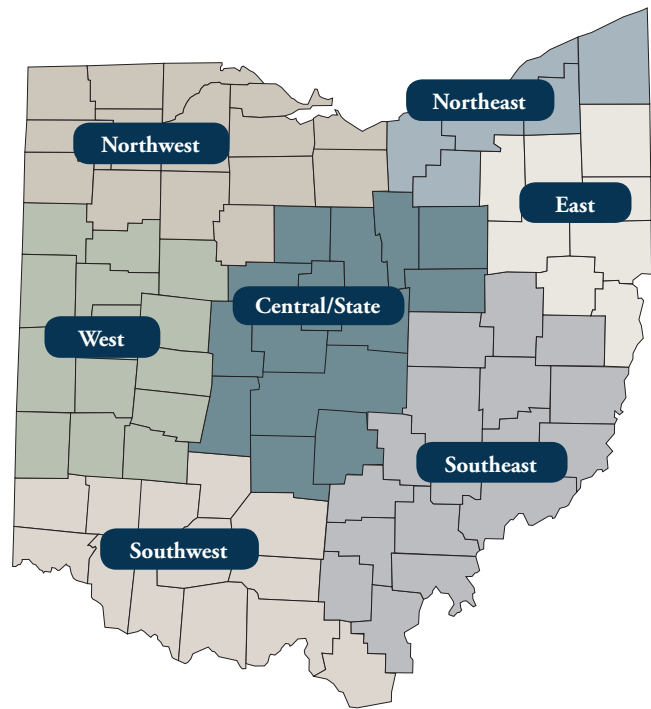
Medicaid/Contract Audit Section

The Medicaid/Contract Audit Section (MCA) is dedicated to ensuring that Ohio's Medicaid dollars are not abused or wasted. The MCA Section employs 29 professionals with statewide jurisdiction to audit Medicaid providers. The work performed by these individuals combats fraud, waste and abuse, and improves the integrity and cost-effectiveness of the Medicaid program. The section also participates in a number of interagency Medicaid program integrity groups and the Ohio Healthcare Investigators Organization, both of which focus on combating fraud, waste and abuse in Ohio.

The MCA Section performs work under a letter of arrangement with the Ohio Department of Medicaid (ODM). This work includes compliance examinations of Medicaid providers and data mining activities that identify risk areas for fraud, waste and abuse.

The MCA Section also performs work under interagency agreements with the Ohio Department of Developmental Disabilities and ODM. This includes agreed-upon procedures to test the cost reports submitted by county boards of developmental disabilities (CBDDs), councils of governments (COGs), as well as intermediate care facilities for individuals with intellectual disabilities (ICFs), which include state-operated developmental centers and

AUDIT REGIONS



PASSPORT administrative agencies. In addition, MCA performs agreed-upon procedures to test payments made to eligible providers in the Medicaid Provider Incentive Programs (MPIP).

During FY 2017, the Auditor of State's office released 20 Medicaid provider compliance examinations and identified more than \$9 million in overpayments. The MCA Section also released reports on 66 CBDDs and 11 COGs, identifying over \$40,000 in overpayments and adjustments totaling more than \$11 million in non-federal reimbursable costs. The section released another 14 reports on ICFs which identified more than \$108,000 in overpayments, as well as adjustments of over \$12,000 in non-federal reimbursable costs. In addition, the section released 76 reports on the incentive payments made to eligible providers to implement electronic health records. Overpayments from all report types combined total more than \$9.14 million.

A representative from the MCA Section presented at a national conference, highlighting the section's efforts to identify improper payments in the state's Medicaid program. In addition, the Auditor of State has participated in an initiative with other state

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auditors' offices, the Governmental Accountability Office and the Centers for Medicaid and Medicare Services to expand the role of state auditors in identifying improper Medicaid payments and implementing recommendations to improve the program's system of controls.

Center for Audit Excellence

The Auditor of State's Center for Audit Excellence (CFAE) accomplished a great deal during FY 2017, certifying more than 1,850 reports, completing nine regional reviews and performing over 65 working paper reviews of independent public accounting (IPA) firms.

In the third year of GASB 68 census testing, the group conducted more than 250 examinations, while working with the pension systems and their independent auditors, as well as the Auditor of State's audit staff.

The reporting of the second year pension information in accordance with GASB 68 provided additional complexities that generally were not issues in the year of implementation. The Center for Audit Excellence developed and presented a detailed, hands-on training workshop to the audit managers in each audit region. A recorded webinar will be made available to staff to ensure auditors understand these complexities and are able to effectively and efficiently audit the pension amounts reported in financial statements.

The Center for Audit Excellence completed the

Audits by the numbers

\$4,585,831

findings for recovery

4,311

audits

• FY 2017 numbers

implementation of the American Institute of Certified Public Accountants's Clarified Attestation Standards. The group revised guidance, procedures and practice aids, as necessary, for the Pension Census Data Examination engagements, Agreed-Upon Procedures engagements and other engagement types, to ensure the engagements were completed in accordance with applicable professional standards.

During the winter, the center's management was asked to examine ways to help retain and strengthen Auditor of State staff for the future. As part of this process, the center has reviewed new hire and sponsorship training programs, and has proposed to redesign these programs. This proposal was presented to executive management during the spring, and portions of the proposals are already being implemented.

The Auditor of State's office relies on the assistance of, and contracts with, **Independent Public Accountants (IPAs)** to satisfy its obligation to perform statutorily required audits of each public office.

From July 1, 2016, through June 30, 2017, the Auditor's office released 1,913 financial audit reports performed by IPAs, including 1,502 traditional financial audits and 411 agreed-upon procedures (AUP) engagements.

IPA firms interested in bidding on financial audits must register in the IPA Portal, an internet-based application, and be approved by the Auditor of State's office. Currently, there are 91 active IPA firms registered with the office.

The IPA portal allows firms to express interest in audit contracts, view bid requests, update firm

information, view their scores and report status, view client detail and Hinkle System filings, and process client invoices. In FY 2017, the IPA Portal was updated to include a contract modification application.

IPAs are required to use the application to obtain client and Auditor of State approval for all contract modifications. Designated firm personnel prepare contract modifications via the IPA Portal for approval. Client management has the ability to access the application via the Auditor of State's eServices website. All approvals are electronic, and email notifications are generated throughout the process.

TRAINING

The Training department offers various workshops and conferences to help auditors and local officials better do their jobs.

All Auditor of State audit staff members are required to earn 80 hours of Continuing Professional Education (CPE) every two years. The Training Section follows Generally Accepted Government Auditing Standards (GAGAS) to administer and track the audit staff's CPE hours. Accounting and Auditing Trainings are held annually in each region to provide auditors with eight hours of CPE, including the most up-to-date information in the field of auditing and accounting. In an effort to reduce travel and training costs during FY 2017, the office offered audit staff unlimited governmental and professional CPE through Becker webinars.

In August of 2016, the Auditor of State partnered with the charter school community, the Ohio Department of Education, and statewide officials to bring together some of the nation's experts on charter schools. The Charter School Summit's goals were to share best practices, hear success stories, and discuss challenges facing educational leaders today. The summit trained over 300 educators, financial experts and business professionals.

Also in August 2016, the Auditor of State partnered with the Ohio Society of Certified Public Accountants to host the Combined Independent Public Accountants conference with topics including the Affordable Care



From left: Kimberly Dodds, Maxwell Kaufman, Callie Staggers, Lauren Shull.
Seated: Training Director Janice D'Alessandro.

Act, changes to federal programs and single audits, school funding, IPA contracting, and public integrity.

This past October, the Auditor's office hosted its second "All-Staff Training" for more than 750 employees in Columbus. Representatives from the Governmental Accounting Standards Board (GASB), the Ohio Attorney General's Office, and the City of Dayton Police were on hand to present updates to the staff in attendance, all of whom earned six CPE hours.

Also in October, over 500 fiscal officers attended the Village Fiscal Officers and Clerks Training. Fiscal officers earned six CPE hours by attending one of the five different trainings across the state. Those in attendance learned about the Hinkle System and received important audit, legal and Ohio Public Employees Retirement System updates to help them better serve their communities.

The Fiscal Integrity Act (FIA) online self-reporting portal, which tracks CPE credit hours for registered fiscal

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Gregory Coleman, the FBI agent who took down the “Wolf of Wall Street,” educated and entertained the more than 600 people who attended the 2017 Fraud Conference at the Hyatt Regency Downtown in Columbus.



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officers, has more than 1,650 fiscal officers registered, and over 130 training courses. Fiscal officers receive an electronic certificate of completion once all hours are completed for filing and auditing purposes. The Training Section also partners with the Ohio Township Association annually to host a booth for fiscal officers at its conference. This partnership provided fiscal officers with an opportunity to register and earn up to nine CPE hours on the latest training requirements from the organization.

In early April, over 600 mayors, council members, trustees and fiscal officers attended the two-day Local Government Officials Conference (LGOC) in Columbus. The annual statewide conference offered new township fiscal officers and village clerks more than 60 workshops on topics including basic fund accounting, chart of accounts, cybersecurity and fraud prevention. This first-class training event provided

participants with 11 CPE hours toward the FIA requirements.

During the spring of 2017, the Public Integrity Assurance Team (PIAT) and Training Section offered eight cybersecurity workshops that were eligible for two hours each of CPE credits. Nearly 500 people turned out for the trainings, which were offered free of charge.

In May, the office co-sponsored the 17th Emerging Trends in Fraud Investigation and Prevention Conference with the Association of Certified Fraud Examiners and the Ohio Attorney General's office. This year's conference featured three keynote speakers: Gregory Coleman, an investigator who helped take down the “Wolf of Wall Street,” Pulitzer Prize winner Jeff Gottlieb, and Dr. Robert Leonard, a forensic linguistics expert. The conference trained over 600 law enforcement officials, investigators, accountants and attorneys on the latest trends in the field.

LOCAL GOVERNMENT SERVICES

Not only does LGS assist local government officials with tasks such as preparing financial reports, but it also provides help to entities that are in fiscal distress.

The Local Government Services Section (LGS) serves as a consulting and fiscal advisory group to all governmental agencies and subdivisions. It provides an array of services including, but not limited to, financial forecasts, Generally Accepted Accounting Principles (GAAP) conversion assistance, annual financial report processing, record reconstruction and reconciliation, fiscal caution, fiscal watch or emergency assistance, merger and dissolution assistance, and financial management training for elected officials. LGS also distributes publications such as accounting manuals and policy bulletins to assist local governments in performing their duties and to keep them up to date on their statutory and accounting requirements.

During the past fiscal year, LGS assisted local governments in the preparation of 298 annual financial reports, including 56 Comprehensive Annual Financial Reports (CAFRs), 168 Basic Financial Statements (BFS), 23 supervision engagements (both CAFR and BFS) and 51 cash basis statements. In addition, among other projects, LGS responded to 123 fund requests and 976 inquiries on various issues from local governments.

LGS also assisted in the release of three school districts (Mansfield City, East Knox Local and Bellaire Local) from fiscal emergency.

In addition, LGS assisted in the release of two municipalities (the Village of Lakemore and the City of Massillon) from fiscal emergency and the declaration of three municipalities (the City of Norwood, the Village



Back row: Tracie McCreary, Robert Burlenski, Dave Thompson. Middle: Belinda Miller, April Davis, Nita Hendryx. Front: LGS Chief Unice Smith.

of Wellsville and the Village of Mt. Sterling) into Fiscal Emergency. LGS serves as fiscal supervisor to 39 entities in fiscal emergency, providing financial counsel to both the local governments and the oversight commission in recovery efforts.

LGS also assisted with the dissolution of two municipalities (the Village of Somerville and the Village of Salesville).

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As required by Ohio Administrative Code Chapter 126:3-1-01F(1) (b), LGS prepared Financial Accounting reports for Central State University and Owens Community College in 2015 when they were placed in fiscal watch by the chancellor. During FY 2017, LGS reviewed changes and improvements implemented by the two higher education entities to determine whether they had implemented or were in the process of implementing an effective accounting and reporting system. LGS issued its findings in separate reports dated March 30, 2017, to the Department of Higher Education as part of the fiscal watch termination process for both institutions.

LGS also produced a number of publications, including “The Village Officer’s Handbook,” “The Ohio Township Handbook,” “The Ohio County Treasurer’s Manual,” and “The Ohio County Sheriff’s Manual.”

The section was involved in external and internal training, which included instruction on Financial Statement Footnotes and how to file them in the Hinkle System, hosting the Fall Village Fiscal Officer Training and the 2017 Local Government Officials Conference. The two-day conference helps fiscal officers and other local officials develop their knowledge of government accounting, budgeting, financing, legal compliance, ethics requirements and Ohio’s open government laws. Semi-annual internal training for all staff occurred in August 2016 and January 2017.

LGS staff also assisted with Auditor of State responses to four Governmental Accounting Standards Board (GASB) Exposure Drafts. The section updated regulatory and Other Comprehensive Basis of Accounting (OCBOA) financial statement shells and notes. LGS staff participated in surveys on the Governmental Accounting Standards Board’s (GASB) Tentative



During FY 2017, LGS reviewed changes and improvements by Central State University and Owens Community College to determine whether they had implemented or were in the process of implementing an effective accounting and reporting system.

Decisions Regarding Fiduciary Activities, in addition to Financial Reporting Model Improvements - Governmental Funds. Staff also served on the National State Auditor’s Association (NSAA) Audit Standards and Reporting Committee, as well as the Ohio Government Finance Officers Association (GFOA) Board of Trustees.

This past fiscal year, LGS staff made presentations to the Ohio Government Finance Officers Association, the Greater Ohio Policy Center, the Business Classroom at Mount Union University, First Suburbs, the Ohio Municipal Finance Summit, the Buckeye State Sheriffs’ Association, the Midwestern Audit Forum, the Ohio Association of Public Treasurers, and to the Independent Public Accountants Conference. LGS also was involved in the Ohio School Boards Association Capital Conference.

PUBLIC INTEGRITY ASSURANCE TEAM

The Public Integrity Assurance Team (PIAT) serves as a link between the Auditor of State's office and the law enforcement community. The team consists of 10 investigators, nine forensic auditors and two attorneys who combine investigative, special auditing and legal specialties into one cohesive team. PIAT has collaborated with federal, state and local law enforcement agencies.

Village of Mt. Sterling

The Madison County Prosecutor's Office contacted the Auditor of State's office after receiving information concerning a potential theft from the Village of Mt. Sterling. Joseph Johnson, the former village administrator, was found to have purchased for his personal use a zero-turn mower using village funds. By the time the investigation was completed, the Auditor's office determined Johnson had stolen \$724,000 from Mt. Sterling. He made numerous personal purchases of vehicles, trailers and equipment, among other things, using a village credit card which nobody else at the village was aware they had. He made large transfers of funds from the village bank accounts to his personal bank account using Mt. Sterling's ADP account. Johnson pleaded guilty before the Madison County Common Pleas Court and was sentenced to 10 years in prison.

Franklin County Court of Appeals Judge

The Franklin County Common Pleas Court contacted the Auditor of State's office regarding their internal investigation of complaints involving misuse of campaign funds and the filing of false financial reports against Court of Appeals Judge Tim Horton.

In February 2017, Judge Horton pleaded to a Bill of Information charging him with three misdemeanor counts in violation of Title 3517.13(b) willfully misusing campaign funds and willfully causing the filing of false financial reports with the Ohio Secretary of State. Judge Horton was subsequently sentenced to a six-month jail sentence which was suspended, one year of community control, a \$1,000 fine, and was ordered to pay \$2,065 to the Mid-Ohio Foodbank. Horton was also ordered to participate in Alcoholics Anonymous, 100 hours community service, and to serve 10 consecutive days in the Franklin County Jail.

STAR Community Justice Center

While conducting a financial audit, the Southwest Region of the Auditor of State's office notified PIAT of fraud allegations at the STAR Community Justice Center (STAR) made by the executive director regarding the



From left: Mike Spiert, Robert Smith, Randy Turner and Mark Porter

former deputy director, Josh Saunders. Shortly thereafter, Saunders also submitted a letter to the Auditor's office accusing the executive director of mispending STAR funds as well. After conducting a preliminary review, PIAT collaborated with the Bureau of Criminal Investigation (BCI) to conduct a joint investigation. The investigation revealed that the executive director, deputy director and several other employees had misused STAR funds.

PIAT obtained credit card statements and receipts for purchases made by both directors during the period of July 2013 – June 2015. After reviewing these documents, PIAT determined the need for further evaluation and application of audit procedures. After completing the special audit, PIAT proposed 14 findings for recovery (FFR) against 11 STAR employees totaling \$20,090.

Cybersecurity

The Auditor of State's office began offering cybersecurity training for local government officials in March 2017. The trainings are conducted by PIAT Investigator Nicole Beckwith, who is also a digital forensic analyst for PIAT. Investigator Beckwith has conducted eight, two-hour training workshops across the state attracting nearly 500 participants. The feedback from the participants has been overwhelmingly positive and many have requested additional cybersecurity training opportunities which have been scheduled.

OHIO PERFORMANCE TEAM

Performance audits help government and school officials identify areas in which they can reduce costs and improve efficiency, as well as aid them in resolving any financial difficulties.

The Ohio Performance Team was created to build upon the office's long-standing reputation for conducting detailed performance audits. Performance audits of Ohio's state agencies, local governments and school districts provide elected officials and government employees with an objective analysis of their operations to help them reduce costs, aid decision making, improve efficiency and increase accountability.

ORC §117.46 (enacted in 2011) requires the Auditor of State to conduct performance audits of at least four state agencies each biennium. The performance audit team completed audits of the Ohio Department of Transportation, the Ohio Bureau of Workers' Compensation, the Ohio Department of Agriculture and the Ohio Department of Health in fiscal year 2017.

In addition, performance audits were performed for 14 school districts and two local governments, generating recommendations estimated to reduce costs by almost \$47 million.

Ohio law authorizes the Auditor of State to conduct performance audits of any school district or local government in fiscal caution (school districts only), fiscal watch or fiscal emergency. The goal is to help improve the cost-effectiveness of operations and resolve financial difficulties. The Auditor of State also conducts performance audits upon request for government entities seeking additional feedback on operations and ideas for cost savings and service improvement.

On June 14, 2016, Gov. John Kasich signed House Bill 5 into law, allowing local governments and state agencies to



PERFORMANCE AUDITS COMPLETED

4 state agencies
14 school districts
2 local governments

POTENTIAL SAVINGS FROM
PERFORMANCE AUDIT
RECOMMENDATIONS
\$46.8 million

In the photo, from left: OPT Director Scott Anderson, Joe Rust, Mark Ingles and Max Uhl

request feasibility studies from the Auditor of State's office. On April 17, Auditor Yost announced that the first study would determine the utility of sharing school bus facilities and maintenance resources among several Belmont County school districts and two educational service centers. These are the Bellaire Local School District, Bridgeport Exempted Village School District, Shadyside Local School District, St. Clairsville-Richland City School District, the East Central Ohio Educational Service Center in Tuscarawas County and Muskingum Valley Educational Service Center in Muskingum County. The studies are voluntary and the cost is covered by a grant program established by the Legislature and funded by the Auditor's Leverage for Efficiency, Accountability and Performance Fund.

In December 2016, the Ohio General Assembly also approved a provision in Senate Bill 3 requiring the Auditor of State to conduct a comprehensive performance audit of all of the state's 52 educational service centers within three years. The office is preparing to fulfill this responsibility and looks forward to sharing the results with the public, elected leaders and education officials.

LEGISLATIVE AFFAIRS

The Policy and Legislative Affairs Division serves as a link between the Auditor of State's office and the Ohio General Assembly. They communicate the needs of the office to state legislators to help them make well-informed decisions on legislation impacting the office.

House Bill 384: Performance audits of institutions of higher education

The legislative team worked with Ohio Reps. Tim Schaffer and Mike Duffey to enact House Bill 384 of the 131st General Assembly. The new law enables the Auditor of State to include a performance audit of an institution of higher education as one of four state agency performance audits conducted by the office each biennium. The Ohio Performance Team (OPT) has conducted 12 state agency performance audits to date, recommending more than \$103 million in potential savings, with an average return on investment of \$28 for every dollar spent. Ohio's universities and colleges are some of the state's greatest assets. Still, like other large organizations, their operational efficiency can be improved, thereby passing savings on to students.

HB 384 was passed unanimously out of the House and the Senate. The Ohio State University, the state's flagship university, took an interest in this opportunity very early in the legislative process and volunteered to be the first institution to undergo a performance audit. The office expects to release the results of the audit in 2018.

Senate Bill 3 of the 131st General Assembly: System-wide performance audit of educational service centers

Over the past few years, the Auditor's office and the Ohio Educational Service Center Association have discussed the potential for a statewide performance audit of the network of 52 educational service centers (ESCs) throughout Ohio. The concept was brought to fruition with House Bill 459 which was later amended into Senate Bill 3 in the final months of the 131st General Assembly.

The bill allows the Auditor of State's office to conduct a three-year, statewide performance audit of all ESCs. The cost of the performance audit is estimated to be \$375,000, half of which will be borne proportionally, and half at an equal rate by the 52 ESCs. Each ESC will



From left: Corey Jordan, Shawn Busken, and Katie Bloom.

pay the same flat rate, along with an additional rate based on the number of students they serve. Additionally, the legislation provided the Auditor of State with explicit authority to conduct a performance audit of ESCs. Finally, the law allows the Auditor's report to help form recommendations for benchmarking rules and procedures to be made by the State Board of Education.

OPT has begun its work on the examination and looks forward to reporting the results to benefit the ESCs and Ohio's taxpayers.

House Bill 509 of the 131st General Assembly: Streamlining the village dissolution process

Since 2007, the Auditor of State's office has overseen the village dissolution process in six villages, and the trend of dissolution appears to be ticking upward. House Bill 509, introduced by Ohio Rep. Gary Scherer in the 131st General Assembly, would codify the office's current practice as facilitator and set further guidelines for the dissolution process. Among other provisions, the bill would make it easier for residents of a village to initiate a dissolution. The required number of signatures on

Continued on next page >>

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dissolution petitions would be lowered, and the petitions could be presented to the board of elections if the village council fails to act. Finally, the language outlines the process for transferring both village and utility property to the absorbing entities.

The language present in HB 509 was amended into HB 49, the state's biennial budget bill, and will take effect in September 2017.

Protecting Ohioans' tax dollars through stronger credit card controls and oversight

The use of credit cards by local governments has become more prevalent in recent years; however, so too has the incidence of credit card fraud by local government officials. Credit card fraud can have a negative financial impact as demonstrated in the office's investigations of the Perrysburg Exempted Village School District and the Village of Mount Sterling.

Perrysburg Village Exempted School District

- District had 53 total cards, 26 of them were unknown to the treasurer.
- A fiscal clerk in the department made 43 fraudulent transactions, spending \$91,588.
- Used the card for personal travel expenses, sporting event tickets, fitness equipment and booster expenses for a university.

Village of Mount Sterling

- Village administrator made fraudulent credit card transactions totaling \$331,271 over four years.
- The same individual made purchases of vehicles, auto parts, televisions and other items for personal use.
- He was sentenced to 10 years in prison, in addition to restitution in the amount stolen from the village.

As shown above, an individual can make hundreds of thousands of dollars of transactions and accumulate a considerable amount of debt while potentially paying a minimum balance on the card, with no recourse to the local government entity after the fact. Based on the foregoing, the Auditor of State is proposing legislation to tighten controls over credit card use by local governments.

Local governments would have two options when implementing the newly-proposed controls. The first model, the "Custody and Control Model," is a stronger control system and is currently used by some local governments in different formats. The second model, the "Compliance Officer Model" encourages more oversight by an independent officer along with stronger controls. Both models achieve the same goal: protecting the local government and taxpayer from those wishing to defraud them.

In addition to these two separate management models the legislation will:

- Require every local government to have a credit card policy in place
- Require the name of the local government on the card
- Prohibit the use of a debit card

- Enact a penalty for misuse of a credit card with purpose to defraud

The legislation will be introduced before the end of the General Assembly.

HB 50 and SB 80: SNAP Integrity

Last year the Auditor's office issued a report identifying program integrity weaknesses in the Supplemental Nutrition Assistance Program (SNAP) administered in Ohio. After testifying to Congress about that report, Auditor Yost became aware that the U.S. Department of Agriculture, which oversees SNAP, permits states to require a photo ID on cards as a deterrent to fraud. As a result, the Auditor's office began working with Ohio Rep. Tim Schaffer and Ohio Sen. Matt Huffman on legislation to combat fraud in the program by requiring a photo ID on SNAP cards.

SNAP fraud occurs in two major forms: The first is the sale of the card itself to another person. Members of law enforcement testified in committee that it is not unusual to find multiple SNAP cards when drug raids are conducted. Clients of the program may sell their cards to a dealer in exchange for drugs or cash. Second, SNAP clients sometimes sell their benefits to the merchant themselves for pennies on the dollar in cash.

Requiring a photo ID on SNAP cards will have a significant deterrent effect on the sale of cards for cash or drugs. It will also give retail cashiers greater ability to spot and report fraud in progress. The language provides exemptions for individuals 60 years and older, disabled, those who are victims of domestic violence, and those with religious objections to a photo.

House Bill 50 was passed out of the House Community and Family Advancement Committee and awaits a vote by the full chamber. Senate Bill 80 awaits a second hearing in the Senate Health, Human Services and Medicaid Committee.

HB 103: Fiscal Emergency Revisions

The Auditor's office worked with both Ohio Rep. Bill Reineke and members of the Senate on House Bill 103. The bill made much needed changes to R.C. §118, which outlines the fiscal distress process for local governments.

An entity in fiscal emergency must develop and implement a financial recovery plan to get back on solid financial footing. The entity is held accountable by a Financial Planning and Supervision Commission that approves or disapproves of the plan. The commission is given broad powers to enforce the plan and ensure the entity is taking the correct path towards financial solvency.

House Bill 103 addresses the make-up of the Financial Planning and Supervision Commission to ensure necessary state oversight and objectivity, while maintaining the influence of local officials. It also speeds up the appointment and selection of the commission, and encourages local governments in fiscal emergency to make use of all available funds as they take steps toward solvency.

The bill passed both the House and Senate, and awaits the Governor's signature.

LEGAL DIVISION

Attorneys offer any legal assistance necessary during the audit process, and provide training for elected officials and employees.

In addition to the Chief Legal Counsel, the Legal Division employs one Deputy Chief Legal Counsel, four full-time staff attorneys, one administrative staffer and one legal intern. Attorneys are assigned to provide legal assistance to Auditor of State employees in one or more of the office's seven geographic regions, and to the state, Medicaid, and performance audit sections.

The Legal Division also provides continuing education to elected officials and government employees through training programs and conferences on government issues, as well as in-house instruction and updates on legal matters to Auditor of State employees. Legal staff provide updates and training to various units of local government, in addition to responses to constituent inquiries about legal issues. Under an arrangement with the Ohio Attorney General, the division's attorneys travel throughout the state and make presentations of the Certified Public Records Training, which every elected official in Ohio is required to take once each term. In the past year, the division has provided legal presentations to over 3,100 participants at more than 40 gatherings on subjects including sunshine laws, force account spending, Robert's Rules of Order, motions, resolutions and ordinances, findings for recovery and proper public purposes, the disposition of public property and public bidding.

The Legal Division is responsible for tracking claims for public money determined to be missing, misappropriated or stolen, due but not collected, or unaccounted for, and for which findings for recovery were issued during the audit process. Ohio law prohibits any state agency or political subdivision from awarding a contract for goods, services or construction to any person or entity against which a finding for recovery has been issued by the Auditor of State as long as the finding remains unpaid and unresolved. The division also maintains a web page that enables public bodies to view findings for recovery during the contract process.

On occasion, audits uncover potentially unethical conduct by public officials. In these situations, the division prepares a referral to the Ohio Ethics Commission for investigation and action. The division also assists in the preparation of referrals to other governmental agencies when public entities fail to properly remit employee taxes and benefits.

In addition to findings for recovery, audits



Clockwise from left: Kourtney Selogy, Chief Legal Counsel Mark Altier, James Harding, Kristen Martin, Melissa Gossman, and Kelly Mumaw.

may include findings for adjustment, which involve expenditures that a public entity has made from an inappropriate source or fund. Audits also may contain noncompliance comments or management letters, both of which note failures to comply with legal requirements or best financial practices. The division reviews and approves all such entries before their inclusion in audits.

Attorneys in the division also prepare all deeds and other documents of transfer in disposition of real estate by the State of Ohio. Data and information related to such transfers are secured by the division, and transfers are processed through the Ohio Department of Administrative Services and the Office of the Ohio Secretary of State before submission to the Governor for signature. During the past fiscal year, 63 transfer documents have been processed by the division.

In addition, attorneys of the division provide legal advice and assistance to the various departments of the Auditor's office and their employees and staff on matters related to office operations. Further, the Legal Division oversees contracting of independent public accountants, and approves all contracts entered into by the Auditor of State's office.

PUBLIC AFFAIRS

The Public Affairs Division is responsible for all internal and external communications and publications for the Auditor of State's office. The division also serves as a liaison between the Auditor of State's office and the news media. Public Affairs issues news releases and manages the content of the office's website, ensuring that the public – through the news media and the internet – has timely, accurate information about the activities of the office.



From left: Diana Holbrook, Director of Communications Ben Marrison, Dominic Binkley and Beth Gianforcaro.



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Multimedia and Social Media

One of the many responsibilities of the Public Affairs Division is to help the public, including the media, understand complex audit information by communicating it clearly. To aide in this mission, the division has placed greater emphasis on the use of multimedia to enhance the presentation of information through: infographics, interactive maps, video, photo and audio.

The division also operates the Auditor of State's Twitter and Facebook accounts, which allow the office to better interact with and spread information

to the public and news media. During the past fiscal year, the division gained 627 new Twitter followers, for a total of 2,650, and 99 new Facebook likes, for a total of 732.

Field Operations

The Auditor of State's office has liaisons in each of the regional offices across the state. The main role of the Field Operations team is to serve as the link between the Auditor's office, local officials and the general public. The regional liaisons work closely with other Auditor of State staff to provide assistance and information for the benefit of taxpayers.

ADMINISTRATIVE DIVISION



UAN team, from left:
Matthew Dean,
Michaela Pew, Tim
Moloney, Joseph Mills,
Thomas Hartman

The Auditor of State's Administrative Division is responsible for overseeing the operations of the office and comprises the **Information Technology, Human Resources, Finance and the Uniform Accounting Network**. This division includes senior staff members, led by the Chief of Staff. Together, the Administrative Division implements policies and procedures for the office.



Finance team: Top row from left: Ray Dandera, Shane Vaia, Chief Financial Officer Bill Collier, Toieka Thomas, Kim Eckert, Annette Neal. Seated: Matt Newman, Janeen Bell-Dawson. Not in picture: Pat Kelly and Chris Weatherly.



Human Resources team, from left: Deborah Squillace, Director Cindy Sovell-Klein, and John Redkey

Human Resources

The Auditor of State’s Human Resources Department promotes employee relations, creates an equal employment opportunity workplace and provides quality service, guidance and assistance to all employees in areas related to Human Resources. These areas include, but are not limited to, promotions and transfers, new hires and resignations, healthcare benefits and labor relations. The department also is responsible for developing, enforcing and maintaining all employee policies and procedures for the Auditor’s office. The department is made up of two sections:

Payroll

The payroll section is responsible for preparing Auditor of State payroll for submission to the Department of Administrative Services, reviewing employee payroll information and verifying accuracy of information entered into the computer system. Additionally, the department assists with and responds to inquiries from employees regarding payroll issues and the completion of payroll-related forms.

Recruitment

This section recruits prospective employees for the Auditor of State’s office. Human Resources staff members actively visit college campuses and job fairs to educate potential employees on the benefits of joining the office.

Information Technology

Information Technology (IT) develops and maintains the technology used by the Auditor of State’s office. A significant number of Auditor of State employees regularly work off-site, so it is vital they have convenient and timely access to the office’s computer network. The IT Department ensures the office’s computer systems function properly and all employees are able to access the information they need to efficiently perform their duties.

During FY 2017, the department completed the following projects:

- » Finished the Financial Health Indicators application in August and rolled out reports for cities and counties in January.
- » Created a new “Contact Us” application to improve support for entities as they file their financial statements.
- » Enabled clients to submit electronic payments for audit and UAN fees.
- » Implemented RegOnline, an event registration software, to streamline conference registration and on-site check-in for participants. The tool was first used at this year’s Local Government Officials Conference.
- » Collaborated with the Public Affairs Division this past fall to improve website accessibility.
- » Replaced aging Wi-Fi devices within the office.

Uniform Accounting Network

The Uniform Accounting Network (UAN) is a financial management system designed specifically for Ohio’s local governments. The program is administered by the Auditor of State and provides townships, villages, libraries, special districts and a city with a complete computer system (hardware and software), along with training and support.

The UAN application comprises five modules: Accounting, Payroll, Budget, Inventory and Cemetery. The Auditor of State’s office provides training on the five modules to fiscal officers in our Columbus office, online and on demand.

UAN has increased its client base in the past year from 1,935 to 1,948 local governments using UAN in their daily operations. The below table provides details on the population of UAN clients:

Current UAN Membership

	UAN Total of Entity Type	Ohio Total of Entity Type	Entites within Ohio on UAN
Townships	1,192	1,310	91%
Villages	481	681	71%
Libraries	151	251	60%
Special Districts	123	582	21%
Cities	1	251	0%
TOTALS	1,948	3,075	63%

Finance

The Finance Department is responsible for procurement, budgeting, contracts, leases, controlling board submissions, purchasing card administration, inventory, receipting and billing, and annual external financial reporting. The department also assists with public records requests and processes and records audit division bank confirmation requests.

During FY 2017, the Finance department participated in the following projects:

- Collaborated with the IT department to implement electronic check payment option for AOS clients.
- Collaborated with several departments to receive the certificate of achievement for excellence in financial reporting for the AOS comprehensive annual financial report for fiscal year ended June 30, 2016.
- Along with IT department helped expand client log-in to the eService website to 5,001 and increased electronic billing statement clients to 2,417.

On average, 41 percent of monthly account billings are now electronic. This has led to a significant reduction in paper and postage expenses, while reducing the work hours needed to complete monthly billing statements.

Office Organization

Department Organization

DAVE YOST

Auditor of State

Audit

Financial Audit
Medicaid/Contract Audit
Center for Audit Excellence
Local Government Services

Ohio Performance Team

Public Integrity Assurance Team

Legal

Open Government Unit

Policy & Legislative Affairs

Public Affairs

Field Operations

Administrative

Finance
Human Resources
Information Technology
Uniform Accounting Network

Contact Information

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Email: contactus@ohioauditor.gov

LOCAL GOVERNMENT SERVICES

Phone: 800-345-2519
Fax: 614-728-8027

PUBLIC AFFAIRS & MEDIA INQUIRIES

Phone: 614-644-1111
Fax: 614-446-4490

UNIFORM ACCOUNTING NETWORK (UAN)

Phone: 800-833-8261
Fax: 877-272-0088
Email: UAN_Support@ohioauditor.gov

FRAUD HOTLINE

866-FRAUD-OH (866-372-8364)

PUBLIC RECORDS HOTLINE

Phone: 888-877-7760



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