

Eligibility Checklist for Agreed-Upon Procedures
(Pursuant to Ohio Revised Code (ORC) 117.114 and
Audit Bulletins 2009-012, 2012-007, 2015-001)^{1, 2}

ORC 117.114 allows certain public offices meeting specific criteria to choose to have agreed-upon procedures performed, as an alternative to an audit conducted in accordance with standards. Use this form to assess and document the eligibility of a client, based on the criteria established by ORC 117.114 and the Auditor of State.

NOTE: This checklist, which was modified to comply with ORC 117.114, is effective for all eligibility determinations performed on or after 9/4/13.

Client Name: _____

County: _____

Audit Period(s): _____

Audit Region: _____

Assessment Performed By: _____

Date: _____

Information Needed for Determination:

Please indicate the client's **annual** expenditures: *Note: For client's whose annual expenditures³ did not exceed \$200,000 in aggregate for the 2 year period for which these procedures will apply, you should complete the Basic Audit Eligibility Checklist*

FY 1	
FY 2	
Total	

¹ March 2016 March 2017 revisions are indicated by double underline

² This form (or the Basic Audit Eligibility Checklist) is required to be completed for ALL small governments and must be included in the audit working papers to document why a small government is, or is not, eligible for reduced services.

³ Treatment of on-behalf payments: When determining eligibility, on-behalf payments should be included in the annual expenditures amount if the auditor is made aware of these transactions. If during the performance of the AUP, the auditor becomes aware of on-behalf payments that were not reported, an exception should be noted. If the amount of unreported on-behalf payments causes the government to be ineligible for an AUP, a full audit should be completed.

Please indicate the client's **budgeted** (final formally approved appropriations⁴) expenditures⁵:

FY 1	
FY 2	
Total	

1. Eligible Client Type –Please see ORC section 117.114(A) (1) and the attached list of potential qualifying subdivisions. Under ORC 117.114 (E), the Auditor of State can approve any client as eligible for agreed upon procedures; however, if the client is listed in the attached list of potential qualifying subdivisions they automatically meet the client type eligibility. Is this client one of the client types that is potentially eligible for agreed-upon procedures⁶?

- Yes** → Go to question 2.
- No** → the client is not eligible for agreed-upon procedures.

2. Budgeted Expenditure Amounts– Did the client's budgeted expenditures exceed \$5 million^{7,8} for either year for which the AUP will apply? (ORC 117.114(B)(1))

- Yes** → the client is not eligible for agreed-upon procedures.
- No** → Go to question 3.

⁴ For completion of the checklist, the auditor can accept the final appropriation as approved by the governing board. Also note you should contact CFAE (if AOS) or the Regional Chief (if IPA) if appropriations are materially higher or lower than actual numbers. For clients that are not required to follow Ohio Rev. Code section 5705, please use actual expenditures

⁵ Treatment of on-behalf payments: When determining eligibility, on-behalf payments should be treated as appropriated and included in the budgeted numbers if the auditor is made aware of these transactions. If during the performance of the AUP, the auditor becomes aware of on-behalf payments that were not reported in the budget, an exception should be noted. If the amount of unreported on-behalf payments causes the government to be ineligible for an AUP, a full audit should be completed.

⁶ Any other entity type would require approval by CFAE.

⁷ Budgeted expenditures can NOT exceed \$5 million in either of the years. This is different than basic eligibility where the aggregate cannot exceed \$200,000. Both years must have budgeted expenditures under \$5 million. The budgeted expenditures are defined as the final approved appropriations (including transfers).

⁸ If budgeted amounts are over the \$5 million maximum; however, actual expenditures under \$5 million, please contact CFAE (if AOS) or the Regional Chief (if IPA) for determination of eligibility.

3. Cyclical Audit Requirements⁹ – Has the client had a financial audit performed within the prior two audit cycles? (ORC 117.114(B)(4) and (D))

- Yes** → Go to question 4.
- No** → the client is not eligible for agreed-upon procedures.

4. Accounting Basis – Does the client follow the Auditor of State's regulatory, cash, or modified cash accounting basis?¹⁰ **If OAC 117-2-03(B) or ORC 1724.05 requires the client to prepare GAAP financial statements then the entity is NOT eligible.** (ORC 117.114(B)(2) & (8))

- Yes** → Go to question 5.
- No** → the client is not eligible for agreed-upon procedures.

5. Higher Risks Noted in Prior Audit (or AUP) Report – In its most recent financial audit report, did the client experience any of the following disqualifying factors? **(You must read the prior audit opinion and GAGAS findings [or AUP report] before responding to these questions!)**

- Qualified, Adverse, or Disclaimer opinion** → the client is not eligible for agreed-upon procedures.¹¹ (ORC 117.114(B) (5) (a))
- Findings for adjustment**¹² → the client is not eligible for agreed-upon procedures. (ORC 117.114(B) (8))
- Findings for recovery that indicate fraud or theft in office** → the client is not eligible for agreed-upon procedures. (ORC 117.114(B) (5) (c))

⁹ This requirement does not pertain to CVBs. AOS Bulletin 2009-001 allows CVBs to have an AUP regardless of when the last audit was completed.

¹⁰ If an entity chooses to report on the GAAP basis of accounting, but is NOT REQUIRED by law to report on the GAAP basis of accounting and maintains their records on a regulatory, cash or modified cash basis, the entity is eligible for agreed-upon procedures but the GAAP statements would not be tested as part of those procedures and therefore no opinion would be issued on them.

¹¹ **Except:** AU-C 800.A33 requires an auditor to issue an adverse opinion on GAAP **in addition to** the appropriate opinion when the financial statements follow a regulatory accounting basis. This adverse opinion does **not** disqualify an eligible government, if the regulatory-basis opinion is unqualified. (A majority of eligible governments do not follow OCBOA, and use the AOS "regulatory" accounting basis.)

¹² As noted in the AOS *Ohio Compliance Supplement* Introduction, FFAs only include the "finding for adjustment" statement in certain circumstances. However, when evaluating this criterion, any GAGAS audit finding or prior year AUP comment requiring an adjustment of money from one fund to another is an FFA, whether it includes the FFA statement or not. **If the p/y was an AUP, auditors should first determine whether the FFA was material by comparing it to fund reports for the p/y, and if it is clearly not material, then auditors should document such on this checklist and the FFA box above should not be marked.**

Findings related to material control weaknesses → the client may not be eligible for agreed-upon procedures. (ORC 117.114(B) (5) (d))

Failure to demonstrate a conscientious effort to comply with budgetary laws → the client is not eligible for agreed-upon procedures. (ORC 117.114(B) (8))

Note: This assessment requires professional judgment. You should consider whether the government is making a good-faith effort to comply with ORC 5705 and to “live within their means”; a 5705.41(D) citation by itself does not indicate a lack of such. Facts suggesting a lack of good-faith effort include, but are not limited to:

- Failure to adopt appropriations.
- Reported material negative unencumbered cash balances in multiple funds.
- Material expenditures exceeding appropriations in multiple funds.
- Material appropriations exceeding certified resources in multiple funds.

(Note: You should not disqualify entities for citations/comments resulting from failure to appropriate or record “on-behalf-of money.” (See AOS Bulletins 2000-008 and 2002-004 for examples.)

None of the above → goes to question 6.

Note: Attach any comments/documentation referred to above from the prior audit (or AUP) (material weakness, finding for recovery, etc.)

6. Stability of Fiscal Officer – Did the client experience turnover in its fiscal officer, or bookkeeper, position during the audit period in question? (ORC 117.114 (B)(3))

Yes → the client may not be eligible for agreed-upon procedures.

No → Go to question 7.

Name and date of inquiry:	
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7. Other Factors Increasing Risk – Do any of the following apply to the client?

Initial Audit → The client may be eligible for AUP procedures. Discuss with CFAE¹³

¹³ Even though AOS Bulletin 2015-001 indicates that initial audits are not eligible for reduced services, under certain circumstances initial audits may be eligible. Discuss with CFAE. Note: Initial audits that involve complex debt or real estate transactions will NOT be eligible. Also you should consider whether the transactions relate to preliminary grant activities (i.e. traffic studies, engineering studies) that would be required to be audited.

- Under investigation by AOS Special Investigations Unit¹⁴ or otherwise at high risk of fraud** → the client is not eligible for agreed-upon procedures. (ORC 117.114(B) (6) (a))
- Fiscal emergency** → the client is not eligible for agreed-upon procedures. (ORC 117.114(B) (6) (b))¹⁵
- Declared unauditible in current or prior period¹⁶** → the client is not eligible for agreed-upon procedures. (ORC 117.114 (B) (5) (b))
- The client has a new revenue source?** A new revenue source would not necessarily make a client ineligible. We would like auditors to consider the risks associated with the new source and whether it would be more appropriate to complete an audit or add additional procedures to the AUP. (ORC 117.114 (B) (8))
- None of the above** → goes to question 8.

Name and date of inquiry:	
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8. Other Audit Requirements – Do any of the following apply to the client?

- The client is required to have a financial statement audit under the Single Audit Act, or provisions of any other law, grant, bylaws, debt covenant, etc.** → the client is not eligible for agreed-upon procedures. (ORC 117.114(B) (6) (c))
*Note: For Villages, AMP Ohio debt covenant requirements do not require an "audit", so an AUP is sufficient.*¹⁷
- The client is a component unit of a GAAP, or OCBOA Cash/Modified Cash entity?** → the client is not eligible for agreed-upon procedures. (ORC 117.114 (B) (8))
- The client has future plans to issue debt?** (ORC 117.114(B) (8)) *Note: An AUP engagement may not suffice for financing purposes.* If the client is planning to issue debt, ask if the debt issuance requires audited statements.

¹⁴ Not referring to investigations “off books” or unrelated to accounting functions.

¹⁵ Being in fiscal watch or fiscal caution does not make a client ineligible for reduced services; however, if it is likely the client will be placed in fiscal emergency, please contact CFAE (if AOS) or the Regional Chief (if IPA) for determination.

¹⁶ Note: if an entity is declared unauditible, when they become auditible, they must have a full GAGAS audit before being eligible for reduced services (AUP or basic) again.

¹⁷ It is important that the auditor document inquiry with the client for this step. As noted in Audit Bulletin 2009-012 “It is the responsibility of each government to examine its agreements and determine if a financial statement audit is required. The government should notify its regional office of the Auditor of State if a financial statement audit is needed or desired and does not want to be considered for agreed-upon-procedures.” The auditor therefore should always inquire of the client and document this inquiry on step 8 above.

If so, the client is not eligible for agreed upon procedures. If not, no waiver is required for this item.

Name and date of inquiry:	
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The client has outstanding audit fees in arrears. → the client may not be eligible for agreed-upon procedures. (ORC 117.114(B) (7)

Note: AOS auditors - This information can be obtained through the AOS Portal – GP Information Search. “In arrears” is considered 31+ days overdue. The AR aging report on the AOS portal tracks fees that are overdue by 30 days; therefore the fees reported in the 1-30 day column would be 31 to 60 days overdue. If client fees were not paid as of the date eligibility is determined, but is paid prior to the start of fieldwork the client is considered current for this step.¹⁸

Date verified to the AOS Portal:	
Outstanding audit fees?	

The client has not filed a complete set of financial statements as defined in AOS Bulletin 2015-007 (which includes notes to the financial statements) in a timely manner with the Auditor of State as required under section 117.38 of the Ohio Revised Code. (ORC117.114 (F)) → the client is not eligible for agreed-upon procedures.

Date FY1 filed	
Date FY2 filed	

None of the above → the client is eligible for agreed-upon procedures.

Name and date of inquiry:	
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IPA Manager Approval ¹⁹

(Note: This is N/A to AOS staff.)

My signature above indicates I read the prior year audit report opinion and findings (or AUP report) and concur with the assessments documented above.²⁰

¹⁸ This step refers to audit fees **only**, any other outstanding fees (UAN, LGS related) do not effect AUP eligibility.

¹⁹ A contract modification form must be completed once determination of reduce services is granted. The acceptance of this modification should be signed by the client and the IPA and sent to the AOS within XX (the number to be determined by Regional Chief) days from the approval of the checklist or the eligibility for an AUP will be waived.

²⁰ Please provide documentation to the chief auditor when you submit the checklist of any material weakness/or exceptions noted to the requirements in the checklist.

Note to AOS assessment reviewer: Although this form is to be used to assess a government's eligibility for agreed-upon procedures, the Auditor of State retains discretion over eligibility if the assessment reviewer determines that a specific client meets the spirit of the law, despite a failure to meet all criteria. In such a case, should you determine that agreed-upon procedures would provide the same level of accountability as if the client had met all of the eligibility criteria, you may request a waiver authorizing the agreed-upon procedures. If you wish to request a waiver for the above-referenced client, please briefly describe your reasons below, **specifically addressing any and all eligibility criteria that the client does not meet**, and the **assessment reviewer** should submit this form to the Center for Audit Excellence for approval. **Note: Per ORC 117.114 (E) waivers may be considered for any ONE criterion in steps 2 through 8 of this checklist; however, waivers will not be granted for steps 3, 4 or the first item under step 8.**

NOTE: Timely entity response is required once eligibility for reduced services is determined. The client should return an acceptance notice (signed LOA) for the reduced services within a timeframe established by the Regional Chief. If the acceptance notice is not signed and returned to the AOS/IPA within the established timeframe, the entity will forfeit the reduced services and a GAGAS audit will be performed.

AOS Review and Waiver Request/Denial

NOTE: Reviewer must be a SAM AM or higher and at least one level above the employee completing the assessment.

We require the AOS regional chief auditor (or assistant chief or SAM) to approve (1) all IPA AUPs (waiver or not), and also (2) all waiver requests for AOS AUPs.

My initials in the box to the right document that I have **read the prior audit report opinion and findings** (or AUP report) and concur with the assessment of the items documented above.

Waiver Requested

Waiver Denied

**IPA non-waiver
AUP approved**

Fiscal year(s) the prior audit / AUP cover

Assessment Reviewer Signature

Date

Comments by the assessment preparer or reviewer (if necessary):

Note: Per ORC 117.114 (E) waivers may be considered for any ONE requirement in steps 2 through 8 of this checklist. However, waivers will not be granted for steps 3, 4 or the first item under step 8.

CFAE Waiver Approval or Denial

Waiver Approved Comments:

Waiver Denied

Signature of CFAE Representative

Date

CFAE Approval or Denial of qualifying entity type

Approved Comments:

Denied

Signature of CFAE Representative

Date

Potential Qualifying Subdivisions – per ORC 117.114(A)(1)²¹
• Agricultural Societies
• Airports/ <u>Transit</u> /Port/Convention Facilities/Finance Authorities
• Cemeteries
• Community/Multi/Juvenile Correctional Facilities
• Community Organizations
• Conservancy Districts
• Council of Government
• Emergency Management Agency
• Fire, EMS & Ambulance Districts
• Joint Economic Development District (JEDD)
• Libraries
• Park / Recreation Districts
• Regional Planning Commissions/ <u>Organizations</u>
• Soil and Water Conservation Districts
• Solid Waste Districts
• Special Improvement Districts
• Townships
• Transportation Improvement District
• Villages
• Visitor & Convention Bureaus (formerly called Convention and Visitors Bureaus)
• Water and Sewer Districts
• Others (Eligibility determined on a case by case basis – (CFAE approval required)

²¹ Note: Entity types have been modified to agree with entity types available on the updated 8138 Form. Although ORC 117.114 (A)(1) does not list all the entities in this list, the law permits the Auditor of State's office to determine on a case by case basis additional entities to be qualifying subdivisions.