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MANAGEMENT LETTER

Richland County
50 Park Ave East
Mansfield Ohio, 44902

To the Board of Commissioners:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements defined in our Independent Auditor's Report of Richland County, Ohio, (the County) as of and for the year ended December 31, 2023, and the related notes to the financial statements and have issued our report thereon dated July 29, 2024.

Government Auditing Standards require us to communicate deficiencies in internal control, as well as, report on compliance with certain provisions of laws, regulations, contracts and grant agreements that could directly and materially affect the determination of financial statement amounts. We have issued the required report dated July 29, 2024, for the year ended December 31, 2023.

2 CFR Part 200 subpart F requires that we report all material (and certain immaterial) instances of noncompliance, significant deficiencies, and material weaknesses in internal control related to major federal financial assistance programs. We have issued the required report dated September 30, 2024, for the year ended December 31, 2023.

We are also submitting the following comments for your consideration regarding the County's compliance with applicable laws, regulations, grant agreements, contract provisions, and internal control. These comments reflect matters that do not require inclusion in the *Government Auditing Standards* or Single Audit reports. Nevertheless, these comments represent matters for which we believe improvements in compliance or internal controls or operational efficiencies might be achieved. Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing these recommendations. These comments reflect our continuing desire to assist your County but are only a result of audit procedures performed based on risk assessment procedures and not all deficiencies or weaknesses in controls may have been identified. If you have questions or concerns regarding these comments please contact your regional Auditor of State office.

NONCOMPLIANCE FINDINGS

1. Schedule of Expenditures of Federal Awards

2 C.F.R Subpart F § 200.510(b) requires that the auditee prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total federal awards expended as determined in accordance with § 200.502.

NONCOMPLIANCE FINDINGS – (Continued)

1. Schedule of Expenditures of Federal Awards (Continued)

At a minimum, the Schedule must:

- List individual Federal programs by Federal agency.
- For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- Provide total Federal awards expended for each individual Federal program and the AL number or other identifying number when the AL information is not available.
- Include the total amount provided to subrecipients from each Federal program.
- For loan or loan guarantee programs described in Section 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period.
- Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the non-Federal entity elected to use the 10% de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs.

The original Schedule of Expenditures of Federal Awards (the Schedule) prepared by the County for fiscal year 2023 required adjustments to numerous federal programs ranging in amounts from \$417 to \$1,434,473.

Additionally, the Schedule did not include proper identifying numbers assigned by the pass-through entity for several grants and did not include amounts passed through to subrecipients totaling \$2,805,650.

Errors and omissions on the Schedule could have an adverse effect on future grant awards by the awarding agencies in addition to an inaccurate assessment of major federal programs that would be subjected to audit. Adjustments, to which management has agreed, are reflected in the Schedule.

County management should implement a system to review the Schedule for errors and omissions. This will help ensure the Schedule is complete and accurate and major federal programs are correctly identified for reporting purposes.

2. Federal Policies – Children Services Agency

Implementation of policies is essential in ensuring compliance with federal grant requirements. Lack of policy implementation could result in noncompliance with federal UG requirements. The Code of Federal Regulations (CFR) requires written policies for the requirements outlined below:

- 1) **2 CFR 200.302(b)(7)** - determining the allowability of costs in accordance with Subpart E-Cost Principles.
- 2) **2 CFR 200.430** - allowability of compensation costs.

As of December 31, 2023, the Children Services Agency, despite having procedures in operation, did not formally adopt the federal written policies for the 2 CFR 200 sections listed above.

Failure to have formal written policies and procedures in place could result in noncompliance with federal grant requirements.

The Children Services Agency should adopt written policies over the controls and procedures required by the Code of Federal Regulations.

NONCOMPLIANCE FINDINGS – (Continued)

3. Filing of Annual Financial Report

Ohio Rev. Code § 117.38 provides that each public office, other than a state agency, shall file a financial report for each fiscal year. The report shall be certified by the proper officer or board and filed with the Auditor of State within sixty days after the close of the fiscal year, except that public offices reporting pursuant to generally accepted accounting principles shall file their reports within one hundred fifty days after the close of the fiscal year. The Auditor of State may extend the deadline for filing a financial report and establish terms and conditions for any such extension.

Additionally, the Auditor of State (AOS) established policies regarding the filing of complete financial statements, as defined in AOS Bulletin 2015-007 in the Hinkle System. Notably, The AOS (and any independent public accounting firms contracted to perform audits for the AOS) will audit the financial statements uploaded and submitted to the AOS via the Hinkle System.

The County filed its financial statements with the AOS via the Hinkle System by the established deadline; however, the County made the various immaterial changes to the financial statements subsequent to filing them in the Hinkle System, and after the approved deadline. The changes ranged in amounts from \$2,836 (General fund and Remaining Fund Information) to \$3,459,345 (Custodial fund). Failure to file a complete report by the established deadline, without an extension, could result in the assessment of penalties against the County.

The County should ensure that all supervisory reviews are completed timely to ensure the accuracy of the financial statements filed via the Hinkle System.

4. Public Records

Ohio Rev. Code § 149.43(E)(2) provides that all public offices take certain actions with regard to their public record policy. Public offices must distribute their public records policy to the employee who is the records custodian/manager or otherwise has custody of the records of that office and have that employee acknowledge receipt of the Public Records Policy; create and display in a conspicuous place in all locations where the public office has branch offices a poster describing the public records policy; and, if the public office has a manual or handbook of its general policies and procedures for all employees, include the public records policy in that manual or handbook.

We noted the following as of December 31, 2023:

- The Veteran Services Commission did not display a poster describing their public records policies.
- The County's employee personnel manual did not contain its Public Records Policy.

The above-listed issues could result in public records requests not being fulfilled in accordance with Ohio Sunshine Laws.

The Veteran Services Commission should create and display in a conspicuous place a poster describing their public records policies. Additionally, the County's employee personnel manual should be updated to include the County's Public Records Policy.

NONCOMPLIANCE FINDINGS – (Continued)

5. Issuance of IRS Form 1099-NEC

26 CFR § 1.6041-1 states that you must file Form 1099-NEC to report payments of \$600 or more to persons not treated as employees (for example, independent contractors) for services performed for your trade or business, as well as, payments of \$600 or more to attorneys for legal services.

The County did not prepare a 1099-NEC form for the eligible independent contractors whose compensation exceeded the \$600 threshold in 2023 as follows:

- Phone answering services totaling \$1,720
- Installation of bus advertising graphics totaling \$4,360

Failure to prepare the required forms could result in fines and penalties being levied against the County.

The County should establish policies and procedures to verify that payments in excess of \$600 to its independent contractors are reported on the 1099-NEC form.

This matter will be referred to the Internal Revenue Service.

RECOMMENDATIONS

1. Capital Asset Policy

The County should develop and implement written policies and procedures for identifying and recording capital assets. This policy should, at a minimum: define capital assets; establish capitalization thresholds, useful lives, method of depreciation, and methods to be used in tracking capital asset additions and disposals; outline procedures for assigning assets to programs, and identifying the information which must be maintained for each asset for reporting in the County's financial statements.

The County has certain internal control procedures in place to update capital asset records. However, the County has not adopted formal written policies and procedures over capital assets. Failure to develop and implement such policies could result in the theft or loss of property without management's detection and could also result in inaccurate financial reporting of the County's capital assets.

We recommend the County develop and implement written capital asset policies and procedures. This will help ensure similar transactions are treated consistently, accounting principles used are proper, records are produced in the form desired by management, and amounts recorded on the County's financial statements are complete and accurate.

RECOMMENDATIONS – (Continued)

2. Bank to Book Reconciliations

Sound accounting practices require that when designing the public office's system of internal control and the specific control activities, management should ensure adequate security of assets and records, and verify the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.

The reconciliation of cash (bank) balances to accounting system records (book) is the most basic and primary control process performed. Lack of completing an accurate and timely reconciliation may allow for accounting errors, theft and fraud to occur without timely detection.

The December 2023 bank to book reconciliation completed by the County Auditor's office reflected a (\$78,679) unreconciled variance. Failure to reconcile monthly increases the possibility that the County will not be able to identify, assemble, analyze, classify, and record its transactions correctly or to document compliance with finance related legal and contractual requirements. Further, the lack of accurate monthly reconciliations increases the risk of theft/fraud over the cash cycle and could lead to inaccurate reporting in the annual financial statements.

The County Auditor's fund balance should be reconciled to the County Treasurer's bank balances on a monthly basis. Any variances should be investigated, documented and corrected in a timely manner to ensure accurate financial reporting. In addition, the County Commissioners should review the monthly cash reconciliations including the related support (such as reconciling items) and document the reviews.

OTHER MATTER

The Auditor of State is conducting an investigation, which is on-going as of the date of this report. Dependent on the outcome of the investigation, results may be reported on at a later date.

We intend this report for the information and use of the Board of Commissioners and management.



Keith Faber
Auditor of State
Columbus, Ohio

September 30, 2024