Ohio Auditor of State Update

November 6, 2019

Procurement – Uniform Guidance procurement updates were discussed in prior year AOS update, recap and discuss further changes/interpretations.

HB 291 – Everything you need to know about insurance policies vs surety bonds.

Student Wellness and success Funds – were included in the recent budget bill fund. What are they and why should we care. (also briefly note other budget bill items)

Other General AOS updates – briefly discuss new administration initiatives and changes.

As a reminder the grace period for implementing the Uniform Guidance procurement requirements has ended. All entities should now be following the Uniform Guidance Requirements.
Since Uniform Guidance has become effective, there are two different acts that have been passed that impact procurement.

- NDAA 2018 raises the micro-purchase threshold to $10,000 and the simplified acquisition threshold to $250,000. This is applicable for all entities.
- Uniform Guidance is in the process of being updated for these changes, but OMB granted entities an exception allowing recipients to use the higher threshold prior to the changes being made. This needs to be documented.

Requirements are documented in 2 CFR 200.318. Non-federal entities documented procurement procedures MUST:

- Cover conflicts of interest for both the employee and organization.
- Avoid acquisition of unnecessary or duplicative items.
- Award contracts only to responsible contractors possessing the ability to perform successfully under the terms and conditions of a proposed procurement.
- Maintain records sufficient to detail the history of procurement—rationale for the method, selection of contract type, contractor selection or rejection, and the basis for price.
2 CFR 200.318 (a) states the non-federal entity MUST use its own document procurement procedures
- These procedures need to be specific to the entity
- Some items that should be included in these procedures the definition of aggregate, how many quotes, how they will determine if there are federal funds involved in the purchase, and if they are planning on taking advantage of the higher thresholds in NDAA 2018

There has been much talk in this area over the past year on if ESC contracts are subject to the federal procurement laws.
The only items exempt from procurement are payroll and indirect costs, since ESC contracts are for purchased services they would not be exempt.

House Bill 166 passed on July 18, 2019 and includes amending language to ORC 3313.843 which exempts a school district or political subdivision that has entered into an agreement with an ESC from competitive bidding requirements.
**Procurement FAQs**

Does the governing body need to approve the policy? No, but it is a best practice.

Can a different threshold be used? Yes- UG requirements are maximums, so a more restricted threshold can be approved.

What if an entity is not sure what the cost will be, what procurement method should be used? Entity should reasonably estimate the cost and use the appropriate procurement method. Also, this should be addressed in the procurement policy.

What if the entity is not sure what type of funding (Federal or non-Federal) is going to be used? Best way to treat the transaction is if it will be Federal and follow the applicable procurement rules.

What if a change order results in the purchase moving to a new threshold? Entity should reasonably estimate the cost and use the appropriate procurement method. Also, this should be addressed in the procurement policy.

What if an entity is using a third-party contractor for procurement, who is responsible for the procurement requirements? The entity is responsible for monitoring compliance with the procurement requirements. Non-compliance during testing would be reported in the entity’s single audit. Communication between the entity and third-party is key and the entity should know what methods for complying with the procurement requirements the third-party has in place and it should be specified in any contract between the parties.

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**HB 291**

Effective date: March 20, 2019

New legislation location: Ohio Rev. Code § 3.061

Other relevant amended sections:
- Traditional school districts
- 3313.25 Treasurer
- 3319.05 Business Manager
- Community schools
- 3314.011 Fiscal Officer
HB 291
Applicable to both traditional school districts and community schools

An “Employee dishonesty and faithful performance of duty policy”
• Is defined as a policy of insurance to protect a school from financial or property loss caused by the fraudulent or dishonest actions, and the failure to perform a duty prescribed by law for an officer, employee, or appointee that otherwise required by law to give an individual surety bond before entering upon the discharge of official duties.
• May be adopted by policy, by ordinance or resolution, for use rather than a surety bond, for those that would otherwise be required to give one.

Must be in effect and apply to the individual before the beginning of their term of office. A lack of coverage on the date on which the discharge of duties are commenced by the individual shall render the office vacant and it shall be filled as required by law.

If such a policy is adopted, all of the following apply:
• The individual shall be considered qualified to hold the office or employment, without giving bond, on the date the oath of office is taken, certified, and filed as required by law.
• The individual shall be entitled to enter upon the duties of the office or employment when the policy is in effect and the oath is filed.
• Any individual who would otherwise be required to file a bond before commencing the discharge of duties shall be covered by and are subject to the policy in place of a surety bond requirement.
• The coverage amount for an individual shall be equal to or greater than the maximum amount of the bond otherwise required by law (or an amount agreed to by the board if no statutory requirement amount).

If no such policy is adopted:
• The school must continue to use surety bonds as otherwise required by Ohio Rev. Code.

Changes to audit tests and requirements:
• Auditors currently test surety bond compliance (in OCS Ch. 3), changes will be made to modify or remove this testing in future periods.
• Auditors currently perform some risk management analysis, including evaluation of insurance coverages. They will continue to do so including some analysis of any policies obtained in lieu of surety bonds.
• Absence of surety bonds or insurance coverage will result in comments in the Management Letter or schedule of findings based on auditor judgment of the loss risk exposure.
Effective date: July 18, 2019 (HB 166 aka “Budget Bill”)


Summary: The bill requires ODE to make a new payment for student wellness and success to all school districts, community schools, and STEM schools. These funds:

- Must be spent for specified purposes.
- Must be paid half by October 31 of the fiscal year for which the payment is calculated and the other half by February 28 of that fiscal year.
- Note: No reconciling or adjusting of the payment by ODE is allowed.

**Student Wellness and Success Funds**

**City, local, and exempted village school districts**

- Payments will be on a per pupil basis, where a district’s total student count is the total number of students who were enrolled in the district at the time of the second school funding payment in June of the preceding fiscal year.
- FY 2020 payment range = $20 to $250 per pupil, min aggregate payment of $25,000
- FY 2021 payment range = $25 to $300 per pupil, min aggregate payment of $30,000

**Joint vocational school districts, community and STEM schools**

- Payments will be on a full-time equivalency basis calculated for each student enrolled at the time of the school funding payment in June of the preceding fiscal year.
- FY 2020 payment range = \( \text{Students FTE} \times \$20 \text{ to } \$250 \) per pupil, min aggregate payment of $25,000
- FY 2021 payment range = \( \text{Students FTE} \times \$25 \text{ to } \$300 \) per pupil, min aggregate payment of $30,000
- Note: The bill does not provide a per-pupil payment for e-schools. Instead, it requires the Department to pay each e-school $25,000 for FY 2020, and $30,000 for FY 2021.
Funds may be spent on any of the following initiatives or a combination of any of the following initiatives:

- Mental health services;
- Services for homeless youth;
- Services for child welfare youth;
- Community liaisons;
- Physical health care services;
- Mentoring programs;
- Family engagement and support services;
- City Connect programming; and
- the provision of trauma informed care; or
- cultural competence.

Additionally, must develop plans for coordination with at least one of the following community partners:

- A board of alcohol, drug, and mental health services;
- An educational service center;
- A county board of developmental disabilities;
- A community-based mental health treatment provider;
- A board of health of a city or general health district;
- A county board of job and family services;
- A nonprofit organization with experience serving children.

Changes to audit tests and requirements:

- New fund is being added to the chart of accounts (467). Permission will not be required to set up this fund.
- Auditors will not expand testing of revenues or expenditures specifically for any compliance requirements; however, there may be some increases in sample sizes due to new material revenues/expenditures.
- Discussions have taken place with ODE to determine whether this should be included in 5 year forecast.

Other AOS updates

New Mission Statement

- As Ohio's chief compliance officer, the Auditor of State makes Ohio government more efficient, effective and transparent by placing checks and balances on state and local governments for taxpayers.
Other AOS updates

New administration/mission statement but, same book of business

• No changes in clients
• Still follow same audit standards
• Little change in audit staff

Other AOS updates

Transparency Initiative

• STARS program
  • Launching later this fall, the Star Rating System (StaRS) will look for best practices in public-records services and create an opportunity for public entities to move beyond compliance. This adds an incentive for entities to be more transparent and creates ease of access to public records.

Other AOS updates

New Local Government Audit Support Fund (HB 166)

• $10 Million made available in the state operating budget to help alleviate and maintain the costs of audits for qualifying entities.
• This fund allows small governments to anticipate audit costs and enables the Auditor’s offices to continue the existing subsidy for audit services.
Other AOS updates

Efficiency initiative

• Internal efforts being made to facilitate more efficient audit processes including examining/comparing all audit procedures to relevant standards
• New funds available (from HB 166) to offset some costs that would otherwise be charged to local governments