



Dave Yost • Auditor of State

July 18, 2018

Ms. Ellen Gorla
Senior Manager, Independence and Special Projects
Professional Ethics Division
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775
Ellen.Gorla@aicpa-cima.com

Dear Ms. Gorla:

We appreciate the opportunity to respond after the comment period deadline to the Proposed Revised Interpretation - *Information System Services (formerly Information Systems Design, Implementation, or Integration)* Exposure Draft.

The Auditor of State of Ohio is responsible for auditing, in accordance with generally accepted auditing standards, over 5,900 entities receiving public money in Ohio.

In response to your specific requests for comment, we do believe the terminology used will be readily understood by members, even if they do not work in this arena. We also feel “significant” should be a matter of professional judgment and not defined in the standard.

As discussed on June 27, 2018 and in our letter to AICPA’s GAQC Technical Division dated June 4, 2018 (attached), Ohio Law requires the Auditor of State’s office to provide, operate and maintain a uniform and compatible computerized financial management and accounting system, known as the Uniform Accounting Network (UAN). The legislative intent behind Ohio Revised Code 117.101 was to create an application that serves valuable public purpose across a broad base of local governments in Ohio.

UAN is a non-complex basis of accounting (cash), non-customized, multi-user system that, when the upgrades to the system are complete, will be hosted by a third party vendor that AOS contracts. AOS owns the hardware provided to the 1,972 UAN users. However, users’ management maintains control over the accounting decisions and classification of transaction as well as financial statement amounts.

Our office has implemented safeguards to “maximize” UAN’s independence, even if the impairment is more in appearance than in fact. These safeguards include 1) annual, independent agreed-upon procedures engagement of UAN performed; (2) UAN audit

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committee to oversee this engagement; and (3) the hundreds of independent CPA firm audits of UAN users every year. We plan to keep these safeguards in place and strongly believe these safeguards are sufficient to ensure the continued independence of the UAN system.

Therefore, we request an exception for systems like UAN that are required by law, cannot be customized by the client, has broad use, and has substantial safeguards in place be immune from the 'design and development' criteria.

Again, we appreciate the opportunity to comment. If you have any questions, please contact me at (614) 728-7108.

Sincerely,

Dave Yost
Auditor of State

A handwritten signature in black ink, appearing to read "Robert R. Hinkle". The signature is written in a cursive style with a large initial "R".

Robert R. Hinkle, CPA, CGFM
Chief Deputy Auditor

Attachment



Dave Yost • Auditor of State

06/04/2018

American Institute of CPA's
Government Audit Quality Center
gaqc@aicpa.org

Dear GAQC Technical Division:

Ohio Law requires the Auditor of State's office to provide, operate and maintain a uniform and compatible computerized financial management and accounting system. The Auditor of State's (AOS) office has developed and now "hosts" a simple, cash-basis Uniform Accounting Network (UAN) that Ohio local governments can choose to use (see UAN Background below). We have offered this cash and budget-based, financial accounting system to Ohio governments since 1990. AOS is undertaking a significant multiyear and very costly enhancement project to this legislatively-mandated system.

The AICPA's ET 1.295.143.02 gave us concern due to the structure of this required system. We spoke with Jim West, Ethics Division – Public Accountants Manager on Thursday, October 25, 2017 regarding this Interpretation. While not a member, AOS strives to comply with the AICPA ethics rules.

A literal application of the AICPA's ET 1.295.143.02 interpretation probably imposes an absolute independence impairment that would preclude AOS from providing UAN. UAN has been an invaluable accounting resource to Ohio local governments for over 30 years. Because of (1) its basic cash-basis nature; (2) the *hundreds* of independent CPA firm audits of UAN users every year and (3) the annual, independent agreed-upon procedures engagement of UAN performed under the oversight of an independent UAN audit committee, we most strongly believe no reasonable person could believe UAN's independence is impaired, even in appearance, let alone fact.

We appreciate any suggestions you could provide on how we could proceed:

- Does GAQC see a way AOS could retain the existing organizational structure?
- Are there additional safeguards AOS could put in place to retain the existing organizational structure?

In addition, would the AICPA consider carving out an exception for "UAN-like" circumstances?

UAN Background

In 1990 the State of Ohio established the Uniform Accounting Network (UAN) within the office of the Auditor of State (AOS) to provide local governments with a computerized financial management system. The establishment of UAN can be found within the Ohio Revised Code 117.101.

Ohio Revised Code §117.101 Uniform accounting network

The auditor of state shall provide, operate, and maintain a uniform and compatible computerized financial management and accounting system known as the uniform accounting network. The network shall be designed to provide public offices, other than state agencies and the Ohio education computer network and public school districts, with efficient and economical access to data processing and management information facilities and expertise. In accordance with this objective, activities of the network shall include, but not be limited to, provision, maintenance, and operation of the following facilities and services:

- (A) A cooperative program of technical assistance for public offices, other than state agencies and the Ohio education computer network and public school districts, including, but not limited to, an adequate computer software system and a data base;
- (B) An information processing service center providing approved computerized financial accounting and reporting services to participating public offices.

The auditor of state and any public office, other than a state agency and the Ohio education computer network and public school districts, may enter into any necessary agreements, without advertisement or bidding, for the provision of necessary goods, materials, supplies, and services to such public offices by the auditor of state through the network.

The auditor of state may, by rule, provide for a system of user fees to be charged participating public offices for goods, materials, supplies, and services received from the network. All such fees shall be paid

into the state treasury to the credit of the uniform accounting network fund, which is hereby created. The fund shall be used by the auditor of state to pay the costs of establishing and maintaining the network. The fund shall be assessed a proportionate share of the auditor of state's administrative costs in accordance with procedures prescribed by the auditor of state.

Amended by 129th General Assembly File No.28, HB 153, §101.01, eff. 9/29/2011.

Effective Date: 09-26-2003.

UAN is currently utilized by 1,972 local governments throughout Ohio including townships, villages, libraries, special districts such as park districts or joint fire districts, and cities. The following table provides statistics on the quantity of UAN clients within Ohio relative to the total entities.

	UAN Clients	Ohio Entities	% on UAN
Townships	1205	1310	92%
Villages	488	681	72%
Libraries	151	251	60%
Special Districts	126	582	22%
Cities	<u>2</u>	<u>251</u>	<u>1%</u>
Total	1972	3075	64%

The financial audit of entities utilizing UAN are performed by either the AOS or by Independent Public Accountant (IPA) firms. Sixty per cent of the most recent audits of UAN governments were performed by the AOS whereas 40% were performed by IPAs.

Description of the UAN Application

The UAN application is composed of five modules: accounting, payroll, budget, inventory and cemetery. Below is a brief description of each.

Accounting Module: The Accounting Module processes all accounting transactions such as warrants, receipts, purchase orders, blanket certificates and bank reconciliations, by fund and combined fund type. Users are able to compile financial reports and perform other activities. It is important to note this is a cash-basis accounting system. There are no accruals. (The inventory and cemetery modules described below are for informational purposes, and not used with the accounting module.)

Payroll Module: The Payroll Module provides users with the ability to process payroll checks, track employee earnings and withholdings and submit Electronic Fund Transfers (EFTs). Many reports are available for both internal and external reporting purposes.

Budget Module: The Budget Module prepares reports that will show financial data in several different formats, consistent with Ohio's budgetary law. Internally, this software can be used as a financial planning tool. The budget and trend software can also be used to prepare and create an annual budget containing all data required by Ohio budgetary law, and consistent with the required budgetary financial statement presentations.

Inventory Module: The Inventory Module provides the ability to track the purchase of various assets. The description of the item, date purchased, original cost, and the location of the asset are items that the software tracks. The software can also produce several different inventory reports. (Note: The inventory module is for management purposes only. The cash accounting basis UAN governments use does not record inventory as an asset.)

Cemetery Module: The Cemetery Module allows entities to establish cemeteries, track the sale of plots and record burial information for each plot. The system has the capability of generating and printing cemetery deeds as well as a variety of cemetery reports. (As with the inventory module, this is for management use only. UAN financial statements do not reflect this information as assets or liabilities.)

Current state

The current UAN application is a client server application in which the application and data resides with the Fiscal Officer at the entity. The AOS provides periodic UAN application updates that the Fiscal Officer applies. The Fiscal Officer is responsible for all the application data maintenance such as data back-ups. It is important to note that even though the application resides at the entity, the computer and all associated licenses for the application and computer are the property of the AOS. Under normal conditions the AOS does not have access to the computer at the entity or the data. However, if given physical access to the computer by the entity the AOS can access the UAN data.

Future state

The AOS is considering a full rewrite of the UAN application to transform it from a client server application to a web-based solution to be able to continue to provide the UAN clients with an application that uses the most current technology solutions available. This solution would be a hosted service provided by either the AOS or contracted through a third party hosting service such as Microsoft or Amazon Web Services. UAN would then assume the responsibility of maintaining the production version of the application and also performing the data maintenance tasks such as data back-ups.

GAO discussions

With each Yellow Book revision over the years, we have closely evaluated our Uniform Accounting Network (UAN) system's compliance. In November, 2010 Fred Kruse, Auditor of State Senior Advisor, spoke with Michael Hrapsky, GAO Auditing Standard Specialist, about our system. Mr. Hrapsky believed UAN did not fall within the description of IT services in 2011 GAGAS 3.56, rather that section was intended for complex IT systems for larger uses, such as a large Federal agency. Mr. Hrapsky also did not believe UAN falls within the

3.56 prohibitions because of its very large number of users. UAN is not customized. Furthermore, with such a large number of users and many auditors (AOS plus independent CPA firms), it would be virtually impossible to “hide” UAN deficiencies from audit reporting.

Mr. Hrapsky suggested the AOS implement safeguards to “maximize” UAN’s independence, even if the impairment is more in appearance than in fact. Therefore, an independent firm was hired in lieu of using AOS’ Information Systems Audit (ISA) division to test UAN and issue an agreed upon procedures engagement in accordance with the AICPA’s attestation standards. This firm’s report is made available to all UAN users and to their financial statement auditors (including AOS). In addition, UAN users established an audit committee to oversee this engagement. This committee is independent of AOS, and is responsible for hiring the independent firm, setting their compensation, determining the appropriate scope of procedures and evaluating the firm’s results.

We plan to keep these safeguards in place and feel confident these safeguards are sufficient to ensure the continued independence of the UAN system.

We appreciate the willingness of the GAQC Technical Division to allow us to provide this information for consideration.

If you have any questions, or require additional discussion on this issue, please contact me at (614) 728-7108.

Sincerely,

DAVE YOST
Auditor of State

A handwritten signature in black ink, appearing to read "Robert R. Hinkle". The signature is written in a cursive style with a large initial "R".

Robert R. Hinkle, CPA, CGFM
Chief Deputy Auditor