



**DEFIANCE-FULTON-HENRY COUNTIES COUNCIL
HENRY COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2000-1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**DEFIANCE-FULTON-HENRY COUNTIES COUNCIL
HENRY COUNTY**

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STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

One Government Center
Room 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

Defiance-Fulton-Henry Counties Council
Henry County
660 North Perry Street
Napoleon, Ohio 43545-1747

To the Board of Directors:

We have audited the accompanying financial statements of Defiance-Fulton-Henry Counties Council (the Council) as of and for the years ended December 31, 1999 and 2000. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Council prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances of the Council as of December 31, 1999 and 2000, and its cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2001 on our consideration of the Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Defiance-Fulton-Henry Counties Council
Henry County
Report of Independent Accountants
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This report is intended solely for the information and use of management, the Board, Council and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

November 19, 2001

**DEFIANCE-FULTON-HENRY COUNTIES COUNCIL
HENRY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999**

	2000	1999
Operating Cash Receipts:		
Charges for Services	\$3,502,829	\$3,518,630
Interest	42,481	25,964
	3,545,310	3,544,594
Operating Cash Disbursements:		
Claims Paid	3,200,582	2,335,266
Administrative Fees and Stop Loss Premiums	423,600	390,889
Other	14,051	2,775
	3,638,233	2,728,930
Operating Income/(Loss)	(92,923)	815,664
Cash Balances, January 1	815,664	
Cash Balances, December 31	\$722,741	\$815,664

The notes to the financial statements are an integral part of this statement.

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**DEFIANCE-FULTON-HENRY COUNTIES COUNCIL
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 1999 AND 2000**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Defiance-Fulton-Henry Counties Council, Henry County, (the Council) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Council is directed by a board of directors under Chapter 167 of the Ohio Revised Code as a not-for-profit Council of Governments. The Council consists of representatives from Defiance, Fulton and Henry Counties. The Council was formed in 1992 and its purpose is to foster cooperation among its members in all areas of service. Currently, the Council provides health insurance coverage to its members.

The Council's management believes these financial statements present all activities for which the Council is financially accountable.

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Investments

Investments are included in fund cash balances. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

U.S. Treasury Securities are valued at cost. Money market mutual funds are recorded at share values reported by the mutual fund.

D. Budgetary Process

The Council budgets annually.

1. Appropriations

Prior to November 30 in each Fiscal Year, the Board of Directors shall approve the annual appropriations of the Council for the next Fiscal Year based upon the estimate of the costs of operating the Council and its programs and within the limits of the certification of resources by the Council Treasurer.

For 1999 and 2000 appropriations were not passed and resources were not certified.

**DEFIANCE-FULTON-HENRY COUNTIES COUNCIL
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 1999 AND 2000
(Continued)**

2. EQUITY IN CASH AND INVESTMENTS

The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

	2000	1999
U.S. Treasury Securities	\$312,807	
Mutual Funds	409,934	\$815,664
Total investments	\$722,741	\$815,664

Investments: U.S. Treasury Securities are held in book-entry form held by an agent in the name of the Council's financial institution. The financial institution maintains records identifying the Council as owner of these securities. Investments in mutual funds are not evidenced by securities that exist in physical or book-entry form.

The prospectus for the mutual fund states that it invests in obligations as described in Ohio Revised Code § 135.14 (B)(1) and (2) plus it invests in corporate debt securities, commercial paper, demand instruments, bank instruments and asset back securities. These types of securities are not among the allowable obligations described in division (B)(1) or (2) of this section or according to their own investment policy.

3. RISK MANAGEMENT

The Council provides health and dental insurance to employees of Defiance, Fulton and Henry Counties. The Council pays covered claims to service providers, and recovers these costs through actuarially determined per employee premiums. A comparison of Insurance Fund cash and investments to the actuarially-measured liability as of December 31 follows:

	2000	1999
Cash and investments	\$722,741	\$815,664
Actuarially measured liabilities	\$770,696	\$712,729



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Toledo, Ohio 43604-2246
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800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Defiance-Fulton-Henry Counties Council
Henry County
660 North Perry Street
Napoleon, Ohio 43545-1747

To the Board of Directors:

We have audited the accompanying financial statements of Defiance-Fulton-Henry Counties Council (the Council) as of and for the years ended December 31, 1999 and 2000, and have issued our report thereon dated November 19, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2000-60135-001 and 2000-60135-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the Council in a separate letter dated November 19, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Council's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2000-60135-003.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. Also, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Council in a separate letter dated November 19, 2001.

This report is intended solely for the information and use of management, the Board and Council, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

November 19, 2001

**DEFIANCE-FULTON-HENRY COUNTIES COUNCIL
HENRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 1999 AND 2000**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2000-60135-001

Noncompliance Citation

Section 2, (F)(2) Powers and Duties of the Bylaws Governing Defiance-Fulton-Henry Counties Council states that, "Prior to November 30 in each Fiscal Year, the Board of Directors shall approve the annual appropriations of the Council for the next Fiscal year based upon the estimate of the costs of operating the Council and its programs."

Discussion was noted in the minutes regarding effects on the budget. However, there was no indication in the minutes of any formal action taken by the Board of Directors of approving any appropriations in 1999 or 2000 for the Health Care Benefits Program.

To ensure compliance with the Council's Bylaws, we recommend that they be reviewed and followed as established.

FINDING NUMBER 2000-60135-002

Noncompliance Citation

Ohio Revised Code § 135.14 states the treasurer or governing board may invest interim moneys in no-load money market mutual funds consisting exclusively of obligations described in division (B)(1) or (2) of this section and repurchase agreements secured by such obligations.

The Council is investing in a money market mutual fund. The prospectus for this mutual fund states that it invests in obligations as described in (B)(1) and (2) including investment in corporate debt securities, commercial paper, demand instruments, bank instruments and asset back securities. These types of securities are not among the allowable obligations described in division (B)(1) or (2) of this section. Also, the investment policy of the Council does not allow funds to be invested in these types of investments.

We recommend that the Council review this revised code section and their investment policy and compare the allowable investments against the prospectus of the money market mutual fund to insure compliance in investment of allowable investments with the Ohio Revised Code and their own policy.

FINDING NUMBER 2000-60135-003

Reportable Condition - Claims Paid Review

The Council Treasurer receives the detail claims paid reports and reviews them for unusual, duplicate or large payments. There is no verification if the claims paid were for eligible employees or dependents.

This deficiency could lead to claims being paid by the third party administrator against the Council's insurance program for ineligible recipients to go undetected.

FINDING NUMBER 2000-60135-003
(Continued)

To strengthen the monitoring of claims paid for eligible employees or dependents, we recommend the Council Treasurer (or individuals designated by the Board of Directors other than payroll clerks of each County) review the detail claims expense reports against the individual County records, on a periodic basis. This review may help determine that claims are being paid for only eligible employees and their dependents.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

DEFIANCE-FULTON-HENRY COUNTIES COUNCIL

HENRY COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 6, 2001**