



**Auditor of State  
Betty Montgomery**



WEST CENTRAL OHIO NETWORK  
SHELBY COUNTY

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

West Central Ohio Network  
Shelby County  
315 East Court Street  
Sidney, Ohio 45365

To the Members of the Board:

We have audited the accompanying financial statements of West Central Ohio Network, Shelby County, (WestCON), as of and for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of WestCON'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 2, WestCON 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 combined cash, investments, and combined fund cash balances of West Central Ohio Network, Shelby County, as of December 31, 2003 and 2002, and its combined cash receipts and disbursements, for the years then ended on the basis of accounting described in Note 2.

As described in Note 3, for the year ended December 31, 2002, WestCON changed its method of accounting for financial reporting.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2004, on our consideration of WestCON'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.

This report is intended solely for the information and use of the management, Board, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

August 10, 2004

**WEST CENTRAL OHIO NETWORK  
SHELBY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Intergovernmental - Federal	\$158,812		\$158,812
Intergovernmental - State		\$1,328,985	1,328,985
Intergovernmental - Housing Grant		55,000	55,000
Intergovernmental - Local		1,794,008	1,794,008
Earnings on Investments	140,202		140,202
Administrative Fees	382,003		382,003
Miscellaneous Revenue	18,556	70,258	88,814
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	699,573	3,248,251	3,947,824
<b>Cash Disbursements:</b>			
Supported Living:			
Administrative Fee		114,001	114,001
Housing Expenditures		195,363	195,363
Contractual Service		1,881,895	1,881,895
Other Expenses		211,689	211,689
Family Resource:			
Contractual Service		371,313	371,313
Residential Facility Waiver:			
Administrative Fee		54,600	54,600
Contractual Service		46,260	46,260
Administrative Expenses	598,642		598,642
Capital Outlay	132,982		132,982
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	731,624	2,875,121	3,606,745
Total Receipts Over/(Under) Disbursements	<hr/>	<hr/>	<hr/>
	(32,051)	373,130	341,079
<b>Other Financing Receipts</b>			
Transfers-In		193,817	193,817
Transfers-Out	40,000	(233,817)	(193,817)
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts	40,000	(40,000)	
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	7,949	333,130	341,079
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>
	318,824	2,938,010	3,256,834
<b>Fund Cash Balances, December 31</b>	<hr/> <b>\$326,773</b>	<hr/> <b>\$3,271,140</b>	<hr/> <b>\$3,597,913</b>

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

**WEST CENTRAL OHIO NETWORK  
SHELBY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>		<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Intergovernmental - Federal	\$111,963		\$111,963
Intergovernmental - State		\$1,328,239	1,328,239
Intergovernmental - Housing Grant		64,000	64,000
Intergovernmental - Local		1,673,720	1,673,720
Earnings on Investments	124,758		124,758
Administrative Fees	216,614		216,614
Miscellaneous Revenue	1,582	90,230	91,812
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	454,917	3,156,189	3,611,106
<b>Cash Disbursements:</b>			
Supported Living:			
Administrative Fee		117,979	117,979
Housing Expenditures		38,400	38,400
Contractual Service		1,813,752	1,813,752
Other Expenses		393,107	393,107
Family Resource:			
Contractual Service		382,847	382,847
Other Expenses		4,250	4,250
Residential Facility Waiver:			
Administrative Fee		54,600	54,600
Contractual Service		59,324	59,324
Other Expenses		37,944	37,944
Administrative Expenses	561,032		561,032
Capital Outlay	7,721		7,721
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	568,753	2,902,203	3,470,956
Total Receipts Over/(Under) Disbursements	<u>(113,836)</u>	<u>253,986</u>	<u>140,150</u>
<b>Other Financing Receipts</b>			
Transfers-In		35,000	35,000
Transfers-Out		(35,000)	(35,000)
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts			
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	(113,836)	253,986	140,150
Fund Cash Balances, January 1	<u>432,660</u>	<u>2,684,024</u>	<u>3,116,684</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$318,824</u></b>	<b><u>\$2,938,010</u></b>	<b><u>\$3,256,834</u></b>

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



**WEST CENTRAL OHIO NETWORK  
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

**A. Reporting Entity:**

West Central Ohio Network, Shelby County, (WestCON), is a non-profit governmental agency known as a Regional Council of Governments. WestCON was created by seven county boards of mental retardation and developmental disabilities in September of 1990 to administer supported living services to the counties of Auglaize, Darke, Logan, Mercer, Miami, Shelby, and Union. Hardin County became a member in 2001. WestCON is governed by an executive committee of eight members that are the Superintendents of each local county board of mental retardation and developmental disabilities which is a WestCON member. At the organizational meeting of each year, which shall be held in January, the members shall elect officers of the executive committee. The officers of the committee shall be a President, Vice-President, Secretary, and Treasurer. There shall be no term limitations for WestCON committee members. The executive committee authorizes expenditures as well as serving as the contracting body and the chief administrators of public services for WestCON. The committee appoints an Executive Director of WestCON that is responsible for organizing, administering, and operating WestCON in accordance with the committee's established program.

Supported Living is a program that assists persons with mental retardation or developmental disabilities (MR/DD) to live in the home of their choice with the supports that they need. WestCON seeks neighbors, persons in the community, and friends, to provide assistance. When a volunteer cannot be located, the individual chooses a certified provider who is paid to provide identified supports. The goal is to link the individual to persons in the community who will become long-term non-paid supports.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

WestCON prepares its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. This basis of accounting 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, in accordance with the basis of accounting described in the preceding paragraph.

**B. Fund Accounting**

West Central Ohio Network uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions or activities.

**WEST CENTRAL OHIO NETWORK  
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other resources which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

For financial statement presentation purposes, the various funds of WestCON are grouped into the following fund types under the broad fund category governmental.

**Governmental Fund Types:**

Government funds are those through which all governmental functions of WestCON are financed. The following are WestCON's governmental fund types:

**General Fund** - This fund is used to account for all financial resources of WestCON except those required to be accounted for in another fund. The general fund balance is available to WestCON for any purpose provided it is expended or transferred according to the general laws of Ohio.

**Special Revenue Funds** - These funds are established to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes. WestCON has the following significant special revenue funds:

**Supported Living** - These funds are used for supported living services which assist persons with MR/DD to live in the home of their choice with the support required.

**Family Resource Service** – These funds are used to provide respite services to families which qualify for the support.

**Residential Facility Waiver** – These funds are used to assist persons with MR/DD for services related to a home residence.

**C. Cash and Investments**

To improve cash management, all cash received by WestCON is deposited into one of seven bank accounts. All monies received for supported living, residential facility waiver, and administrative purposes are deposited into the main account. Monies received for family resources are deposited into a separate account. Additional accounts exist for each of these categories and monies are transferred monthly into the respective main account.

Monies in the main account are used to purchase all investments. Investment earnings are allocated to the General Fund.

**WEST CENTRAL OHIO NETWORK  
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Property, Plant and Equipment**

Acquisition of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

**E. Unpaid Vacation and Sick Leave**

In certain circumstances employees are entitled to cash payments for unused vacation and sick leave, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by WestCON.

**F. Intergovernmental Revenues**

Intergovernmental revenues are from federal, state, and the participating county Boards.

**G. Total Columns on Financial Statements**

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

**3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES**

For 2002, WestCON changed its method of accounting for financial reporting from accounting principles generally accepted in the United States of America to a basis of accounting prescribed or permitted by the Auditor of State. This comprehensive basis of accounting 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.

The fund balances of the General Fund and Special Revenue Fund have been restated. This restatement is due to the change in accounting principle. The General Fund was restated at January 1, 2002, from \$420,662 to \$432,660, and the Special Revenue Fund was restated from \$2,433,554 to \$2,684,024.

**4. DEPOSITS AND INVESTMENTS**

Monies held by WestCON are classified into three categories. Active monies means an amount of public monies determined to be necessary to meet current demand upon the WestCON treasury.

Active monies must be maintained either as cash in the WestCON treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, certificates of deposit, or in money market deposit accounts.

Interim monies are those which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. The investment agency may either deposit or invest the authorized interim monies, provided that the investments will mature or are redeemable within one to three years from the settlement date.

**WEST CENTRAL OHIO NETWORK  
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(Continued)**

**4. DEPOSITS AND INVESTMENTS (Continued)**

Interim deposits may be invested or deposited in the following securities:

- a. United States treasury notes, bonds, or other obligations of or guaranteed by the United States treasury, or those for which the faith of the United States is pledged for payment of principal thereof and interest thereon.
- b. Bonds, notes, debenture, or any other obligations or security issued by any federal government agency or instrumentality.
- c. Interim deposits in eligible institutions.
- d. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations. Such mutual funds must be registered as investment companies per Investment Company Act of 1940 and have the highest letter or numerical rating provided by at least one nationally recognized standard rating service.
- e. Investment grade cumulative preferred stocks and investment grade corporate bonds can be purchased to a maximum of up to 30% of the total investment account asset value.

Inactive deposits are public deposits that WestCON has identified as expected to be needed for use within the current three year period of designation of depositories. The investments will mature or be redeemable within three to five years from the settlement date.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

**Deposits:** As of December 31, 2003, the carrying amount of the WestCON's deposits was \$2,383,584 and the depository balance was \$2,444,699.

As of December 31, 2002, the carrying amount of the WestCON's deposits was \$2,607,243 and the depository balance was \$2,710,686.

The certificates of deposit were covered by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. The certificate of deposit in excess of \$100,000 and the cash/money funds were covered as securities by the Securities Investor Protector Corporation (SIPC) against losses caused by the financial failure of the broker-dealer, but not against a change in market value of the securities in customer accounts at the broker-dealer. SIPC was created by the Securities Investor Protection Act of 1970 and is neither a government agency or a regulatory authority, but a nonprofit, membership corporation, funded by its member securities broker-dealers. Customers of a failed firm receive all securities registered in their names or in the process of being so registered. Customers receive, on a pro rata basis, all remaining customer cash and securities held by the firm.

After the above distribution, SIPC funds are available to satisfy the remaining claims of each customer a maximum of \$500,000, including up to \$100,000 on claims for cash (as distinct from claims for securities). Any remaining assets after payment of liquidation expenses may be available to satisfy any remaining portion of customer claims on a pro rata basis with other creditors.

**WEST CENTRAL OHIO NETWORK  
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(Continued)**

**4. DEPOSITS AND INVESTMENTS (Continued)**

Investments: WestCON's investments are categorized below to give an indication of the level of risk assumed by WestCON at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by WestCON or its agent in WestCON's name. Category 2 includes uninsured and unregistered investments which are held by the counterparts trust department or agent in WestCON's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in WestCON's name.

<b>2003</b>	<b><u>Category 1</u></b>	<b><u>Carrying Value</u></b>	<b><u>Market Value</u></b>
Corporate Bonds	<u>\$1,214,329</u>	<u>\$1,214,329</u>	<u>\$1,275,097</u>
<b>2002</b>	<b><u>Category 1</u></b>	<b><u>Carrying Value</u></b>	<b><u>Market Value</u></b>
Corporate Bonds	<u>\$649,591</u>	<u>\$649,591</u>	<u>\$666,595</u>

	<b>2003</b>	<b>2002</b>
Money market	\$1,501,584	\$1,734,243
Certificates of Deposit	<u>882,000</u>	<u>873,000</u>
Total Deposits	2,383,584	\$2,607,243
Corporate Bonds	<u>1,214,329</u>	<u>649,591</u>
Total Deposits & Investments	<u>\$3,597,913</u>	<u>\$3,256,834</u>

**5. OPERATING LEASE**

Prior to January 2002, WestCON entered into an agreement to lease office space for \$2,000 a month. The lease expired March 1, 2003, and WestCON moved to their current facility.

**6. RISK MANAGEMENT**

WestCON maintains general liability coverage in the amount of \$2,000,000 for each occurrence and \$5,000,000 in aggregate.

Workers' compensation benefits are provided through the State Bureau of Worker's Compensation. The premium is calculated based upon accident history and administrative costs.

WestCON provides health insurance for all full-time employees. WestCON provides health insurance benefits through a private carrier, United Health Care of Ohio.

**WEST CENTRAL OHIO NETWORK  
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(Continued)**

**6. RISK MANAGEMENT (Continued)**

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims, resulting from these risks have not exceeded commercial insurance coverages in any of the past three calendar years.

**7. DEFINED BENEFIT PENSION PLANS**

All WestCON employees participate in the Public Employees Retirement System (PERS) of Ohio, a cost-sharing, multiple-employer retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. Employers contribute an amount equal to 13.55% of participants' gross salaries. Contributions are authorized by State statute. The contribution rate is determined actuarially. WestCON has paid all contributions required through December 31, 2003.

**8. SECURITIES BASED LOAN**

WestCON entered into a Portfolio Reserve Loan and Collateral Agreement with Merrill Lynch in the amount of \$100,000 in order to finance the purchase of an administration building during March 2003. Under the securities based loan arrangement \$216,660 of WestCON's preferred securities were pledged as collateral. The loan amount of \$100,000 was recorded as a debit balance on WestCON's Merrill Lynch account. Each month WestCON pays interest on the outstanding balance of the loan at the current LIBOR rate. As of December 31, 2003, the current LIBOR rate was 6.75%. The loan balance is then reduced by the net amount of dividends earned less interest paid on the loan. This process will continue until the amount of the loan is paid off. Merrill Lynch has no lien on the administration building purchased with the loan.

For the year ended December 31, 2003, WestCON paid \$4,097 in interest on the loan balance to Merrill Lynch. Dividends of \$12,322 from the pledged securities and \$7,200 received from Shelby County MR/DD Board for rent payments were applied as payments against the loan, resulting in a loan balance of \$84,575 as of December 31, 2003.

The debt arrangement entered into during 2003 was not for supported living or residential services and therefore not permitted by Ohio law.



## **Auditor of State Betty Montgomery**

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

West Central Ohio Network  
Shelby County  
315 East Court Street  
Sidney, Ohio 45365

To the Members of the Board:

We have audited the financial statements of West Central Ohio Network, Shelby County, (WestCON), as of and for the years ended December 31, 2003 and 2002 and have issued our report thereon dated August 10, 2004, which noted WestCON reported its financial statements on a basis of accounting other than generally accepted accounting principles. 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 WestCON'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 2003-001 and 2003-002. We also noted an immaterial instance of noncompliance that we have reported to the management of WestCON in a separate letter dated August 10, 2004.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered WestCON'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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 WestCON's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. The reportable conditions are described in the accompanying schedule of findings as items 2003-003 and 2003-004.

**Internal Control Over Financial Reporting  
(Continued)**

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. We consider items 2003-003 and 2003-004 listed above to be material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to WestCON's management in a separate letter dated August 10, 2004.

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



**Betty Montgomery**  
Auditor of State

August 10, 2004



**WEST CENTRAL OHIO NETWORK  
SHELBY COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003 AND 2002**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2003-001**

**Material Non-compliance:**

**Ohio Rev. Code Section 5126.13**, states that a county board of mental retardation and developmental disabilities may enter into an agreement with one or more other county boards of mental retardation and developmental disabilities to establish a regional council in accordance with Chapter 167 of the Revised Code. Ohio Rev. Code Section 167.03 (C) states that regional councils of government by appropriate action of the governing bodies of the members, perform such other functions and duties as are performed or capable of performance by the members. Pursuant to Ohio Attorney General Opinion No. 92-061 a county Mental Retardation and Developmental Disabilities board depends upon the board of county commissioners for the purchase of real estate. A county board of Mental Retardation and Developmental Disabilities is without the authority to purchase property, with the exception of purchases made in accordance with Ohio Rev. Code Section 5126.051. Ohio Rev. Code Section 5126.051(A) states that a county board may acquire, convey, lease, or sell property for residential services and supported living and enter into loan agreements, including mortgages, for the acquisition of such property.

During April 2003 West Central Ohio Network (WestCON), a regional council of governments created by eight county Mental Retardation and Developmental Disability boards, purchased real estate to be used for its administrative offices. The facility purchased by WestCON is not being used for residential services or supported living. Since WestCON has only the authority of the county Mental Retardation and Developmental Disabilities boards that created it, the purchase of real estate does not represent a legitimate expenditure of funds.

The Council should consult legal council or seek an opinion from the Ohio Attorney General's Office to determine their legal position in relation to the purchase of the building and whether any remedies are required to correct the situation.

**FINDING NUMBER 2003-002**

**Material Non-compliance:**

**Ohio Rev. Code Section 5126.051** provides authority for county Mental Retardation and Developmental Disabilities Board (MR/DD) to enter into loans/leases for residential services and supported living. Ohio Rev. Code Section 167.03(D) states that regional councils of government have the authority by appropriate action of the governing bodies of the members, perform such other functions and duties as are performed or capable of performance by the members. Since WestCON is a regional council of government consisting of eight county MR/DD Boards, the powers of the government are limited to the authority granted to its member agencies under the Ohio Revised Code.

During April 2003, West Central Ohio Network (WestCON) entered into a securities based loan with Merrill Lynch for \$100,000 to purchase real estate for administrative offices. Since the real estate purchased was not used directly for residential services or supported living WestCON was not authorized to enter into debt for this purchase since county MR/DD boards are not authorized to incur debt under the Ohio Revised Code.

In order to comply with the provisions of the Ohio Revised Code, WestCON should not enter into loans or leases unless it is for supported living or residential services.

**WEST CENTRAL OHIO NETWORK  
SHELBY COUNTY**

**SCHEDULE OF FINDINGS (Continued)  
DECEMBER 31, 2003 AND 2002**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2003-003**

**Material Weakness:**

**Utilization and Review of Financial Ledgers**

The detail of the revenue and disbursement accounts on the General Ledger maintained by West Central Ohio Network (WestCON) provided insufficient detail for 2002 and 2003. The descriptions for most entries in the revenue accounts were "Bank Transaction Entry", "Account Corrections", or "Converted from Great Plains". A significant portion of the disbursement entries on the General Ledger had descriptions of "Purchases" or "Payables Entry". Since WestCON does not generate detail Revenue or Disbursement Ledgers, the General Ledger serves as the only source of detailed historical account information. The failure to include a detailed description of receipt or disbursement transaction results in a loss of important information for management in reviewing accounting transactions. This situation prevented the tracing of certain transactions to the supporting documentation without reconstruction of the account by the Director.

Detail for revenue accounts should include receipt numbers, receipt date, source of receipt, and description of receipt by account. Detail for disbursement accounts should include disbursement date, check number, vendor paid, and description of disbursement by account. The Director and Board of WestCON should be reviewing monthly system generated reports with detailed explanations for each transaction to determine the completeness and accuracy of the financial activity recorded. The Board should determine that entries made to the financial ledgers contain descriptions enabling any individual to review and understand the purpose of the entity. The lack of proper descriptions in posting limits WestCON's ability to conduct adequate reviews of financial activity in order to correct or prevent any errors or irregularities from being detected in a timely manner.

**FINDING NUMBER 2003-004**

**Material Weakness:**

**SAS 70/88 Report**

West Central Ohio Network (WestCON) has an investment portfolio with Merrill Lynch. WestCON has delegated decisions regarding investment purchases and sales to Merrill Lynch which classifies Merrill Lynch as a service organization for WestCON. Statement of Auditing Standards (SAS) No. 70 as amended by SAS No. 88, prescribes standards for reporting on the processing of transactions by service organizations. A service organization is to have an annual SAS 70/88 report completed which documents controls at the service organization. Merrill Lynch was unable to provide the required SAS 70/88 audit of their controls for 2003 or 2002.

WestCON should require Merrill Lynch to submit an annual SAS 70/88 audit of their controls, require that all investment decisions are made by the Board, or place their investments with an organization which annually has a SAS 70/88 audit performed.

**WEST CENTRAL OHIO NETWORK  
SHELBY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</b>
2001-60275-001	Failure to maintain accurate fund balances.	Yes	Fully addressed during audit period.
2001-60275-002	Failure to obtain SAS 70 Report from Merrill Lynch	No	Not corrected; see finding number 2003-004





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**WEST CENTRAL OHIO NETWORK**

**SHELBY 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  
SEPTEMBER 16, 2004**