



**Auditor of State
Betty Montgomery**

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Belmont County Educational Service Center
Belmont County
101 N. Market Street, Suite C
St. Clairsville, Ohio 43950

To the Board of Education:

We have audited the accompanying financial statements of the Belmont County Educational Service Center, Belmont County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2005. These financial statements are the responsibility of the Educational Service Center'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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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.

Ohio Administrative Code Section 117-2-03 (B) requires the Educational Service Center to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 1, the accompanying financial statements and notes have been prepared on a basis of accounting not in accordance with these generally accepted accounting principles. The accompanying financial statements and notes omit entity-wide statements, and assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the accompanying financial statements do not present fairly the financial position, results of operations, and cash flows, where applicable, of the Belmont County Educational Service Center, Belmont County, as of and for the year ended June 30, 2005 in accordance with accounting principles generally accepted in the United States.

The Educational Service Center has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United State of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2006, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Betty Montgomery
Auditor of State

May 16, 2006

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**COMBINED STATEMENT OF CASH, INVESTMENTS AND FUND CASH BALANCES
ALL FUND TYPES
AS OF JUNE 30, 2005**

Cash and Cash Equivalents	\$151,427
Investments:	
STAROhio	<u>15,112</u>
Total	<u><u>\$166,539</u></u>

CASH BALANCES BY FUND TYPE

Governmental Funds:	
General Fund	\$125,760
Special Revenue Funds	7,345
Capital Projects Funds	13,072
Proprietary Fund:	
Internal Service Funds	20,262
Fiduciary Funds:	
Agency Funds	<u>100</u>
Total	<u><u>\$166,539</u></u>

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

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Governmental Fund Types			Totals
	General	Special Revenue	Capital Projects	(Memorandum Only)
Cash Receipts:				
Receipts from Local Sources:				
Earnings on Investments	\$2,657	\$	\$	\$2,657
Charges for Services	726,363			726,363
Miscellaneous	15,064			15,064
Receipts from Intermediate Sources:				
Restricted Grants-in-Aid		2,925		2,925
Receipts from State Sources:				
Unrestricted Grants-in-Aid	503,622			503,622
Restricted Grants-in-Aid	675	3,000	25,000	28,675
Receipts from Federal Sources:				
Restricted Grants-in-Aid		53,434		53,434
Total Cash Receipts	<u>1,248,381</u>	<u>59,359</u>	<u>25,000</u>	<u>1,332,740</u>
Cash Disbursements:				
Instruction:				
Special	369,559	55,954		425,513
Supporting Services:				
Pupils	305,573			305,573
Instructional Staff	401,083		11,428	412,511
Board of Education	19,114			19,114
Administration	229,569	599	250	230,418
Fiscal Services	70,468		250	70,718
Central		2,300		2,300
Total Cash Disbursements	<u>1,395,366</u>	<u>58,853</u>	<u>11,928</u>	<u>1,466,147</u>
Excess of Cash Receipts Over/(Under) Cash Disbursements	(146,985)	506	13,072	(133,407)
Other Financing Sources/(Uses):				
Transfers-In	8			8
Refund of Prior Year Expenditures	154			154
Transfers-Out		(8)		(8)
Total Other Financing Sources/(Uses)	<u>162</u>	<u>(8)</u>	<u>0</u>	<u>154</u>
Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and Other Financing Uses	(146,823)	498	13,072	(133,253)
Fund Cash Balances, July 1	<u>272,583</u>	<u>6,847</u>	<u>0</u>	<u>279,430</u>
Fund Cash Balances, June 30	<u>\$125,760</u>	<u>\$7,345</u>	<u>\$13,072</u>	<u>\$146,177</u>
Reserve for Encumbrances, June 30	<u>\$3,028</u>	<u>\$5,235</u>	<u>\$0</u>	<u>\$8,263</u>

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

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals</u>
	<u>Internal Service</u>	<u>Agency</u>	<u>(Memorandum Only)</u>
Operating Cash Receipts:			
Charges to Other Funds	\$57,354	\$	\$57,354
Total Operating Cash Receipts	57,354	0	57,354
Operating Cash Disbursements:			
Purchased Services	68,429		68,429
Supplies and Materials	37		37
Other	1,159	5,000	6,159
Total Operating Cash Disbursements	69,625	5,000	74,625
Operating Loss	(12,271)	(5,000)	(17,271)
Nonoperating Cash Receipts/Disbursements:			
Earnings on Investments	223		223
Miscellaneous	1,695	100	1,795
Restricted Grants-in-Aid from State Sources		5,000	5,000
Total Nonoperating Cash Receipts/Disbursements	1,918	5,100	7,018
Net Income/(Loss)	(10,353)	100	(10,253)
Fund Cash Balances, July 1	30,615	0	30,615
Fund Cash Balances, June 30	<u>\$20,262</u>	<u>\$100</u>	<u>\$20,362</u>

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

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL
ALL BUDGETED FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Governmental			
General	\$1,482,140	\$1,248,543	(\$233,597)
Special Revenue	60,861	59,359	(1,502)
Capital Projects	0	25,000	25,000
Proprietary			
Internal Service	32,125	59,272	27,147
Totals (Memorandum Only)	<u>\$1,575,126</u>	<u>\$1,392,174</u>	<u>(\$182,952)</u>

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

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND ENCUMBRANCES
COMPARED WITH EXPENDITURE AUTHORITY
ALL BUDGETED FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Fund Types/Funds</u>	<u>Total Appropriations</u>	<u>Total Disbursements</u>	<u>Variance Favorable (Unfavorable)</u>
Governmental			
General	\$1,480,523	1,398,394	\$82,129
Special Revenue	63,863	64,096	(233)
Capital Projects	0	11,928	(11,928)
Proprietary			
Internal Service	<u>71,705</u>	<u>69,625</u>	<u>2,080</u>
Totals (Memorandum Only)	<u>\$1,616,091</u>	<u>\$1,544,043</u>	<u>\$72,048</u>

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

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**BELMONT COUNTY EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. DESCRIPTION OF THE ENTITY AND REPORTING ENTITY

The Belmont County Educational Service Center (Educational Service Center), is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Educational Service Center is a combined Educational Service Center as defined by Section 3311.053 of the Ohio Revised Code. The Educational Service Center provides supervisory, special education, administrative, and other services to the Barnesville Exempted Village, Bellaire Local, Bridgeport Exempted Village, Martins Ferry City, Shadyside Local, St. Clairsville – Richland City, and Union Local School Districts. The Educational Service Center furnishes leadership and consulting services designated to strengthen the school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. As of June 30, 2005, the Educational Service Center employed 23 certificated and 6 non-certificated employees.

The reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements of the Educational Service Center are not misleading. The primary government consists of all funds, departments, boards and agencies which are not legally separated from the Educational Service Center. For the Belmont County Educational Service Center, this includes general operations and student related activities. The Educational Service Center does not have any component units.

The Educational Service Center is associated with the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA), which is defined as a jointly governed organization, and the Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Program and the Ohio School Plan (OSP), insurance purchasing pools, and the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan which is defined as a claims servicing pool. These organizations are presented in Notes 9 and 10.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the Educational Service Center chooses to prepare 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. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Pooled Cash and Investments

The Educational Service Center maintains a cash and investment pool which is used by all funds. Each fund type's portion of this pool is displayed on the "Combined Statement of Cash, Investments and Fund Cash Balances" as "Cash Balances by Fund Type". The certificate of deposit and STAROhio are valued at cost. For purposes of financial statement presentation, certificates of deposit are considered cash equivalent.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings.

C. Fund Accounting

The Educational Service Center uses funds to report 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 Educational Service Center functions or activities.

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

For financial statement presentation purposes, the various funds of the Educational Service Center are grouped into the following generic fund types under the broad fund categories of governmental, proprietary and fiduciary.

Governmental Fund Types

Governmental funds are those through which most governmental functions of the Educational Service Center are financed. The acquisition, use and balances of the Educational Service Center's expendable financial resources are accounted for through governmental funds. The following are the Educational Service Center's governmental fund types:

General Fund

The General Fund is the general operating fund of the Educational Service Center and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the Educational Service Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds

Special Revenue Funds are used to account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

Capital Project Funds

Capital Project Funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds).

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

Proprietary Fund Type

Proprietary funds are used to account for the Educational Service Center's ongoing activities which are familiar to those found in the private sector. The following is the Educational Service Center's proprietary fund type:

Internal Service Funds

Internal Service Funds account for the financing of services provided by one department or agency to other departments or agencies of the Educational Service Center on a cost reimbursement basis.

Fiduciary Fund Type (Agency Funds)

These funds are used to account for funds in which the Educational Service Center is acting in an agency capacity.

D. Budgetary Data

The Educational Service Center adopts its budget on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised to include the actual beginning of the fiscal year fund balance and are accepted by the Board. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant. All funds are budgeted and appropriated.

1. Appropriations

The annual appropriation resolution is enacted by the Educational Service Center Board at the fund, special cost center level of expenditures. When necessary, the Educational Service Center Board passes a temporary appropriation measure that is maintained until annual appropriations are adopted. The Educational Service Center Board limits the amount of the appropriations by fund to the amount of the estimated resources, and the sum of the expenditures plus encumbrances to the amount of each appropriation. Any revisions that alter the total of any fund appropriation, or alter total special cost center appropriations within a fund, must be approved by the Educational Service Center Board.

The budget figures which appear in the statements of budgetary comparison represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds and is not required by state statute.

2. Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures in order to reserve that portion of the applicable appropriation.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Data (Continued)

3. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not re-appropriated.

E. Property, Plant, and Equipment

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

F. Accumulated Unpaid Vacation and Sick Leave

Accumulated unpaid vacation and sick leave are not accrued under the cash basis of accounting used by the Educational Service Center. All leave will either be absorbed by the time off from work, or within certain limitations, be paid to the employees. It is not practicable to determine the value of these benefits as of June 30, 2005.

G. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Totals (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. EQUITY IN POOLED CASH AND INVESTMENTS

State statutes classify monies held by the Educational Service Center into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Educational Service Center Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing no later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

Protection of the Educational Service Center's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

3. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to the principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by the federal government agency or instrumentality; including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Governmental National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities is subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. 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, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Educational Service Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classified deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

3. EQUITY IN POOLED CASH AND INVESTMENTS (continued)

At June 30, 2005, the Educational Service Center's Internal Service Fund had a balance of \$19,158 with OME-RESA, a claims servicing pool (See Note 10). The money is held by the claims servicer in a pooled account which is representative of numerous entities and therefore cannot be classified by risk under GASB Statement 3. The classification of cash and cash equivalent and investments for the OME-RESA Self-Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Jefferson County Educational Service Center. To obtain financial information, write to Ohio Mid Eastern Regional Educational Service Agency Self-Insurance Plan, Treasurer, 2023 Sunset Blvd., Steubenville, Ohio 43952.

A. Deposits

At June 30, 2005, the carrying amount of the Educational Service Center's deposits was \$132,269 and the bank balance was \$157,317 of the bank balance, \$150,000 was covered by federal depository insurance and \$7,317 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money have been followed, noncompliance with federal requirements would potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

B. Investment

The Educational Service Center's investments are required to be categorized to give an indication of the level of risk assumed by the Educational Service Center at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The Educational Service Center's investment in STAROhio has a market value of \$15,112 as of June 30, 2005.

4. PRIMARY REVENUE SOURCES

There are two primary sources of operating revenue for the Educational Service Center. The first primary sources for Educational Service Center operating dollars comes from payments made directly to the Educational Service Center by districts that have contracted with the Educational Service Center for services. These dollars are reported as charges for services. The second source is State foundation distributions. The Educational Service Center settlement report for foundation payments has two sections: paid by the State and paid by the local school districts.

State Foundation Distributions – Amounts Paid by the State - This section has three parts. The first part is entitled Special Education and includes State funding for early childhood (preschool) and gifted units as well as extended service amounts for teachers involved in cooperative units. The extended service amounts received from the State will eventually be recovered by the State from the districts that are part of the cooperative agreement.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

4. PRIMARY REVENUE SOURCES (Continued)

State Foundation Distributions – Amounts Paid by the State (Continued)

The second part of this section is the per pupil amount. This amount is provided by the State. It is currently calculated by multiplying the average daily membership (ADM) of the local school districts within the limits of the Educational Service Center's territory times \$37.00. The Educational Service Center also receives a per pupil amount for city and exempted village districts with which it had entered into a contract by January 1, 1997.

The third part represents supervisory extended service amounts associated with co-op units. The amount will be recovered by the State from districts that are parties to the cooperative agreement.

The amounts paid by the State for co-op extended service and recovered from the participating districts are reported as charges for services. The other money distributed within this section is State money appropriately recorded as unrestricted grants-in-aid.

State Foundation Distributions – Amounts Paid by the Local - This section has three parts. The first part is the amount paid by the districts for supervisors, the second part is the per pupil amount paid by the districts and the third part is the extended service amounts paid by the districts for units that are not being provided under a co-op agreement. Each school district's per pupil amount is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. These amounts are withheld by the State from the participating districts. These amounts are all reported as charges for services.

5. RISK MANAGEMENT

A. Property and Liability

The Educational Service Center is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Commercial property coverage is provided by the Indiana Insurance Company. During fiscal year 2005, the Educational Service Center joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool for liability. Each individual school district enters into an agreement with the OSP and its premium based on types of coverage, limits of coverage, and deductible that it selects. The Educational Service Center pays this annual premium amount to the OSP (See Note 10). The types and amounts of coverage provided by the Ohio School Plan are as follows:

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

5. RISK MANAGEMENT (Continued)

A. Property and Liability (Continued)

Educational General Liability:	
Bodily Injury and Property Damage - Each Occurrence Limit (\$0 Deductible)	\$1,000,000
Personal and Advertising Injury - Each Offense Limit	\$1,000,000
Fire Damage - Any One Event Limit	\$500,000
Medical Expense - Any One Person Limit	\$10,000
Each Accident Limit	\$10,000
General Aggregate Limit	\$3,000,000
Products-Completed Operations Aggregate Limit	\$1,000,000
Employers Liability - Stop Gap - Occurrence From	
Bodily Injury by Accident - Each Accident Limit	\$1,000,000
Bodily Injury by Disease - Endorsement Limit	\$1,000,000
Bodily Injury by Disease - Each Employee Limit	\$1,000,000
Employee Benefits Liability - Claims Made From	
Each Offense Limit	\$1,000,000
Aggregate Limit	\$3,000,000
Educational Legal Liability - Claims Made From	
Errors and Omissions Injury Limit (\$2,500 Deductible)	\$1,000,000
Errors and Omissions Injury Aggregate Limit	\$2,000,000
Employment Practices Injury Limit (\$2,500 Deductible)	\$1,000,000
Employment Practices Injury Aggregate Limit	\$2,000,000

Settled claims have not exceeded this commercial coverage in any of the past five years. There have been no significant reductions in insurance coverage from last year.

B. Workers' Compensation

For fiscal year 2005, the Educational Service Center participated in the Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (see Note 10). The intent is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the pool. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the pool. Each participant pays its workers' compensation premium to the State based on the rate for the G.R.P. rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the G.R.P. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the G.R.P. Participation is limited to school districts that can meet the G.R.P.'s selection criteria. The firm of Sheakley Uniservice, Inc., provides administrative, cost control and actuarial services to the Educational Service Center.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

5. RISK MANAGEMENT (Continued)

C. Employee Medical Benefits

The Educational Service Center is self insured for prescription, vision, life and dental insurance. The Educational Service Center is a member of the OME-RESA claims servicing pool. Monthly premiums are paid to the fiscal agent who in turn pays the claims on the Educational Service Center's behalf. These premium costs are recovered by costs from charges to other funds based on an actuarially determined cost per employee. The claims liability of \$369 below is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claim costs, be reported.

A comparison of Self Insurance cash and investments to the actuarially-measured liability as of June 30 follows:

	<u>2005</u>	<u>2004</u>
Cash and investments	\$19,158	\$30,010
Actuarial liabilities	\$369	\$745

6. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614)222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center's rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$15,797, \$13,693, and \$14,422 respectively.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan.

DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2004, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$104,479, 107,915, and \$106,165, respectively.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2005, one Board member of the Educational Service Center has elected Social Security. The Board's liability is 6.2 percent of wages paid.

7. POSTEMPLOYMENT BENEFITS

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go-basis.

STRS retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$8,037 for fiscal year 2005.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, (the latest information available) the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, the Educational Service Center paid \$8,115 to fund health care benefits, including the surcharge.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

7. POSTEMPLOYMENT BENEFITS (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care at June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants receiving health care benefits.

8. OTHER EMPLOYEE BENEFITS

Life Insurance

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to employees through Self-Funded Plans, Inc., located in Cleveland, Ohio.

9. JOINTLY GOVERNED ORGANIZATION

Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA)

OME-RESA was created as a regional council of governments pursuant to State statutes. OME-RESA has 12 participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Monroe, Muskingum, Noble, and Tuscarawas Counties. OME-RESA provides financial accounting services, educational management information system, and cooperative purchasing services to member districts. OME-RESA possesses its own budgeting authority. To obtain financial information write to the Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

10. PUBLIC ENTITY POOLS

A. Insurance Purchasing Pools

Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Program

The Educational Service Center participates in the Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OASBO. The Director of the OASBO, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

10. PUBLIC ENTITY POOLS (Continued)

Ohio School Plan

The Educational Service Center participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

B. Claims Servicing Pool

Ohio Mid-Eastern Regional Educational Service Agency Self-Insurance Plan

The Educational Service Center participates in the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan, a claims servicing pool comprised of fifty members. The Plan's business affairs are conducted by a nine member Board of Directors elected from OME-RESA's assembly. Each participant is a member of the assembly. Each member pays a monthly premium based on their claims history and a monthly administration fee. All participating members retain their risk and the Plan acts as the claims servicing agent.

11. CONTINGENCIES

Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with the terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2005.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Belmont County Educational Service Center
Belmont County
101 N. Market Street, Suite C
St. Clairsville, Ohio 43950

To the Board of Education:

We have audited the financial statements of the Belmont County Educational Service Center, Belmont County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2005, and have issued our report thereon dated May 16, 2006, wherein we noted the Educational Service Center prepares its financial statements on a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03(B). 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine 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 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 the Educational Service Center's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2005-003 through 2005-005.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when 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 material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the Educational Service Center's management dated May 16, 2006 we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Educational Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2005-001, 2005-002, 2005-006 and 2005-007. In a separate letter to the Educational Service Center's management dated May 16, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, and the Board of Education. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

May 16, 2006

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2005-001

Finding for Recovery Repaid Under Audit

According to the Treasurer's Contract between the Belmont County Board of Education and Judy Kay Oberdick, Treasurer of the Belmont County Educational Service Center, effective January 1, 2004, the salary for the Treasurer was set at \$37,313 for a period of 260 days. The Board retained the right to increase the salary of the Treasurer during the term of the contract. The Board approved an increase of \$500 to the Treasurer's salary on July 15, 2004, increasing calendar year 2004 salary to \$37,813.

Judy Kay Oberdick, Treasurer, was entitled to be paid \$37,813 for calendar year 2004. However, according to the payroll records, Judy Kay Oberdick was overcompensated during calendar year 2004 due to errors in calculating the amount due. The following table represents the overpayment to Judy Kay Oberdick:

	<u>2004</u>
Contract Amount	\$37,813
Total Paid	38,613
Overpayment	<u>\$800</u>

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery is hereby issued for public monies illegally expended against Judy Kay Oberdick, Treasurer, and State Automobile Mutual Insurance Company, her bonding company, jointly and severally, in the amount of \$800, in favor of the Belmont County Educational Service Center's General Fund. The Treasurer had monies deducted from her pay for pay periods ending March 24, 2006, April 7, 2006 and April 17, 2006 to completely pay the \$800 back to the Educational Service Center.

FINDING NUMBER 2005-002

Finding for Recovery Repaid Under Audit

According to the Minutes of the Board of Education of the Belmont County Educational Service Center dated April 19, 2001, "by direct order of the Governing Board, the Treasurer, Mrs. Oberdick, be ordered not to cash any check in any amount written to her unless it is countersigned by Superintendent Crawford, and approved by a majority of the Board and also, as a part of this motion, that she, the Treasurer, be required to give a list of all personal checks to the President of the Governing Board at the beginning of each monthly meeting."

According to the Treasurer's Contract between the Belmont County Board of Education and Judy Kay Oberdick, Treasurer of the Belmont County Educational Service Center, effective January 1, 2004 for a period of four years, "no additional monies shall be paid to the Treasurer from any grant funds."

On November 30, 2005, check number 15127 in the amount of \$2,733 was written to Judy Oberdick, Treasurer, out of the Early Childhood Indicators Technology Grant '99 Fund. The check cleared the Educational Service Center's bank account on January 3, 2006. This check was credited to the Belmont Savings Bank account of Judy Oberdick. There was no supporting documentation provided for this check. This check was solely signed by Judy Oberdick, Treasurer. The check was not countersigned by the Superintendent nor was the check approved by the Board of Education. Payment from the grant fund is in direct violation of the Treasurer's Contract between the Belmont County Board of Education and Judy Kay Oberdick, Treasurer.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2005-002 (Continued)

Finding for Recovery Repaid Under Audit (Continued)

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery is hereby issued for public monies illegally expended against Judy Kay Oberdick, Treasurer, and State Automobile Mutual Insurance Company, her bonding company, jointly and severally, in the amount of \$2,733, in favor of the Belmont County Educational Service Center's Early Childhood Indicators Technology Grant '99 Fund. The Treasurer, Judy Oberdick paid \$2,733 to the Educational Service Center with cashier check number 577087 dated April 20, 2006.

FINDING NUMBER 2005-003

Reportable Condition

The Educational Service Center prepared invoiced quarterly for the member and client school districts for services provided during the quarter. In preparing the invoices the Treasurer utilized the payroll register to calculate the actual salaries, fringes and employer paid fringes that were paid during the quarter. Supplies and other administrative charges were based on invoices paid or payroll register for salary-related payments. The Educational Service Center then charged a two percent administrative charge against the total salary, supplies and other administrative charges. The Educational gave a credit for any supervisory allowance, extended service or special education allowance received. The net cost was then distributed to each district according to the services requested, pro-rated by ADM of each district or pro-rated according to the number of students served.

During fiscal year 2005, the Educational Service Center invoiced the School Districts for four different quarters. We reviewed all School District invoices for the fourth quarter of fiscal year 2004, that were billed to the School Districts on August 24, 2004. Our review of the billing process resulted in the following concerns:

- (1) Salaries, fringes and employer paid benefits were billed improperly for sixteen of the forty-six, or 35%, of the Educational Service Center's employees billed to the School Districts. In almost all cases, the amount billed was greater than the support provided.
- (2) Supplies were billed improperly for nine of ten, or 90%, of the Educational Service Center's supplies billed to the School Districts. In almost all cases, the amount billed was greater than the support provided.
- (3) Other administrative charges (administration, other expenses, substitutes, and secretarial) were billed improperly for seven of seven, or 100%, of the Educational Service Center's other administrative charges billed to the School Districts. In almost all cases, the amount billed was greater than the support provided.
- (4) Two percent administrative charge was billed improperly for nine of twelve, or 75%, of the Educational Service Center's two percent administrative charges billed to the School Districts. In almost all cases, the amount billed was greater than the support provided.
- (5) Credit for state subsidy was improperly applied for two of six, or 33%, of the Educational Service Center's state subsidy credited to the School Districts. The Educational Service Center received subsidy funding for two pre-school teachers who we could not determine if any of the School Districts were given credit for the services provided by these two pre-school teachers.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2005-003 (Continued)

Reportable Condition (Continued)

- (6) Center not consistent in method used to allocate costs to local and client districts. Some times total ADM used and other times allocated according to number of students served. For fifty-one of the fifty-two calculations reviewed, we could not determine if the distribution was correct due to lack of documentation for method used.
- (7) The Educational Service Center billed the School District's \$175,939 for the fourth quarter of fiscal year 2004, we could only support \$151,378 of actual charges. Approximately 20% of the quarterly invoice amount being charged to the School Districts could not be substantiated or supported by documentation given to auditors by Treasurer.
- (8) No audit documentation given to auditors to indicate Educational Service Center made application to ODE for reimbursement units for occupational, physical and speech therapists and psychologist to offset costs to local and client districts.
- (9) At June 30, 2005, the Educational Service Center had approximately \$363,288 of receivables due to unbilled services for fourth quarter of fiscal year 2005 and School District delinquent payments.
- (10) The School Districts were being billed for duplicate prescription premiums for Educational Service Center employees.

We recommend the Educational Service Center consider the following control procedures:

- (1) The Educational Service Center should adopt a system of internal control that ensures timely billing of School Districts for services provided by the Educational Service Center and ensure the collection and compilation of the data needed to prepare billings be supported by the accounting system and source documentation.
- (2) The Educational Service Center should adopt a control procedure of having the employee who provided the services for the billing invoice, review the invoice and sign the cost sheet that supports the invoice that the amount being billed appears reasonable.
- (3) The Educational Service Center should consider applying for special education units for physical therapist, occupational therapist, speech therapist and psychologist services to help offset the local and client district's costs.
- (4) The Educational Service Center should meet with client districts to consider the option of having the contractual services billed directly to the client district's foundation settlements to improve cash flow for the Educational Service Center.

FINDING NUMBER 2005-004

Reportable Condition

The Educational Service Center has entered into agreements with the local, as well as city and exempted village school districts, as provided under Ohio Rev. Code Section 3313.843, to provide services. Some of the services traditionally provided by the Educational Service Center included: examination of bus drivers, special education or vocation education to students in its local districts or client districts, employment of supervisors, special instruction teachers, special education teachers, and teachers of academic courses in which there are too few students in the constituent local districts, operation of special education units for gifted children, and contracting with school districts to provide speech and hearing services, as well as psychological services.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2005-004 (Continued)

Reportable Condition (Continued)

During our review of the agreements with the school districts, we noted the agreements were very generic and did not specifically outline what services in detail the Educational Service Center will provide or what services the client district is expecting. The agreement basically indicated the client district will pay for costs incurred above state funding and, in addition to or in place of, any unit or related service allocation for applicable ancillary services provided to client district by the Educational Service Center. There was no mention of the administrative charge that was being assessed by the Educational Service Center.

We recommend the Educational Service Center and client districts review their procedures for agreeing to services to be provided by the Educational Service Center. The agreements should outline, in specific detail, the services agreed to between the Educational Service Center and the client districts. There should be language outlining what costs are to be charged back to the client district, what costs are to be reduced by state funding received by the Educational Service Center and how the administrative charge is to be calculated. Also, the Educational Service Center, local districts and client districts should agree to a method of allocating costs to each district. Within the agreement the Educational Service Center should list the projected budget for each service provided and the month the Educational Service Center expects to settle actual costs.

FINDING NUMBER 2005-005

Reportable Condition

When designing the public office's system of internal control and the specific control activities, management should also consider verifying the existence and valuation of assets and liabilities and periodically reconciling them to the accounting records. The Educational Service Center Treasurer prepared the monthly general checking account reconciliation. In addition, the Educational Service Center Treasurer made posting entries to the general accounting systems and made all deposits to the general checking account.

During the period and at year-end, the general checking account was not in agreement with the accounting system. At June 30, 2005, there were reconciling items on the bank reconciliation that were not truly reconciling items. At October 13, 2005 and October 12, 2005, the general checking was overdrawn by \$11,849 and \$496, respectively. In addition, there was \$166 of overdraft fees charged.

We recommend the Educational Service Center Treasurer ensure that the general checking account balance is in agreement with the accounting system. We also recommend that the Superintendent review and approve all reconciliations prepared by the Treasurer for the general checking account and that the Board of Education review reconciliations at each monthly board meeting.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2005-006

Noncompliance Citation

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the reports, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Administrative Code Section 117-2-03(B) requires the Educational Service to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the Educational Service Center prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the Educational Service Center can be fined and various other administrative remedies may be taken against the Educational Service Center for its failure to file the required report.

We recommend the Educational Service Center take the necessary steps to ensure the annual financial report is prepared in accordance with GAAP. The Educational Service Center should refer to Auditor of State Bulletin 2005-002 which clarifies the Auditor of State's position on GAAP reporting.

FINDING NUMBER 2005-007

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering onto a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the ESC can authorize the drawing of a warrant for the payment of the amount due. The ESC has thirty days from receipt of the "then and now" certificate to approve payment by ordinance or resolution.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2005-007 (Continued)

Noncompliance Citation – Ohio Rev. Code Section 5705.41(D)(1) (Continued)

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Educational Service Center.

2. Blanket Certificates – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate – The Educational Service Center may also make expenditures and contracts for any amount from a specific line item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to exceed beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Educational Service Center did not properly certify the availability of funds prior to purchase commitment for 22 percent of expenditures tested. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Educational Service Center’s funds exceeding budgetary spending limitations, we recommend that the Treasurer certify that funds are or will be available prior to obligation by the Educational Service Center. When prior certification is not possible, “then and now” certification should be used.

We recommend the Educational Service Center certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language section 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Educational Service Center incurs a commitment, and only when the requirements of section 5705.41(D) are satisfied. The fiscal officer should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Admin. Code Section 117-2-03 (B) for not filing annual financial statements in accordance with generally accepted accounting principles.	No	Not Correct; Reissued as finding number 2005-006.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**CORRECTIVE ACTION PLAN
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2005-001	Judy Kay Oberdick, Treasurer, had amounts deducted from her March 24, 2006, April 7, 2006 and April 17, 2006 pay to completely pay the \$800 overpayment.	May18, 2006	Judy Kay Oberdick, Treasurer
2005-002	Judy Kay Oberdick, Treasurer, repaid the overpayment of \$2,733 on April 20, 2006.	June 30, 2006	Judy Kay Oberdick, Treasurer
2005-003	The Educational Service Center plans to review the current method of billing excess costs and plans to research the possibility of applying for additional units.	June 30, 2006	Judy Kay Oberdick, Treasurer, and Michael Crawford, Superintendent
2005-004	The Educational Service Center intends to review their procedures for contracting with school districts for services.	June 30, 2006	Judy Kay Oberdick, Treasurer, and Michael Crawford, Superintendent
2005-005	The Treasurer plans to ensure that the general checking account balance is in agreement with the accounting system. The Treasurer will provide the Superintendent and Board with the monthly bank reconciliations.	Ongoing	Judy Kay Oberdick, Treasurer
2005-006	The Educational Service Center will consider filing their financial statements in accordance with generally accepted accounting principles (GAAP).	June 30, 2006	Judy Kay Oberdick, Treasurer
2005-007	The Treasurer plans to more closely monitor the prior certification of expenditures.	Ongoing	Judy Kay Oberdick, Treasurer



**Auditor of State
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BELMONT COUNTY EDUCATIONAL SERVICE CENTER

BELMONT 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
JUNE 20, 2006**