



**Auditor of State
Betty Montgomery**

**TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION
MARION COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Tri-Rivers Educational Computer Association
Marion County
2222 Marion Mt. Gilead Road
Marion, Ohio 43302

To the Board of Directors:

We have audited the accompanying financial statement of the Tri-Rivers Educational Computer Association, Marion County, Ohio, (the Association) as of and for the year ended June 30, 2004. This financial statement is the responsibility of the Association's management. Our responsibility is to express an opinion on this financial statement based on our audit.

Except as discussed in the third, fifth and sixth following paragraphs, 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 described more fully in Note 1, the Association has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America. Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, we presume they are material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Association's combined funds as of June 30, 2004, or their changes in financial position for the years then ended.

The governing boards of the Association and the TRECA Digital Academy (the Academy) are comprised of the same individuals. Additionally, the Association serves as fiscal agent and management of the Academy. From July 1, 2003, through February 29, 2004, management of the Association allocated certain disbursements, including rent, credit card purchases, computer leases, and salaries between the Association and the Academy. These allocations were not based on written agreements, allocation plans, or records supporting that amounts were related to expenses incurred by the respective entities. On February 24, 2004, the respective governing boards ratified the actual allocations, though no allocation support was provided. Due to the lack of supporting documentation we were unable to satisfy ourselves concerning the Association's reported disbursements which are based on management's actual allocations. The effects, if any, of such commingling on cash disbursements and fund cash balances is not reasonably determinable.

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Receipts related to equipment resale and member district connectivity were commingled and posted to the same line item. The accounting ledgers do not provide enough information to determine the receipts for each category. As a result, we were unable to satisfy ourselves concerning the Association's reported receipts related to these specific receipt categories. The effects, if any, of such commingling on cash receipts and fund cash balances is not reasonably determinable.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves concerning reported disbursements and receipts as described in the previous paragraphs, the financial statement referred to above presents fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Tri-Rivers Educational Computer Association, Marion County, Ohio, as of June 30, 2004, and its combined cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2005, on our consideration of the Association'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. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. 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.



Betty Montgomery
Auditor of State

February 11, 2005

**TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION
MARION COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Fees	\$8,189,024	\$343,899	\$8,532,923
Intergovernmental	839,260	639,221	1,478,481
Miscellaneous	128,751	810	129,561
Total Cash Receipts	<u>9,157,035</u>	<u>983,930</u>	<u>10,140,965</u>
Cash Disbursements:			
Salaries	2,658,554	232,924	2,891,478
Employee Benefits	1,414,531	48,249	1,462,780
Purchased Services	3,329,393	692,576	4,021,969
Supplies and Materials	1,126,580	3,579	1,130,159
Debt Service	615,375	0	615,375
Capital Outlay	91,731	0	91,731
Miscellaneous	41,361	635	41,996
Total Cash Disbursements	<u>9,277,525</u>	<u>977,963</u>	<u>10,255,488</u>
Total Cash Receipts Over/(Under) Disbursements	<u>(120,490)</u>	<u>5,967</u>	<u>(114,523)</u>
Other Financing Receipts:			
Proceeds from Line of Credit	50,000	0	50,000
Total Other Financing Receipts	<u>50,000</u>	<u>0</u>	<u>50,000</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	(70,490)	5,967	(64,523)
Fund Cash Balances, July 1, 2003	<u>132,269</u>	<u>1,514</u>	<u>133,783</u>
Fund Cash Balances, June 30, 2004	<u>\$61,779</u>	<u>\$7,481</u>	<u>\$69,260</u>
Reserve for Encumbrances, June 30, 2004	<u>\$21,531</u>	<u>\$55</u>	<u>\$21,586</u>

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

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**TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Tri-Rivers Educational Computer Association, (the Association) is a Regional Council of Governments pursuant to Chapter 167 of the Ohio Rev. Code. The Association operates under a Board of Directors consisting of seven members, one elected annually from each of Marion, Morrow, Knox, Delaware, and Wyandot Counties; one representative from the city school districts; and the Superintendent of the Tri-Rivers Joint Vocational School District.

The Association provides computer systems for the needs of the member Boards of Education as authorized by state statute guidelines. The association serves forty-four schools in Marion, Morrow, Knox, Delaware, Wyandot, Muskingum, Clark, Cuyahoga, Franklin, Hamilton, Lucas, Union, Mahoning, Summit, and Trumbull Counties.

Component units are legally separate organizations for which the Association is financially accountable. The Association is financially accountable for an organization if the Association appoints a voting majority of the organization's governing board and (1) the Association is able to significantly influence the programs or services performed or provided by the organization; or (2) the Association is legally entitled to or can otherwise access the organization's resources; the Association is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Association is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Association in that the Association approves the budget or issues debt. The TRECA Digital Academy (the Academy) is a component unit of the Association as a result of the entities having the same governing board. A separately issued report for the Academy will be made available upon request.

B. Basis of Accounting

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

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

C. Cash and Investments

Investments are included in fund cash balances. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively. During fiscal year 2004, the Association had no investments.

**TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting

The Association uses fund accounting to segregate cash that is restricted as to use. The Association classifies its funds into the following types:

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Association had the following significant Special Revenue Fund:

E-Rate Fund - This fund receives money for the purpose of paying for telecommunication services.

E. Property, Plant and Equipment

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

F. Unpaid Vacation and Sick Leave

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

G. Fees

The Association charges its forty-four members fees for data processing services. The Association sets the fee annually. The fee is based on the number of hours of processing time required for each member.

2. RETIREMENT SYSTEM

The Association's employees belong to the School Employees Retirement System (SERS) of Ohio. SERS is a cost-sharing, multiple-employer defined benefit plan. This plan provides retirement benefits, including post-retirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2004, members of SERS contributed 10% of their gross salaries. The Association contributed an amount equal to 14% of participants' gross salaries. The Association has paid all contributions required through June 30, 2004.

**TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2004
(Continued)**

3. EQUITY IN POOLED CASH

The Association maintains a cash pool used by all funds. The Association has elected to follow the Ohio Revised Code guidelines that prescribe allowable deposits and investments. The carrying amount of cash at June 30, 2004 was \$69,260.

Deposits: Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

4. DEBT

Debt outstanding at June 30, 2004 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Bank One Commercial Line of Credit	\$35,000	6.00%

The line of credit was obtained to cover operating expenditures. All of the Association's business assets serve as collateral for this line of credit.

5. RISK MANAGEMENT

The Association has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Errors and omissions.

The Association also provides health insurance and dental and vision coverage to full-time employees through the Tri-Rivers Joint Vocational School insurance plan.

6. CONTINGENT LIABILITIES

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.

7. RELATED PARTY TRANSACTIONS

The TRECA Digital Academy (the Academy) is a component unit of the Association. As part of the Association's contractual agreement with the Academy, dated July 15, 2002, for fiscal year 2003, the Academy was required to pay the Association \$660,000 for various services and support. At June 30, 2003, \$165,000 of this amount was outstanding and was subsequently paid by the Academy during fiscal year 2004. Also \$291,115 related to salaries and benefits reimbursements related to fiscal year 2003 were owed by the Academy to the Association. These amounts were also subsequently paid in fiscal year 2004.

**TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2004
(Continued)**

7. RELATED PARTY TRANSACTIONS (Continued)

On February 24, 2004, the Association and the Academy entered into a 2004 Comprehensive Services Agreement. Pursuant to this agreement, the parties established, in part, the following terms:

- The Association shall provide the Academy with instructional, supervisory/administrative, fiscal, and technical services sufficient to substantially implement, in cooperation with the Academy, the Academy's obligations pursuant to the Community School Contract (but not including those functions, such as governance, which the Academy is exclusively capable of performing).
- All personnel providing services in fulfillment of the Association's responsibilities shall be employees or contractors of the Association and the Association shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to its employees.
- The technical services provided by the Association to the Academy shall include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel necessary to implement the Community School Contract as required. All equipment shall remain the property of the Association, including but not limited to computer hardware and software equipment.
- In exchange for the services and support (including equipment) provided by the Association, the Academy shall pay to the Association the following fees:
 - Annual Fee – Beginning with the 2004-2005 school year, the Academy shall at the commencement of each school year (or at other times as agreed by the parties), pay to the Association for curriculum and program development, teacher training, and marketing services associated with the Academy, an annual fee in an amount agreed by the parties.
 - Ongoing Fees – On an ongoing basis, the Academy shall pay to the Association 99% of the base formula funds, and 100% of the additional funds (including but not limited to funds for special education and related services), received by the Academy from the Ohio Department of Education pursuant to section 3314.08 of the Ohio Revised Code. These percentages may be adjusted at any time by agreement of the parties.
 - Other Payments – If and as agreed by the parties, the Academy may additionally pay to the Association funds received by the Academy from grants or other sources for services provided by the Association that are consistent with the purposes of such funds.

Since entering into the 2004 Comprehensive Services Agreement, the Academy has paid to the Association \$1,842,698 of base formula funds and \$489,013 of additional funds.

**TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2004
(Continued)**

7. RELATED PARTY TRANSACTIONS (Continued)

The Academy also made the following payments related to the Association during fiscal year 2004 prior to entering into the 2004 Comprehensive Services Agreement on February 24, 2004:

- \$41,200 related to a lease entered into by the Association for additional office space;
- \$274,563 related to various leases entered into by the Association for the acquisition of computers and related equipment;
- \$16,449 for Academy purchases made on credit card accounts of the Association;
- \$1,888,032 and \$671,241 of payroll and benefits, respectively, for the Association employees who served the Academy.

8. FEE CREDITS

Throughout the fiscal year, member districts requested credits in the total amount of \$398,270 be applied toward various Association billings. Accordingly, these non-cash transactions are not reflected as fees in the accompanying cash-basis financial statement.

9. SUBSEQUENT EVENTS

Line of Credit

As of December 29, 2004, the Association paid the \$35,000 line of credit outstanding at June 30, 2004.

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Auditor of State Betty Montgomery

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

Tri-Rivers Educational Computer Association
Marion County
2222 Marion Mt. Gilead Road
Marion, Ohio 43302

To the Board of Directors:

We have audited the financial statement of the Tri-Rivers Educational Computer Association, Marion County, Ohio, (the Association) as of and for the year ended June 30, 2004, and have issued our report thereon dated February 11, 2005, wherein we noted the Association followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. This report was qualified because management of the Association allocated certain expenses, including rent, credit card purchases, computer leases, and salaries between the Association and the TRECA Digital Academy (the Academy), without supporting documentation to demonstrate that each entity paid only for its respective obligations; and because receipts related to equipment resale and member district connectivity were commingled and posted to the same line item without supporting documentation to determine the receipts for each category. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Association'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 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 such an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2004-001. We also noted certain immaterial instances of noncompliance that we have reported to the Association's management in a separate letter dated February 11, 2005.

Internal Control Over Financial Reporting

In planning and performing the audit, we considered the Association'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 the Association'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 2004-002 through 2004-005.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe each of the reportable conditions described above is a material weakness. 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 the Association's management in a separate letter dated February 11, 2005.

This report is intended for the information and use of the audit committee, management and the Board of Directors, 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

February 11, 2005

**TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION
MARION COUNTY**

**JUNE 30, 2004
SCHEDULE OF FINDINGS**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2004-001
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**Finding Repaid Under Audit
Digital Academy Contract Fee**

Section 5b of the Comprehensive Services Agreement entered into between the Association and the TRECA Digital Academy (the Academy) on February 24, 2004, states, in part, the Academy shall pay to the Association 99% of the base formula funds received in exchange for the services and support provided by the Association.

In March 2004, the Association's Treasurer, Linda Phillips, who also acts as fiscal agent of the Academy, paid to the Association from the Academy \$2,458 in excess of the 99% provided for in the agreement. As a result, the Association's fee receipts were overstated by \$2,458.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code § 117.28, a Finding for Recovery for public money illegally expended would have been issued against the Association's Treasurer, Linda Phillips, and her bonding company, Ohio Casualty Insurance Company, in the amount of \$2,458.

On February 11, 2005, the Association repaid \$2,458 to the Academy.

Finding Number	2004-002
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Monthly Bank Reconciliations

Monthly cash reconciliations should be performed by the Association Treasurer to determine if all receipts and disbursements have been properly posted. Reconciling items should be identified at the time of the reconciliation. Documentation supporting or explaining all reconciling items should also be included with the reconciliation. Once completed, the reconciliation should be reviewed for completeness and accuracy by the Executive Director and Board of Directors.

Throughout the fiscal year, the Treasurer made the following bank transfers between the bank accounts of the Association and the TRECA Digital Academy:

<u>Date</u>	<u>TRECA</u>	<u>TRECA Digital Academy</u>
8/6/2003	\$ 30,000	\$ (30,000)
9/22/2003	(77,002)	77,002
9/24/2003	50,000	(50,000)
10/30/2003	40,000	(40,000)
10/28/2003	(10,000)	10,000
3/2/2004	80,000	(80,000)
	<u>\$ 112,998</u>	<u>\$ (112,998)</u>

Each of these transfers represented a movement of cash between the Association and the Academy, two legally separate entities, without any Board authorization. Furthermore, the Treasurer was unable to provide any verbal explanation or supporting documentation indicating why these transfers were made. None of these transfers were posted to the accounting ledgers of the Association or the Academy.

**TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION
MARION COUNTY**

**JUNE 30, 2004
SCHEDULE OF FINDINGS
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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Finding Number	2004-002 (Continued)
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Monthly Bank Reconciliations (Continued)

These off-the-books bank transfers caused reconciling items on the monthly bank reconciliations. As of June 30, 2004 the bank reconciliation of the Association and the Academy each had a reconciling item of \$38,350, representing the cumulative net amount of cash owed by the Academy to the Association as a result of these bank transfers and other payroll-related transactions for which amounts were owed between the Association and the Academy.

There were additional errors in the bank reconciliations performed by the Treasurer during fiscal year 2004 as follows:

- As of June 30, 2004, there were five checks totaling \$1,141.19 included on the Association's outstanding check listing that had cleared the bank in previous months.
- There was \$1,039.23 of December 2003 bank fees not posted to the Association's accounting ledgers as of June 30, 2004, but not reported as a reconciling item on the cash reconciliation.
- There was \$1,367.02 of unposted June 2004 bank fees reported as a reconciling item on the June 30, 2004 reconciliation; however, these fees had already been posted to the accounting ledgers, and should not have been a reconciling item.
- There was a \$315 bank deposit on December 24, 2003 that was never posted to the Association's accounting ledgers.
- There was a \$7,410 budgetary adjustment posted to the accounting ledgers in December 2004 with no indication or supporting documentation related to this adjustment. This adjustment to the accounting ledgers should have resulted in a reconciling item between the Association's fund balances and bank balances; however, no such reconciling item was reported.
- There were also unrecorded receipts and bank fees associated with the Association's credit card bank account for a net unposted amount of \$53.68 for fiscal year 2004.
- There was a \$13.20 receipt misposting in April 2004.
- There was an \$11.31 voided payroll check which was never added back to the Association's fund balance.

The Association's June 30, 2004 bank reconciliation gave the appearance the Association's ledgers were, in fact, reconciled to the bank, although each of these errors should have represented a reconciling item on the Association's June 30, 2004 bank reconciliation and none were included.

We recommend the Association Treasurer perform monthly bank to book reconciliations that properly account for all transactions during the respective month. Complete and accurate documentation supporting or explaining all reconciling items should be included with the reconciliations. We also recommend the Executive Director and Board of Directors carefully review these reconciliations each month, along with bank statements and supporting documentation for all reconciling items.

The Association should also stop the practice of transferring cash between the bank accounts of the Association and the Academy. Any such unauthorized transfers of cash may result in findings for recovery in future periods.

**TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION
MARION COUNTY**

**JUNE 30, 2004
SCHEDULE OF FINDINGS
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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Finding Number	2004-003
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Commingling of Financial Activity

The Association serves as fiscal agent and management of the Academy, and the governing boards of both entities are comprised of the same individuals. Also, pursuant to Governmental Accounting Standards Board Statement No. 14, the Academy is considered a component unit of the Association for purposes of external financial reporting. The Academy and the Association, however, are legally separate entities requiring processing of respective financial transactions in separate accounting systems.

The governing boards of the Association and the Academy entered into a Comprehensive Service Agreement, dated September 10, 2001, initially covering fiscal year 2002 with provision for future application. Under the agreement the Association is to provide certain services to the Academy for a fee as set forth in the agreement. Management contends this agreement was modified for fiscal year 2003 upon the adoption of a twelve month Letter of Agreement between the Association and the Academy. Upon expiration of that Letter of Agreement, it is not clear whether provisions of the original Comprehensive Service Agreement went back into effect. The Association charged the Academy no fees from July 2003, to February 2004.

Other than the stated fee provided for in the agreement, the Comprehensive Service Agreement did not explicitly provide that the Academy will reimburse the Association for the Association's actual costs of providing services under the agreement. The agreement provided no guidelines or methodologies for allocating any joint costs.

During the fiscal year, certain expenses, including rent payments, credit card purchases, computer lease payments, and employee salaries, were commingled and allocated between the entities such that it is unclear whether each entity properly paid for, and only for, its respective share of the expenses. These allocations were not based on allocation plans or records supporting that amounts were related to expenses incurred by the respective entities. In some cases, the allocations are related to services that are provided for under the agreements. On February 24, 2004, the respective governing boards ratified the actual allocations, although no allocation support was provided. A summary of the more significant allocations follows:

- In October 2002, the Association entered into a lease agreement for office space to be used primarily to house the Academy. Of the seven monthly lease payments made from July 1, 2003 through February 29, 2004, three payments were made by the Association totaling \$31,575, and four payments were made by the Academy totaling \$41,200. Neither the Association nor the Academy was able to provide any documentation, such as space utilization records, supporting this allocation.

**TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION
MARION COUNTY**

**JUNE 30, 2004
SCHEDULE OF FINDINGS
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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Finding Number	2004-003 (Continued)
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Commingling of Financial Activity (Continued)

- A Visa credit card account and a Meijer purchasing card account were maintained in the name of the Association. These cards are used to make purchases for both the Association and the Academy. Total credit card payments made on the Visa account, from July 1, 2003 through February 29, 2004, were \$51,636. Of the total payments made, \$35,660 was paid by the Association and \$15,976 was paid by the Academy. Total purchasing card payments made to Meijer, from July 1, 2003 through February 29, 2004, were \$2,376. Of the total payments made, \$1,903 was paid by the Association and \$473 was paid by the Academy. The Academy's Treasurer, who also serves as Treasurer of the Association, determined the allocation of the payments between the Association and the Academy for each of the monthly credit card statements; however, the Treasurer was unable to provide any documentation supporting this allocation, or any documentation indicating which individual credit card purchases were made by/for which entity.

- The Association has entered into three capital lease agreements with Apple Financial Services. These computers were acquired to be used by students who attend the Academy and by students who attend other digital academies that contract with the Association to provide instruction and computer equipment. The Association and the Academy each made various payments related to these leases. Since all three leases were entered into by the Association, title to the assets and the corresponding liability rests with the Association. Though there is no written agreement, the parties assert they have verbally agreed to terms by which the Academy makes payments on the leases for the portion of computers used by the Academy's students. From July 1, 2003 through February 29, 2004, actual payments made by the Academy totaled \$274,563, and actual payments made by the Association totaled \$98,648.

- All employees, including teachers and other support personnel, who provided service to the Academy, were hired by the Association as Association employees and are paid on Association paychecks. Each pay period, the Treasurer made a posting adjustment to allocate back to the Academy the payroll expense of the employees providing services to the Academy. This allocation is complicated by the fact that certain of the teachers who provide instruction to the Academy's students also provide instruction to students of other established digital academies that contract with the Association for instruction services. As such, if the Association and the Academy had agreed to allocate payroll associated with instruction of the Academy's students, the payroll associated with instruction of students from other digital academies contracting with the Association should be paid by the Association. The Treasurer was not able to provide any documentation, such as time records, supporting the allocation of such payroll between the Association and the Academy. Total payroll and benefits paid by the Academy, from July 1, 2003 through February 29, 2004, were \$1,888,032, and \$671,241, respectively. Total payroll and benefits paid by the Association, from July 1, 2003 through February 29, 2004, were \$1,224,237, and \$580,370.

As the Association and the Academy are legally separate entities, it is imperative to maintain separate and distinct operations. Failure to do so compromises the financial accountability for these entities and may result in possible findings for recovery in future periods.

**TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION
MARION COUNTY**

**JUNE 30, 2004
SCHEDULE OF FINDINGS
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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Finding Number

2004-003 (Continued)

Commingling of Financial Activity (Continued)

All significant service or cost allocation agreements should be in writing and clearly articulate the services or benefits to be provided and the manner and amount of payment. Additionally, for any overlapping financial activity allocated between the entities, clear and concise documentation needs to be maintained to support such allocation.

The Association and the Academy entered into a 2004 Comprehensive Services Agreement on February 24, 2004, which, unless modified by the parties, remains in effect until June 30, 2006. Pursuant to this agreement, beginning March 1, 2004 through June 30, 2004, the Academy paid to the Association 99% of its base formula funds and 100% of the additional funds received from the Ohio Department of Education pursuant to section 3314.08 of the Ohio Revised Code, in exchange for all instructional, supervisory/administrative, fiscal, and technical services.

Finding Number

2004-004

Receipt Posting

The Association's fee revenue consists of ADM fees, technical support services, digital academy contract services, connectivity fees, resale, and other miscellaneous fees. Fees generated relating to resale and member district connectivity were commingled in the accounting ledgers with no distinction made between connectivity fees and resale receipts. Therefore, the completeness of these receipts cannot be ensured. Furthermore, these receipts, which totaled \$2,474,375, were posted as reductions of expenditures rather than receipts. An audit adjustment was made to reflect the total as receipts rather than reductions of expenditures.

Also, during fiscal year 2004, member districts requested credits in the total amount of \$398,270 be applied toward various Association billings. In these circumstances, the Treasurer posted receipts to the accounting ledgers for the amounts billed and then posted a negative receipt for the amount of the credit which offset the billing. The receipts were properly posted to the individual receipt accounts; however, the credits were often posted in total to one receipt account rather than to the receipt accounts for which the credits were actually applied.

All cash receipts received by the Association should be posted as receipts rather than reductions of expenditures. Also, each category of fees charged by the Association should be posted to separate receipt accounts within the accounting system. This will enhance accountability over revenues and will help allow for more effective monitoring of the Association's receipts.

**TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION
MARION COUNTY**

**JUNE 30, 2004
SCHEDULE OF FINDINGS**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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Finding Number	2004-005
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Board Monitoring

The Treasurer prepares monthly budget versus actual financial reports to present to the Board for monitoring purposes. These reports, however, combine all Association funds in one column. The Association receives various grant awards, each having stipulations regarding how the grant may or must be spent. As a result, it is important for the Board to monitor the Association's financial activity at the fund level. The lack of detailed information at the fund level limits the usefulness of these reports and, thus, may compromise the Board's ability to properly monitor the financial activity of the Association.

Furthermore, these reports are not generated from the Association's accounting system. Re-entry of financial information into separate spreadsheet files is not only inefficient but also increases the likelihood of data entry errors and, thus, may limit the usefulness of the information.

Although the accounting system contained no budgeted receipts or expenditures, the monthly reports prepared by the Treasurer did contain budgeted amounts. There is no indication these budgeted amounts in the financial reports were Board approved. Furthermore, estimated revenues and expenditures were modified throughout the fiscal year with no Board approval. The usefulness of such budgeted versus actual reports may be limited if the budget is not Board approved.

Monitoring comprises regular management activities established to oversee whether management's financial objectives are being achieved. Data from such reports may indirectly provide assurance as to the reliability of financial reporting information if it conforms with the users' expectations. Lack of effective legislative monitoring may lead to errors, irregularities, or misappropriation of the Association funds.

Although not required by Ohio law, for effective monitoring of financial information, the Board should consider approving any financial activity budgets prepared by management after carefully reviewing the budget and requesting any supporting documentation or explanations as may be necessary. The Board should also request the financial reports be systems generated and provided at the fund level. The Board should carefully review these reports each month for any unusual or unexpected financial activity or account balances. Appropriate follow-up should be made regarding any unusual balances or transactions.

**TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION
MARION COUNTY**

**JUNE 30, 2004
SCHEDULE OF PRIOR AUDIT FINDINGS**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	Monthly Bank Reconciliations	No	Not corrected; repeated in the current audit report as finding 2004-002.
2003-002	Credit Cards	No	Partially corrected; repeated in the current audit management letter.
2003-003	Commingling of Financial Activity	No	Partially corrected. This matter was corrected effective March 1, 2004; however, it is repeated in the current audit report as finding 2004-003.
2003-004	Board Monitoring	No	Not corrected; repeated in the current audit report as finding 2004-005.
2003-005	Financial Status	Yes	Fully corrected.



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**TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION
MARION 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
MARCH 24, 2005**