



**Auditor of State
Betty Montgomery**

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Guernsey/Monroe/Noble Educational Service Center
Guernsey County
National City Bank Building, 3rd Floor
749 Wheeling Avenue
Cambridge, Ohio 43725

To the Board of Education:

We have audited the accompanying financial statements of the Guernsey/Monroe/Noble Educational Service Center, Guernsey County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2003. 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 *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.

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 2, the accompanying financial statements and notes have been prepared on a basis of accounting 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 a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments, and combined fund cash balances of the Guernsey/Monroe/Noble Educational Service Center, Guernsey County, as of June 30, 2003, and its combined cash receipts and cash disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the year then ended on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2003, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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The accompanying Schedule of Federal Awards Receipts and Expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

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

Betty Montgomery
Auditor of State

December 1, 2003

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**COMBINED STATEMENT OF CASH, INVESTMENTS, AND FUND
CASH BALANCES
ALL FUND TYPES
AS OF JUNE 30, 2003**

Cash and Cash Equivalents	\$256,166
Investments:	
Repurchase Agreement	<u>930,000</u>
Total	<u><u>\$1,186,166</u></u>

CASH BALANCES BY FUND TYPE

Governmental Funds:	
General	\$657,830
Special Revenue	143,807
Proprietary Funds:	
Internal Service	120,830
Fiduciary Funds:	
Expendable Trust	262,280
Agency	<u>1,419</u>
Total	<u><u>\$1,186,166</u></u>

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

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
Cash Receipts:					
Receipts from Local Sources:					
Tuition	\$2,239	\$	\$	\$	\$2,239
Earnings on Investments	5,708			2,748	8,456
Miscellaneous	1,827,696	184,409		80	2,012,185
Receipts from State Sources:					
Unrestricted Grants-In-Aid	2,122,147	70,124			2,192,271
Restricted Grants-In-Aid		100,023			100,023
Receipts from Federal Sources:					
Restricted Grants-In-Aid	730,293	128,528			858,821
Total Cash Receipts	4,688,083	483,084	0	2,828	5,173,995
Cash Disbursements:					
Instruction:					
Regular		153,250			153,250
Special	1,170,584	69,692			1,240,276
Vocational Education	35,776				35,776
Adult/Continuing	32,145				32,145
Supporting Services:					
Pupils	1,139,303	111,447			1,250,750
Instructional Staff	1,274,720	154,083			1,428,803
Board of Education	30,523	1,000			31,523
Administration	477,891	87,389	6,595		571,875
Fiscal Services	195,468	5,457			200,925
Operation and Maintenance - Plant	15,053				15,053
Pupil Transportation	8,652				8,652
Central		2,868			2,868
Operation of Noninstructional Services:					
Community	800	1,750		6,840	9,390
Etracurricular Activities:					
Sports Oriented	66,850				66,850
Total Cash Disbursements	4,447,765	586,936	6,595	6,840	5,048,136
Total Cash Receipts Over/(Under) Cash Disbursements	240,318	(103,852)	(6,595)	(4,012)	125,859
Other Financing Receipts/(Disbursements):					
Transfers-In		1,719			1,719
Advances-In		24,972			24,972
Transfers-Out		(1,719)			(1,719)
Advances-Out	(24,972)				(24,972)
Refund of Prior Year Expenditures	5,003	310		162	5,475
Total Other Financing Receipts/(Disbursements)	(19,969)	25,282	0	162	5,475
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	220,349	(78,570)	(6,595)	(3,850)	131,334
Fund Cash Balances, July 1	437,481	222,377	6,595	266,130	932,583
Fund Cash Balances, June 30	\$657,830	\$143,807	\$0	\$262,280	\$1,063,917
Reserve for Encumbrances, December 31	\$100	\$4,489	\$0	\$0	\$4,589

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

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Internal Service</u>	<u>Agency</u>	
Operating Cash Disbursements:			
Employees' Retirement and Insurance	\$75,836	\$	\$75,836
Purchased Services	457,765		457,765
Supplies	851		851
Capital Outlay	1,140		1,140
Miscellaneous		119,785	119,785
Total Operating Cash Disbursements	<u>535,592</u>	<u>119,785</u>	<u>655,377</u>
Operating Income/(Loss)	(535,592)	(119,785)	(655,377)
Non-Operating Cash Receipts:			
Earnings on Investments	498		498
Miscellaneous	491,025	119,785	610,810
Total Non-Operating Cash Receipts	<u>491,523</u>	<u>119,785</u>	<u>611,308</u>
Net Income/(Loss)	(44,069)	0	(44,069)
Fund Cash Balances, July 1	<u>164,899</u>	<u>1,419</u>	<u>166,318</u>
Fund Cash Balances, June 30	<u>\$120,830</u>	<u>\$1,419</u>	<u>\$122,249</u>
Reserve for Encumbrances	<u>\$200</u>	<u>\$0</u>	<u>\$200</u>

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

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL
ALL BUDGETED FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2003**

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Governmental:			
General	\$4,187,356	\$4,693,086	\$505,730
Special Revenue	513,057	510,085	(2,972)
Capital Project			
Proprietary:			
Internal Service	406,377	491,523	85,146
Fiduciary:			
Trust and Agency	127,785	122,775	(5,010)
Totals (Memorandum Only)	<u>5,234,575</u>	<u>5,817,469</u>	<u>582,894</u>

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

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND ENCUMBRANCES
COMPARED WITH EXPENDITURE AUTHORITY
ALL BUDGETED FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2003**

<u>Fund Types/Funds</u>	<u>Appropriations</u>	<u>Actual Disbursements</u>	<u>Variance Favorable (Unfavorable)</u>
Governmental:			
General	\$4,624,837	\$4,472,837	\$152,000
Special Revenue	736,646	593,144	143,502
Capital Project	6,595	6,595	0
Proprietary:			
Internal Service	575,598	535,792	39,806
Fiduciary:			
Trust and Agency	<u>128,432</u>	<u>126,625</u>	<u>1,807</u>
Totals (Memorandum Only)	<u><u>6,072,108</u></u>	<u><u>5,734,993</u></u>	<u><u>337,115</u></u>

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

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**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

1. DESCRIPTION OF THE ENTITY

The Guernsey/Monroe/Noble Educational Service Center, Guernsey County, (the 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 Cambridge City, Caldwell Exempted Village, East Guernsey Local, Noble Local, Rolling Hills Local and Switzerland of Ohio Local School Districts. The Educational Service Center furnishes leadership and consulting services designed 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. Members are elected to staggered four year terms. As of June 30, 2003, the Educational Service Center employed 92 certificated and 46 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 separate from the Educational Service Center. For Guernsey/Monroe/Noble 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) and East Central Ohio Special Education Regional Resource Center, which are defined as jointly governed organizations, and the Ohio School Boards Association Workers' Compensation Group Rating Program, an insurance purchasing pool, 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 accounting principles generally accepted in the United States of America, 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.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Equity in 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."

Certificates of deposit and repurchase agreements are valued at cost. For purposes of financial statement presentation, certificates of deposit are considered cash equivalents.

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 on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain 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: 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 Projects Funds

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting (Continued)

Proprietary Fund Type

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

Internal Service Fund

The internal service fund accounts 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 Types

Fiduciary funds are used to account for assets held by the Educational Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The Educational Service Center's fiduciary funds include expendable trust and agency funds. Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the Educational Service Center to maintain the corpus of the trust, the fund is classified as nonexpendable trust fund. Other trust funds are classified as expendable. Funds for which the Educational Service Center is acting in an agency capacity are classified as agency funds.

D. Budgetary Process

The budgetary process entails the preparation of budgetary documents within an established timetable.

The Educational Service Center legally 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.

In the first quarter of each fiscal year, the Educational Service Center summarizes and certifies its budget on forms furnished by the State Department of Education, together with such other information as the State Department of Education may require. The summarized budget document consists of three parts. Part (A) includes entitlement funding from the State for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Department of Education. Part (B) includes the cost of all other lawful expenditures of the Educational Service Center. Part (C) includes the adopted appropriation resolution of the Educational Service Center. The State Board of Education reviews the budget and certifies to each local board of education under the supervision of the Educational Service Center the amount from part (B) that is to be apportioned to their district.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

1. Appropriations

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

The Educational Service Center may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statements of budgetary comparisons 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.

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.

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 reappropriated.

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. Depreciation is not recorded.

F. Accumulated Unpaid Vacation and Sick Leave

Accumulated unpaid vacation and sick leave are not accrued under the cash basis of accounting described in Note 2. All leave will either be absorbed by time off from work, or within certain limitations, be paid to the employees.

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.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

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 five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not 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 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 principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any 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, Government 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 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 the interim monies available for investment at any one time; and

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

3. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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 classifies 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".

At June 30, 2003, the Educational Service Center's Internal Service Fund had a balance of \$115,818 with OME-RESA, a jointly governed organization (See Note 9). 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 equivalents 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 the Ohio Mid Eastern Regional Educational Service Agency Self-Insurance Plan, Treasurer, 2023 Sunset Blvd., Steubenville, Ohio 43952.

A. Deposits

At June 30, 2003, the carrying amount of the Educational Service Center's deposits was \$256,166 and the bank balance was \$417,452. Of the bank balances as of June 30, 2003, \$200,000 was covered by federal deposit insurance and \$217,452 was uninsured and uncollateralized. Although the State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

B. Investments

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 the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name.

For the year ended June 30, 2003, the classification was as follows:

	Category 3	Carrying Value	Market Value
Repurchase Agreement	<u>\$930,000</u>	<u>\$930,000</u>	<u>\$930,000</u>
Total	<u>\$930,000</u>	<u>\$930,000</u>	<u>\$930,000</u>

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

4. STATE FUNDING

The Educational Service Center is funded by the State Department of Education for the cost of Part (A) of their budget. This funding is provided from State resources.

Part (B) of the budget is provided by the school districts to which the Educational Service Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the Educational Service Center by \$37 for fiscal year 2002. This amount is provided from State resources.

If additional funding is needed for the Educational Service Center, and if a majority of the Boards of Education of the school districts served by the Educational Service Center approve, the cost of Part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the school districts served by the Educational Service Center through additional reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school district's approve or disapprove the additional apportionment.

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.

Professional and general liability is provided by the Ohio School Plan with a \$1,000,000 single occurrence limit with \$3,000,000 aggregate and no deductible. Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

B. Workers' Compensation

For fiscal year 2002, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (see Note 10). The intent of the GRP 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 GRP. 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 GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP 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 GRP. 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 GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

5. RISK MANAGEMENT (Continued)

C. Employee Medical Benefits

The Educational Service Center is self insured for health, prescription, vision, and dental insurance. The Educational Service Center is a member of the OME-RESA claims servicing pool (Note 10). 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 \$62,290 below is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 10 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>2003</u>	<u>2002</u>
Cash and investments	\$115,818	\$158,894
Actuarial liabilities	\$62,290	\$72,665

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 SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current 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 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of the annual salary was the portion used 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 required contributions for the Educational Service Center's pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$192,647, \$188,415, and \$125,315, respectively.

B. State Teachers Retirement System

The Educational Service Center participates in the School 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 Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

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, 2003, plan members are required to contribute 9.3 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 2002, the portion used to fund pension obligations was 9.5 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, 2003, 2002, and 2001 were \$622,790 \$405,757, and \$323,650, respectively.

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, 2003, all Board Members of the Educational Service Center have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

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.

All STRS benefit recipients and sponsored 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. Most 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, 2003, 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 \$26,856 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$3.011 billion at June 30, 2002 (the latest information available). For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefit, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the members' pay, prorated for partial service credit. For fiscal year 2003, the minimum pay was established as \$14,500. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$55,294.

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 annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available) were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002 SERS had net assets available for payment of health care benefits of \$335.2 million and approximately 50,000 participants currently 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.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

9. JOINTLY GOVERNED ORGANIZATIONS

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.

East Central Ohio Special Education Regional Resource Center (ECO-SERRC)

ECO-SERRC is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

The ECO-SERRC is governed by a board composed of superintendents of member school districts in East Central Ohio, parents of children with disabilities, representatives of chartered non-public schools, representatives of county boards of MR/DD and representatives of universities. The degree of control exercised by any participating school district is limited to its representation on the Board. There is no financial commitment made by the districts involved in ECO-SERRC. ECO-SERRC is not financially dependent upon the continued participation of the Educational Service Center and the Educational Service Center does not maintain an equity interest in or financial responsibility for ECO-SERRC. Financial information can be obtained by contacting Julie A. Lynch, Treasurer at the Tuscarawas-Carroll-Harrison Educational Service Center, 172 North Broadway, New Philadelphia, Ohio 44663.

10. PUBLIC ENTITY POOLS

Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Plan

The Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (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 OSBA. The Executive Director of the OSBA, 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.

Claims Servicing Pool

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.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

11. CONTINGENCIES

A. 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. In the opinion of management, any such disallowed claims could possibly have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2003.

B. Litigation

There are currently no matters in litigation with the Educational Service Center as defendant.

12. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The Educational Service Center is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

13. ACCOUNTABILITY AND COMPLIANCE

The Educational Service Center failed to prepare CAFS reimbursement forms in accordance with Ohio Administrative Code Section 5123:2-15. As a result, the Ohio Department of Mental Retardation and Developmental Disabilities (OMRDD) over-reimbursed the Educational Service Center by amounts estimated as much as \$350,000. OMRDD and the Educational Service Center are working to determine the over-reimbursement amount. OMRDD intends to withhold the over-reimbursed amount from future reimbursements.

GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER

GUERNSEY COUNTY

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	<u>Receipts</u>	<u>Disbursements</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed through Ohio Department of Education:</i>				
Grants to Local Education Agencies (ESEA Title I)	123281-C1SS-02	84.010	\$ 8,500	\$ 8,500
Special Education Grants to States	N/A	84.027	25,000	25,000
Special Education Preschool Grant	123281-PGS1-02/03	84.173	59,485	67,536
Safe and Drug Free Community Grant	N/A	84.184	1,722	
Education for Homeless Children and Youth Grant	123281-HCS1-02/03	84.196	<u>62,262</u>	<u>90,999</u>
Total U.S. Department of Education			<u>156,969</u>	<u>192,035</u>
<u>U.S. DEPARTMENT OF JOB AND FAMILY SERVICES</u>				
<i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Medical Assistance Program - Community Alternative Funding System - Title XIX	N/A	93.778	730,293	730,293
<i>Passed through the Department of Job and Family Services of Guernsey County:</i>				
Temporary Assistance to Needy Families	N/A	93.558	<u>144,609</u>	<u>142,611</u>
Total U.S. Department of Job and Family Services			<u>874,902</u>	<u>872,904</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 1,031,871</u>	<u>\$ 1,064,939</u>

The accompanying Notes to the Schedule of Federal Awards Receipts and Expenditures is an integral part of this Schedule.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the Educational Service Center's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B – TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF) GRANT PROGRAM MONIES

TANF Grant (CFDA # 93.558) monies are passed-through the Guernsey County Department of Jobs and Family Services to the Educational Service Center.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require that the Educational Service Center contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Educational Service Center has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



Auditor of State Betty Montgomery

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

Guernsey/Monroe/Noble Educational Service Center
Guernsey County
National City Bank Building, 3rd Floor
749 Wheeling Avenue
Cambridge, Ohio 43725

To Board of Education:

We have audited the financial statements of the Guernsey/Monroe/Noble Educational Service Center, Guernsey County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2003, and have issued our report thereon dated December 1, 2003, wherein we noted the Educational Service Center has not prepared financial statements in accordance with generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Educational Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings and Questioned Costs as items 2003-001, 2003-002, and 2003-003. We also noted certain immaterial instances of noncompliance that we have reported to the management of the Educational Service Center in a separate letter dated December 1, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Educational Service Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 2003-004.

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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 consider the reportable condition described above to be 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 management of the Educational Service Center in a separate letter dated December 1, 2003.

This report is intended for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

December 1, 2003



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Guernsey/Monroe/Noble Educational Service Center
Guernsey County
National City Bank Building, 3rd Floor
749 Wheeling Avenue
Cambridge, Ohio 43725

Compliance

We have audited the compliance of the Guernsey/Monroe/Noble Educational Service Center, Guernsey County, Ohio (the Educational Service Center), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The Educational Service Center's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on the Educational Service Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Educational Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Educational Service Center's compliance with those requirements.

As described in items 2003-005 to 2003-008 in the accompanying Schedule of Findings and Questioned Costs, the Educational Service Center did not comply with requirements regarding reporting that are applicable to its Medical Assistance Program – Community Alternative Funding System - Title XIX. Compliance with such requirements is necessary, in our opinion, for the Educational Service Center to comply with requirements applicable to that program.

In our opinion, because of those instances of noncompliance referred to in the preceding paragraph, the Educational Service Center did not comply, in all material respects, with the requirements referred to above that are applicable to its Medical Assistance Program – Community Alternative Funding System – Title XIX program for the year ended June 30, 2003.

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Internal Control Over Compliance

The management of the Educational Service Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Educational Service Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect the Educational Service Center's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as Items 2003-007 and 2003-008.

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 of risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance would not necessarily disclose all matters in the internal control that might be a material weakness. However, we consider the reportable conditions described above to be material weaknesses. We also noted another matter involving the internal control over federal compliance that does not require inclusion in this report that we have reported to management of the Educational Service Center in a separate letter dated December 1, 2003.

This report is intended for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

December 1, 2003

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS		
(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Adverse
(d)(1)(vi)	Are there any reportable findings under §.510?	Yes
(d)(1)(vii)	Major Programs (list):	Medical Assistance Program – Community Alternative Funding System- Title XIX – CFDA #93.778
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2003**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2003-001

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 report, 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 the Ohio Rev. Code Section 117.38

Ohio Administrative Code Section 117-2-03(B) requires the Educational Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Educational Service Center prepares 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 may be fined and subject to various other administrative remedies for its failure to file the required financial report.

We recommend that the Educational Service Center take the necessary steps to ensure the annual financial report is prepared in accordance with generally accepted accounting principles.

FINDING NUMBER 2003-002

Noncompliance Citation

Ohio Admin. Code Section 5123:2-15 provides requirements for funding under the Community Alternative Funding System (CAFS). Ohio Administrative Code Section 5123:2-15-41 (E) provides that for CAFS billing and cost reporting purposes, service coordination documentation for services provided to all individuals, both Medicaid and non-Medicaid, must include the following elements:

- (1) The date that the service is provided, to include the year.
- (2) The name of the person for whom the service is provided.
- (3) A narrative description of the service provided and location of service (may be in case notes, or a coded system with a corresponding key).
- (4) The duration in minutes or time in/time out of the services provided. Duration in minutes is acceptable if the provider's schedule is maintained on file.
- (5) The identification of the service provider by signature or initials on each entry of service delivery. Each documentation recording sheet must contain a legend that indicates the service provider's name (typed or printed), title, signature, and initials to correspond with each entry's identifying signature or initials.

Ohio Admin. Code Section 5123:2-15-19(F) includes the following element to be documented. "Group size" which means the number of persons in the group who share similar plan-driven goals/services which are targeted by the service being provided.

Ohio Administrative Code Section 5123:2-15-10 (F)(5) provides CAFS reimbursement for professional services delivered by CAFS providers, in accordance with rules 5123:2-15-19 to 5123:2-15-37 of the Administrative Code, is made on a cost-settled, per-unit-of-service basis.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

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

FINDING NUMBER 2003-002 (Continued)

Noncompliance Citation - Ohio Admin. Code Section 5123:2-15 (Continued)

The CAFS Service Documentation forms maintained by the Educational Service Center contained all the elements required under Ohio Administrative Code Section 5123:2-15-41(E) and 5123:2-15-19(F). The Educational Service Center utilized a third party administrator, Mecca Tech to submit reimbursement claims to the Ohio Department of Mental Retardation and Developmental Disabilities. When the Educational Service Center employees data entried the information from the CAFS Service Documentation forms into the computer software provided by Mecca Tech, the employees did not differentiate between individual service provided and group service provided, since the software did not provide for such. As a result, each participant in a group setting being reimbursed for the full amount of time spent in the session rather than the pro-rated time per individual when considering group size. As an example, a participant receiving 150 minutes of service in a group of 5 would be reimbursed for 10 units-of-service rather than the allowable 2 units-of-service. While we could not reasonably determine the total financial impact of this error, our testing noted this error occurred in 100% of the delegated nursing services billed tested. These errors were also noted in reimbursement for physical and occupational therapy. Therefore, we are questioning all CAFS reimbursements which totaled \$730,293 for fiscal year 2003 (See Finding 2002-005).

We recommend the Educational Service Center, train and educate their service providers in the proper method for determining the units-of-service calculation used for reimbursement. In addition, the Educational Service Center should contact its third party administrator concerning a change needed in the software used to submit CAFS reimbursement claims to the Ohio Department of Mental Retardation and Developmental Disabilities.

FINDING NUMBER 2003-003

Noncompliance Citation

Ohio Admin. Code Section 5123:2-15-22 (D) provides that certain nursing services may be delegated to other trained, unlicensed personnel by the responsible RN after a nursing assessment by a RN. Nursing services which are to be delegated must be specified in the recipient's individual plan, including the title of the individual to whom the task is to be delegated, a description of the specified task which is to be delegated, the frequency with which the task is to be performed, and documentation that the individual to whom the task is to be delegated has been specifically trained to perform that task by the responsible RN and determined to be capable of performing the task properly on a consistent basis. CAFS reimbursement for nursing services was at a rate of \$26.96 per unit-of-service whereas the rate for delegated nursing services was \$6.19 per unit-of-service.

The Educational Service Center properly documented nursing and delegated nursing services in accordance with the Ohio Administrative Code. When the Educational Service Center employees data entried the information from the CAFS Service Documentation forms into the computer software provided by Mecca Tech, the employees did not differentiate regular nursing services and delegated nursing services, since the software did not provide for such. As a result, each participant that received delegated nursing services was reimbursed at the regular nursing rate, an over-billing of \$20.77 per unit-of-service. While we could not reasonably determine the total financial impact of this error, our testing noted this error occurred in 100% of the delegated nursing services billings that we tested. Therefore, we are questioning all CAFS reimbursements which totaled \$730,293 for fiscal year 2003 (See Finding 2002-006).

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

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

FINDING NUMBER 2003-003 (Continued)

Noncompliance Citation - Ohio Admin. Code Section 5123:2-15-22 (D) (Continued)

We recommend the Educational Service Center, train and educate their service providers to properly document the CAFS Service Documentation forms to distinguish between regular nursing services and delegated nursing services. In addition, the Educational Service Center should contact its third party administrator concerning a change needed in the software used to submit CAFS reimbursement claims to the Ohio Department of Mental Retardation and Developmental Disabilities.

FINDING NUMBER 2003-004

Material Weakness

Management is responsible for designing and implementing internal control policies and procedures to allow reliable financial reporting and ensure compliance with federal laws and regulations. These procedures must include controls to ensure all transactions are accurately submitted and recorded, and must be documented to provide management with assurance they are being performed timely and consistently. When a computer system is used to process transactions, the controls must also include sufficient edit and validation checks to help ensure data is being entered to the system accurately and completely and prompt any inputting errors.

The Educational Service Center has contracted with Ohio Department of Mental Retardation and Developmental Disabilities (ODMRDD) to be a provider in the Community Alternative Funding System (CAFS). The Educational Service Center contracted with a third-party administrator, MeccaTech, Inc, to submit CAFS billings to ODMRDD for reimbursement. Mecca Tech, Inc. designed a software application to allow the Educational Service Center to enter CAFS Service Documentation to be billed to ODMRDD. However, the process implemented exhibited the following weaknesses:

- The employees preparing, inputting, and reviewing CAFS data submitted to MeccaTech did not possess the required knowledge and skills to ensure information entered was accurate and allowable. While MeccaTech, Inc. provided brief training on the software application, no training on CAFS federal compliance requirements or ODMRDD requirements was attended by the Educational Service Center's staff members. Additionally, the Educational Service Center did not maintain any reference material regarding CAFS on-site to answer questions or guide users in the appropriate direction when questions or problems were encountered.
- The Educational Service Center performed limited or no supervisory reviews of reports received from ODMRDD to assure accuracy and completeness of data and information included in the reports. This would have allowed the Educational Service Center to review reimbursements to ascertain the reasonableness of reimbursements based on services provided.
- The Educational Service Center employees who entered CAFS Service Documentation into the billing software, did not perform any edit checks of information entered to ensure the inputted data was entered correctly.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

FINDING NUMBER 2003-004 (Continued)

Material Weakness (Continued)

These conditions can and did allow errors in billing reimbursements to ODMRDD to occur and not be detected in a timely manner. As a result of these internal control weaknesses, the Educational Service Center was over-reimbursed for many CAFS claims submitted during the audit period.

We recommend the Educational Service Center implement policies and procedures that provide reasonable assurance the financial information maintained, processed, and reported to ODMRDD is accurate, complete, and in compliance with federal and state requirements.

3. FINDINGS/QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2003-005
CFDA Title and Number	Medical Assistance Program – Community Alternative Funding System (CAFS) – Title XIX CFDA # 93.778
Federal Award Number / Year	3000166/2002-2003
Federal Agency	U.S. Department of Jobs and Family Services
Pass-Through Agency	Ohio Department of Mental Retardation and Developmental Disabilities

Noncompliance Citation/Questioned Cost

Reporting

See Finding 2003-002 in Section 2 of Schedule of Findings and Questioned Costs. The Educational Service Center improperly billed group services as individual services, resulting in an overpayment.

As a result, all CAFS reimbursements of \$730,293 are considered federal questioned costs.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

3. FINDINGS/QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number	2003-006
CFDA Title and Number	Medical Assistance Program – Community Alternative Funding System (CAFS) – Title XIX CFDA # 93.778
Federal Award Number / Year	3000166/2002-2003
Federal Agency	U.S. Department of Jobs and Family Services
Pass-Through Agency	Ohio Department of Mental Retardation and Developmental Disabilities

Noncompliance Citation/Questioned Cost

Reporting

See Finding 2003-003 in Section 2 of Schedule of Findings and Questioned Costs. The Educational Service Center improperly billed delegated nursing services as regular nursing, resulting in an overpayment.

As a result, all CAFS reimbursements of \$730,293 are considered federal questioned costs.

Finding Number	2003-007
CFDA Title and Number	Medical Assistance Program – Community Alternative Funding System (CAFS) – Title XIX CFDA # 93.778
Federal Award Number / Year	3000166/2002-2003
Federal Agency	U.S. Department of Jobs and Family Services
Pass-Through Agency	Ohio Department of Mental Retardation and Developmental Disabilities

Material Weakness

Reporting

See Finding 2003-004 in Section 2 of Schedule of Findings and Questioned Costs. The Educational Service Center did not implement control procedures to assure reliable financial reporting and ensure compliance with federal laws and regulations.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

3. FINDINGS/QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number	2003-008
CFDA Title and Number	Medical Assistance Program – Community Alternative Funding System (CAFS) – Title XIX CFDA # 93.778
Federal Award Number / Year	3000166/2002-2003
Federal Agency	U.S. Department of Jobs and Family Services
Pass-Through Agency	Ohio Department of Mental Retardation and Developmental Disabilities

Material Weakness

Reporting

Statement on Auditing Standard (SAS) No. 55, *Consideration of Internal Control in a Financial Statement Audit*, defines the importance of internal control as it relates to reliable financial reporting, effectiveness and efficiency of operations, and compliance with laws and regulations. In certain situations, an entity's internal control is not limited to the controls in place within the entity's physical capacity or internal operations that extend beyond the entity. This can occur if an entity uses another organization to perform services that affect the entity's ability to record, process, summarize, and report financial information in its financial statements. SAS No. 70, *Reports on the Processing of Transactions by Service Organizations*, refers to these organizations as service organizations, of which the Educational Service Center contracted with MeccaTech, Inc., a third party administrator, to bill CAFS federal claims to Ohio Department of Department of Mental Retardation and Developmental Disabilities for reimbursement.

The Educational Service Center's contract with MeccaTech, Inc. required MeccaTech, Inc. to have a SAS 70 audit performed on their internal control procedures. MeccaTech, Inc. did not have a SAS 70 audit performed that would cover the audit period. In addition, the Educational Service Center did not implement any control procedures to assess the reasonableness of transactions performed by MeccaTech, Inc. that would affect the Educational Service Center's financial information in its financial statements.

We recommend the Educational Service Center require its third party administrator, MeccaTech, Inc. to fulfill their obligation under contractual commitment to obtain a SAS 70 report or the Educational Service Center should implement control procedures to assess the reasonableness of transactions performed by the third party administrator that would affect the Educational Service Center's financial information.

In addition, SAS 55 considers management activities designed to monitor financial reports as an important control function. The Educational Service Center received nearly three times the CAFS reimbursements in fiscal year 2003 as was received in fiscal year 2002. Managements reviews of OMRDD Remittance Advice reports and monthly budget vs. actual revenue reports should have resulted in questioning the reasonableness of CAFS reimbursements. We recommend the Board and management monitor important financial information and grant-related reports, including budget and actual estimates to help determine the reasonableness of financial information.

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**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDING
OMB CIRCULAR A-133 §.315(b)
FOR THE YEAR ENDED JUNE 30, 2003**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding <u>No Longer Valid</u> ; <i>Explain:</i>
2002-11030-001	Ohio Admin. Code Section 117-2-03 for not reporting annual financial report in accordance with generally accepted accounting principles.	No	Not Corrected; the noncompliance citation is repeated for the fiscal year ended June 30, 2003 in the GAGAS letter as Finding Number 2003-001.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 §.315(c)
FOR THE YEAR ENDED JUNE 30, 2003**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2003-001	The Board has contracted with the Local Government Services section of Auditor Of State's Office to file financial statements in accordance with generally accepted accounting principles for fiscal year 2004.	June 30, 2004	Mark Lucas, Treasurer
2003-002	Management has contacted the third party administrator, MeccaTech, Inc. to resolve the non-compliance issues identified. MeccaTech, Inc. is working with both the Board and ODMRDD to correct these issues and to make arrangements to re-bill those amounts over reimbursed by ODMRDD.	January 15, 2004	Mark Lucas, Treasurer
2003-003	Management has contacted the third party administrator, MeccaTech, Inc. to resolve the non-compliance issues identified. MeccaTech, Inc. is working with both the Board and ODMRDD to correct these issues and to make arrangements to re-bill those amounts over reimbursed by ODMRDD.	January 15, 2004	Mark Lucas, Treasurer
2003-004	Management has contacted the third party administrator, MeccaTech, Inc. to provide manuals and additional training for employees. Additionally, the Treasurer is attempting to implement internal controls that would allow for review of remittance advice from ODMRDD.	June 30, 2004	Mark Lucas, Treasurer
2003-005	Management has contacted the third party administrator, MeccaTech, Inc. to resolve the non-compliance issues identified. MeccaTech, Inc. is working with both the Board and ODMRDD to correct these issues and to make arrangements to re-bill those amounts over reimbursed.	January 15, 2004	Mark Lucas, Treasurer

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 §.315(c)
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2003-006	Management has contacted the third party administrator, MeccaTech, Inc. to resolve the non-compliance issues identified. MeccaTech, Inc. is working with both the Board and ODMRDD to correct these issues and to make arrangements to re-bill those amounts over reimbursed by ODMRDD.	January 15, 2004	Mark Lucas, Treasurer
2003-007	The Treasurer is attempting to implement internal controls that would allow for review of remittance advice from ODMRDD.	June 30, 2004	Mark Lucas, Treasurer
2003-008	The Treasurer is attempting to implement internal controls that would allow for review of remittance advice from ODMRDD.	June 30, 2004	Mark Lucas, Treasurer



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GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER

GUERNSEY 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
JANUARY 6, 2004**