



Dave Yost • Auditor of State

**MANAGEMENT COUNCIL OF THE OHIO EDUCATION COMPUTER NETWORK
FRANKLIN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Management Council of the Ohio Education Computer Network
Franklin County
8050 North High Street
Suite 150
Columbus, Ohio 43235

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Management Council of the Ohio Education Computer Network, Franklin County, Ohio, (the Council) as of and for the year ended June 30, 2013.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Council's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Council's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 of the financial statements, the Council prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38

and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy these requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. In addition, the Council failed to adopt the provisions of Governmental Accounting Standards Board Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* as mandated by Auditor of State Bulletin 2011-004 for regulatory financial statements.

Though the Council does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis permitted is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Council as of June 30, 2013, or changes in financial position or cash flows thereof for the year then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

The Council did not adopt the provisions of Governmental Accounting Standards Board Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* as mandated by Auditor of State Bulletin 2011-004 for regulatory basis financial statements. As a result, the financial statements present aggregate fund balances by fund type, rather than the various fund balance classifications within each fund type.

Qualified Opinion on Regulatory Basis of Accounting

Except for the effects of the matter described in the *Basis for Qualified Opinion on Regulatory Basis of Accounting* paragraph, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Management Council of the Ohio Education Computer Network, Franklin County, Ohio as of June 30, 2013, and its combined cash receipts and disbursements for the year then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 2.

Other Matters

Our audit was conducted to opine on the financial statements taken as a whole.

The Schedule of Federal Award Receipts and Expenditures presents additional analysis as required by the 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.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the financial statements. We subjected this schedule to

the auditing procedures we applied to the financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2015, on our consideration of the Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

March 2, 2015

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**MANAGEMENT COUNCIL OF THE OHIO EDUCATION COMPUTER NETWORK
FRANKLIN COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Membership Fees	\$287,874		\$287,874
Intergovernmental		\$4,050,898	4,050,898
Earnings on Investments	10,359	298	10,657
Customer Sales and Services		400	400
<i>Total Cash Receipts</i>	<u>298,233</u>	<u>4,051,596</u>	<u>4,349,829</u>
Cash Disbursements			
Supporting Services:			
Administration	308,507		308,507
Fiscal Services	17,037		17,037
Central		1,000	1,000
Technical		3,843,269	3,843,269
Capital Outlay	2,910	91,419	94,329
<i>Total Cash Disbursements</i>	<u>328,454</u>	<u>3,935,688</u>	<u>4,264,142</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(30,221)</u>	<u>115,908</u>	<u>85,687</u>
Other Financing Receipts			
Transfers In	35,000		35,000
<i>Net Change in Fund Cash Balances</i>	4,779	115,908	120,687
<i>Fund Cash Balances, January 1</i>	<u>469,916</u>	<u>2,579,988</u>	<u>3,049,904</u>
<i>Fund Cash Balances, December 31</i>	<u>\$474,695</u>	<u>\$2,695,896</u>	<u>\$3,170,591</u>

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

**MANAGEMENT COUNCIL OF THE OHIO EDUCATION COMPUTER NETWORK
FRANKLIN COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
PROPRIETARY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts	
Charges for Services	\$7,481,013
Miscellaneous	1,500
	7,482,513
Operating Cash Disbursements	
Salaries	498,498
Employee Fringe Benefits	128,148
Purchased Services	4,935,299
Supplies and Materials	1,448,500
Other	620
	7,011,065
<i>Total Operating Cash Disbursements</i>	7,011,065
<i>Operating Income</i>	471,448
Non-Operating Receipts (Disbursements)	
Earnings on Investments	16,032
Capital Outlay	(39,950)
Refund of Prior Year Disbursements	225,000
Refund of Prior Year Receipts	(671,060)
	(469,978)
<i>Total Non-Operating Receipts (Disbursements)</i>	(469,978)
<i>Income before Transfers</i>	1,470
Transfers Out	(35,000)
	(33,530)
<i>Net Change in Fund Cash Balances</i>	(33,530)
<i>Fund Cash Balances, January 1</i>	3,017,077
<i>Fund Cash Balances, December 31</i>	\$2,983,547

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

**MANAGEMENT COUNCIL OF THE OHIO EDUCATION COMPUTER NETWORK
FRANKLIN COUNTY, OHIO
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 1 – REPORTING ENTITY

Description of the Entity

The Management Council of the Ohio Education Computer Network (the “Council”) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Council is a 22 entity consortium organized under Chapter 167 of the Ohio Revised Code as a not-for-profit Council of Governments and is directed by a 10 member Board of Trustees. The Council is organized exclusively for charitable, educational, and scientific purposes, and more specifically, to plan, promote, and facilitate effective and efficient information technology services for Ohio schools.

The Northern Buckeye Education Council (NBEC) serves as fiscal agent and custodian, however, it is not accountable for the operation of the Association; therefore, the operations of NBEC have been excluded from the Council’s financial statements.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Council’s financial statements are prepared using another comprehensive basis of accounting, as prescribed or permitted by the Auditor of State. Receipts are recorded in the Council’s financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is 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). As a result of the use of this other comprehensive basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Fund Accounting

The Council uses fund accounting to segregate cash and investments that are restricted as to use.

The Council classifies its funds into the following types:

General Fund — The General Fund is the general operating fund. It is used to account for all financial resources except those required by law or contract to be restricted.

Special Revenue Funds — 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 Council had the following significant Special Revenue Fund:

INFOhio State Fund – This fund accounts for grant monies received from the Ohio Department of Education (ODE) to administer and support the implementation of the statewide INFOhio electronic resources system.

**MANAGEMENT COUNCIL OF THE OHIO EDUCATION COMPUTER NETWORK
FRANKLIN COUNTY, OHIO
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

Enterprise Funds — These funds account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Council had the following significant Enterprise Funds:

DASL Fund – This fund accounts for the activity of providing support and development of the Data Analysis for Student Learning (DASL) student software report systems for clients.

MC-TSG Fund – This fund accounts for the financial activity of the Technology Systems Support Group providing services to clients.

Budgetary Process

The Council is not bound by the budgetary laws prescribed by the Ohio Revised Code. The Council annually approves the budget for the Council. The budget includes an estimate of amounts expected to be received and expended (appropriations) by the Council during the fiscal year. Budget amendments are approved by the Board of Trustees during the year as required. The Council reserves (encumbers) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2013 budgetary activity appears in Note 5.

Deposits and Investments

The Northern Buckeye Education Council (NBEC) is the custodian for the Council's deposits and investments. NBEC's cash and investment pool holds the Council's assets, valued at NBEC's reported carrying amounts.

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.

Unpaid Vacation and Sick Leave

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

NOTE 3 – RETIREMENT SYSTEMS

Certified teachers employed by the Council participate in the State Teachers Retirement System of Ohio (STRS). The Council's other employees belong to the School Employees Retirement System of Ohio (SERS). STRS and SERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement 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 the year ending June 30, 2013, STRS members contributed 10.00 percent of their wages and the Council contributed an amount equal to 14.00 percent of participants' gross salaries. SERS members contributed 10.00 percent of their wages and the Council contributed an amount equal to 14.00 percent of participants' gross salaries. The Council has paid all required contributions through June 30, 2013.

**MANAGEMENT COUNCIL OF THE OHIO EDUCATION COMPUTER NETWORK
FRANKLIN COUNTY, OHIO
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

NOTE 4- RISK MANAGEMENT

The Council has obtained general liability insurance through the Schools of Ohio Risk Sharing Authority (SORSA).

NOTE 5 – BUDGETARY ACTIVITY

Budgetary activity for the year ending June 30, 2013 follows:

2013 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$306,000	\$333,233	\$27,233
Special Revenue	3,536,556	4,051,596	515,040
Enterprise	7,084,022	7,723,545	639,523
Total	<u>\$10,926,578</u>	<u>\$12,108,374</u>	<u>\$1,181,796</u>

2013 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$559,589	\$346,034	\$213,555
Special Revenue	6,964,932	4,734,977	2,229,955
Enterprise	9,012,646	8,107,349	905,297
Total	<u>\$16,537,167</u>	<u>\$13,188,360</u>	<u>\$3,348,807</u>

NOTE 6 – INTERFUND TRANSFERS

The Council transferred \$35,000 from the MC-TSG (Technical Support Group) Fund to the General Fund to help pay for personnel salaries.

NOTE 7 – CONTINGENCIES

The Council receives substantial financial assistance from various federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial statements of the Council at June 30, 2013.

NOTE 8 – SUBSEQUENT EVENTS

On April 24, 2014 the Council hired its own fiscal officer, and ceased to use the NBEC as the fiscal agent effective July 1, 2014. On July 11, 2014 the NBEC transferred all MCOECN funds to the care of the MCOECN Treasurer.

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MANAGEMENT COUNCIL OF THE OHIO EDUCATION COMPUTER NETWORK
FRANKLIN COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
INSTITUTE OF MUSEUM AND LIBRARY SERVICES				
<i>Passed Through State Library of Ohio</i>				
Grants to States	III-3-12	45.310	\$ 35,250	\$ 39,798
	III-4-12	45.310	64,000	56,570
Total Institute of Museum and Library Services			<u>99,250</u>	<u>96,368</u>
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants	EDU01-0000010599	84.395	491,333	440,883
Total U.S. Department of Education			<u>491,333</u>	<u>440,883</u>
Totals			<u>\$ 590,583</u>	<u>\$ 537,251</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

**MANAGEMENT COUNCIL OF THE OHIO EDUCATION COMPUTER NETWORK
FRANKLIN COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Management Council of the Ohio Education Computer Network's (the Council's) federal award programs' receipts and expenditures. The Schedule has been prepared on the cash basis of accounting.



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

Management Council of the Ohio Education Computer Network
Franklin County
8050 North High Street
Suite 150
Columbus, Ohio 43235

To the Board of Trustees:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Management Council of the Ohio Education Computer Network, Franklin County, Ohio (the Council) as of and for the year ended June 30, 2013, and the related notes to the financial statements and have issued our report thereon dated March 2, 2015, wherein we noted the Council followed reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. We also qualified our opinion on the financial statements presented in accordance with the special purpose framework because the Council did not adopt the provisions of Governmental Accounting Standards Board Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Council's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the County's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Council's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2013-001 and 2013-002 described in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

One Government Center, Suite 1420, Toledo, Ohio 43604-2246
Phone: 419-245-2811 or 800-443-9276 Fax: 419-245-2484

www.ohioauditor.gov

As part of reasonably assuring whether the Council's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Entity's Response to Findings

The Council's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Council's responses and, accordingly, we express no opinion on them.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Council's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

March 2, 2015



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Management Council of the Ohio Education Computer Network
Franklin County
8050 North High Street
Suite 150
Columbus, Ohio 43235

To the Board of Trustees:

Report on Compliance for the Major Federal Program

We have audited the Management Council of the Ohio Education Computer Network, Franklin County, Ohio's (the Council) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Council's major federal program for the year ended June 30, 2013. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Council's major federal program.

Management's Responsibility

The Council's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the Council's compliance for the Council's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Council's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the Council's major program. However, our audit does not provide a legal determination of the Council's compliance.

Basis for Qualified Opinion on State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act

As described in findings 2013-003 through 2013-005 in the accompanying schedule of findings, the Council did not comply with requirements regarding the following:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2013-003	84.395	State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	Special Tests & Provisions - Presentation on SEFA
2013-004	84.395	State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	Cash Management
2013-005	84.395	State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	Suspension and Debarment

Compliance with these requirements is necessary, in our opinion, for the Council to comply with the requirements applicable to this program.

Qualified Opinion on State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act*, paragraph, the Management Council of the Ohio Education Computer Network, Franklin County, Ohio complied, in all material respects, with the requirements referred to above that could directly and materially affect its State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act, for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which OMB Circular A-133 requires us to report, described in the accompanying schedule of findings as item 2013-006. This finding did not require us to modify our compliance opinion on the major federal program.

The Council's response to our noncompliance finding is described in the corrective action plan. We did not audit the Council's response and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

The Council's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Council's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Council's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program's compliance requirement will not be prevented, or timely detected and corrected. A *significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as item 2013-003 through 2013-005 to be material weaknesses.

The Council's responses to our internal control over compliance findings are described in the accompanying schedule of findings and / or corrective action plan. We did not audit the Council's responses and, accordingly, we express no opinion on them.

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

March 2, 2015

**MANAGEMENT COUNCIL OF THE OHIO EDUCATION COMPUTER NETWORK
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2013**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Modified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Modified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act CFDA #84.395
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2013-001

Material Weakness – Implementation of GASB 54

The Council failed to adopt the provisions of the Governmental Accounting Standards Board Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions for the years ended June 30, 2013 as mandated by the Auditor of State Bulletin 2011-004. Under GASB No. 54, fund balance is divided into five classifications based primarily on the extent to which the Council must observe constraints imposed upon the use of its governmental-fund resources. Those classifications include: Nonspendable, Restricted, Committed, Assigned, and Unassigned. In addition, GASB No. 54 provides additional clarity on how governmental funds should be classified.

By not implementing GASB No. 54, the Council is not fully disclosing the manner in which fund balances are restricted. Noncompliance could also affect the classification of funds and increase the risk fund balances may be improperly spent.

We recommend the Council adopt the provisions of GASB No. 54 as specified in Auditor of State Bulletin 2011-004.

Officials' Response:

Management will comply with requirements of GASB 54 beginning with the fiscal year ending June 30, 2015.

FINDING NUMBER 2013-002

Material Weakness – Financial Reporting

The following error was noted in the financial statements that required audit adjustments:

The Ohio Distance Learning Association's (ODLA) financial activity was reported in an agency fund (022-9002). However, ODLA is not a separate organization, but rather a subcommittee of MCOECN and the activity should be reported as an enterprise fund. As such, Agency fund type receipts, disbursements, and ending fund cash balance were overstated by \$2,070, \$620, and \$1,450, respectively. Enterprise fund type receipts, disbursements, and ending fund cash balance were understated by \$2,070, \$620, and \$1,450, respectively.

Sound financial reporting is the responsibility of the fiscal officer and the Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. To ensure the Council's financial statements and notes to the statements are complete and accurate, the Council should adopt policies and procedures, including a final review of the statements and notes by the fiscal officer and Council, to identify and correct errors and omissions.

Officials' Response:

Management will reclassify the ODLA Fund (020-9002) as an enterprise fund for the fiscal year ending June 30, 2015.

3. FINDINGS FOR FEDERAL AWARDS

1. Special Tests and Provisions – Presentation on Schedule of Expenditures of Federal Awards and Data Collection Form

Finding Number	2013-003
CFDA Title and Number	State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act – CFDA #84.395
Federal Award Number / Year	2013
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance and Material Weakness

2 CFR section 176.210 (b) requires recipients covered by the Single Audit Act Amendments of 1996 and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," to separately identify the expenditures for Federal awards under the Recovery Act on the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC) required by OMB Circular A-133. This shall be accomplished by identifying expenditures for Federal awards made under the Recovery Act separately on the SEFA, and as separate rows under Item 9 of Part III on the SF-SAC by CFDA number, and inclusion of the prefix "ARRA-" in identifying the name of the Federal program on the SEFA and as the first characters in Item 9d of Part III on the SF-SAC.

Circular A-133, § __.300 Auditee Responsibilities, states in part: "The auditee shall: (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity. (b) Maintain internal control over Federal programs that provides reasonable assurance..."

Circular A-133, § __.310 Financial Statements states in part:

"(b) Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements... At a minimum, the schedule shall:

1. List individual Federal programs by Federal agency....
2. For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
3. Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number..."

The Federal Awards Receipts and Expenditures Schedule (the Schedule) provided for audit was inaccurate. The Schedule did not include all grants from the 84.395 - ARRA-State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants federal program which resulted in the Schedule presented for audit to be understated by \$491,333 in Federal Receipts and \$440,883 in Federal Expenditures.

Adjustments were recorded and approved by the Council's management for presentation in this report.

The Council's fiscal agent, Northern Buckeye Education Council (Fiscal Agent), was responsible for preparing the SEFA, based upon the grant information obtained from the financial accounting records and other information provided by the Council and grantor agencies. A review of the Fiscal Agent's files determined that grant award letters, grant applications, grant budgets, financial reports and other grant documents were on hand but not always clear to determine if monies received were Federal or State and whether the Council was a vendor or subrecipient. Accurate and complete documentation is necessary for the Fiscal Agent to obtain required information for the Schedule, such as CFDA titles and numbers, and to assist in identifying federal grants.

The Council was unaware or lacked the understanding of the importance of sharing and providing the information for the Schedule. The lack of submission of grant documents and accurate information by the Council to the Fiscal Agent weakened internal controls over grant reporting and hindered the ability of the Fiscal Agent to accurately prepare the Schedule.

Internal controls should be designed to prevent, detect or correct errors in a timely manner. Without adequate controls, the Council cannot provide reasonable assurance that the Schedule is fairly presented. Controls have not been established by the Council to ensure complete and accurate reporting of the Schedule.

The determination of which major programs will be audited and the audit costs are affected by the accuracy of the Schedule at the time of audit. Failure to develop internal controls over reporting could jeopardize future federal funding and report its financial information inaccurately.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

We recommend that the Council establish policies and procedures to ensure that the federal funds are identified and reported accurately on the Schedule in accordance with Circular A-133 requirements. We also recommend that individuals responsible for administering federal assistance programs within the Council receive training in proper grant administration.

Officials' Response:

See Corrective Action Plan.

2. Cash Management

Finding Number	2013-004
CFDA Title and Number	State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act – CFDA #84.395
Federal Award Number / Year	2013
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance and Material Weakness

34 CFR 80.21 (c) provides grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee. Furthermore **34 CFR 80.20 (b)(7)** provides in part: “When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements.”

Furthermore, **Ohio Department of Education Project Cash Request Instructions** provide that funds may be requested for a maximum of one (1) month plus any negative cash balance. To comply with the *Cash Management Act 31 CFR Part 205*, the time lapse between the receipt and disbursement of funds must be minimized. Funds must be expended within the period of time for which cash is requested.

The Council did not sufficiently monitor the timing of request for funds. The Council expended all three of the three project cash requests in the audit period after the period of time the grant funds were requested.

In the future, we recommend the Council request grant funds in the amount that is needed to be disbursed during the period of time for which the funds are requested.

Officials’ Response:

See Corrective Action Plan.

3. Suspension and Debarment

Finding Number	2013-005
CFDA Title and Number	State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act – CFDA #84.395
Federal Award Number / Year	2013
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance and Material Weakness

OMB guidance in **2 CFR part 180**, which implements **Executive Orders 12549 and 12689**, *Debarment and Suspension*, sets forth the requirements for nonprocurement suspension and debarment. Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in **2 CFR section 180.220**. All nonprocurement transactions entered into by a recipient (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in **2 CFR section 180.215**.

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity, as defined in **2 CFR section 180.995** and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA,) and available at <https://www.sam.gov/portal/public/SAM/>, (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity (**2 CFR section 180.300**). The Council could not demonstrate compliance with this requirement for four vendors that were paid a total of \$326,733 in 2013.

The Council did not fully understand federal grant requirements or establish adequate controls and monitoring to ensure suspension and debarment requirements were met.

We recommend the Council implement controls to ensure all vendors and/or subrecipients have not been suspended or debarred prior to entering into contracts, and maintain documentation supporting this verification. Without proper controls, the Council increases the risk of spending funds with vendors that are suspended or debarred from participating in federal programs. Any payments made to an ineligible party are unallowable and would be subject to recovery by the funding agency. Failure to comply with Federal requirements may jeopardize the Council's eligibility for future Federal assistance.

We were able to verify the vendors were not suspended or debarred; therefore, we will not question these costs.

Officials' Response:

See Corrective Action Plan.

FINDING NUMBER 2013-006

Noncompliance Citation

OMB Circular A133 §____.200, Audits of States, Local Governments and Non-Profit Organizations requires Non-Federal entities that expend \$500,000 or more in a year in Federal awards to have a single or program-specific audit conducted for that year in accordance with the provisions of **OMB Circular A133**.

OMB Circular A133 §____.320 requires the audit to be completed and the data collection form and reporting package to be submitted within the earlier of 30 days after receipt of the auditor's report, or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for the audit.

The Council expended greater than \$500,000 in Federal awards during fiscal year 2013 and did not have a single audit or a program-specific audit conducted to meet the nine month deadline. The Council did not receive an extension to this filing requirement.

We recommend the Council obtain a single audit within nine months of fiscal year end for any year that the federal expenditures exceed the prescribed limits.

Officials' Response:

See Corrective Action Plan.

**MANAGEMENT COUNCIL OF THE OHIO EDUCATION COMPUTER NETWORK
FRANKLIN COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
JUNE 30, 2013**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2013-003	Management is aware and understands the importance of the information presented on the federal schedule and will ensure that federal funds will be accurately identified and reported.	FY2015	Greg Buddelmeyer, Chief Financial Officer
2013-004	Management is aware of the requirements and will comply with them on future grants.	FY2015	Greg Buddelmeyer, Chief Financial Officer
2013-005	Management is aware of the requirements and will comply with them on future grants.	FY2015	Greg Buddelmeyer, Chief Financial Officer
2013-006	Management is aware of the requirements and will comply with them on future grants.	FY2015	Greg Buddelmeyer, Chief Financial Officer



Dave Yost • Auditor of State

MANAGEMENT COUNCIL OF OHIO EDUCATION COMPUTER NETWORK (MCOECN)

FRANKLIN 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 17, 2015**