



OHIO AUDITOR OF STATE
KEITH FABER



**SOUTH CENTRAL OHIO COMPUTER ASSOCIATION REGIONAL COUNCIL OF GOVERNMENTS
PIKE COUNTY**

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INDEPENDENT AUDITOR'S REPORT

South Central Ohio Computer Association Regional Council of Governments
Pike County
100 Executive Drive
Marion, Ohio 43302

To the Governing Board:

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the South Central Ohio Computer Association Regional Council of Governments, Pike County, Ohio (the Council) as of and for the years ended June 30, 2016 and 2015.

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 conducted our engagement 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.

Because of the matters described in the Basis for Disclaimer of Opinion paragraph; however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Management has not provided certain written representations required by Auditing Standard Section AU-C Section 580, *Written Representations*, including but not limited to, management's responsibility for preparing the financial statements in conformity with the Council's financial reporting framework, the availability of original financial records and related data, the completeness and availability of all minutes of the legislative or other bodies and committee meetings; management's responsibility of the Council's compliance with laws and regulations; the identification and disclosure of all laws, regulations, and provisions of contracts and grant agreements directly and materially affecting the determination of financial statement amounts and; the presence or absence of fraud involving management or employees with significant roles in internal control; compliance with laws, regulations, and provisions of contracts and grant agreements, including compliance with any debt covenants.

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Additionally, the Council disclosed in Note 9 to the June 30, 2015 financial statements and Note 10 to the June 30, 2016 financial statements that requests were received on behalf of the Federal Communications Commission for the return of funds from previous fiscal years' eRate distributions to the Council and its customers. We were unable to obtain sufficient appropriate audit evidence from the Council to support the information contained within these disclosures as of the date of this report.

Disclaimer of Opinion

Due to the significance of the matters discussed in *the Basis for Disclaimer of Opinion* paragraph, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements for the years ended June 30, 2016 and 2015.

Emphasis of Matters

As discussed in Note 9 to the June 30, 2015 financial statements and Note 10 to the June 30, 2016 financial statements, the Metropolitan Educational Technology Association (META) executed an Asset Purchase Agreement with the Council on October 31, 2017, whereas META purchased substantially all of the Council's assets and assumed the liabilities of the Council, as detailed in the Asset Purchase Agreement. In addition, the Council received requests on behalf of the Federal Communications Commission for the return of funds from previous fiscal years' eRate distributions to the Council and its customers.

As discussed in Note 10 to the June 30, 2015 financial statements, the Council elected to change its financial presentation to the regulatory cash basis that Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2021, 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.



Keith Faber
Auditor of State
Columbus, Ohio

May 5, 2021

South Central Ohio Computer Association Regional Council of Governments
Pike County

*Statement of Receipts, Disbursements and Changes
in Fund Balance - Regulatory Cash Basis*

For the Fiscal Year Ended June 30, 2016

Operating Cash Receipts:	
Charges for Services	\$ 9,103,697
Intergovernmental	215,293
Miscellaneous	174
Total Operating Cash Receipts	9,319,164
Operating Cash Disbursements:	
Salaries	1,601,447
Employee Fringe Benefits	654,513
Purchased Services	6,621,329
Supplies and Materials	313,807
Other	249,412
Total Operating Cash Disbursements	9,440,508
Operating Income (Loss)	(121,344)
Non-Operating Receipts (Disbursements):	
Capital Outlay	(231,323)
Principal Retirement	(867,450)
Interest and Fiscal Charges	(138,624)
Total Non-Operating Receipts (Disbursements)	(1,237,397)
Net Change in Fund Cash Balance	(1,358,741)
Fund Cash Balances, July 1	1,385,524
Fund Cash Balances, June 30	\$ 26,783

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

South Central Ohio Computer Association Regional Council of Governments

Pike County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

1. DESCRIPTION OF COUNCIL OF GOVERNMENTS AND REPORTING ENTITY

The South Central Ohio Computer Association Regional Council of Governments, Pike County, Ohio (the Council), formed effective July 1, 2012, is a Regional Council of Governments, governed by and construed in accordance with the laws of the State, and it is the intention of the Council Members that they shall comply with Chapter 167 of the Ohio Revised Code. The Council is established for the purpose of exercising the rights and privileges conveyed to it by the Bylaws (agreement) of the Council.

The South Central Ohio Computer Association Regional Council of Government is a legally separate Council. The Council is in a jointly governed organization with member governmental entities. The Council was formed for the primary purpose of providing information technology services to school districts, educational service centers, other governments and other organizations. The governing board consists of the superintendent or other designee appointed by each of the members of the Council.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The Council's financial statement consists of a statement of receipts, disbursements and changes in fund balance (cash basis) for all proprietary funds.

B. Fund Accounting

The Council uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. All of the Council's funds are combined and reported as a single enterprise fund. Enterprise funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges.

C. Basis of Accounting

The Council's financial statements follow 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). This basis is similar to the cash receipts and disbursements accounting basis. The Council recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

D. Deposits and Investments

The Council's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively. The Council's cash is held in a demand deposit account.

E. Capital Assets

The Council records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statement does not report these items as assets.

South Central Ohio Computer Association Regional Council of Governments

Pike County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for vacation and sick benefits that are recorded when cash is disbursed. A liability for any unused benefits is not recorded on the Council's regulatory cash basis financial statement.

G. Operating Cash Receipts and Disbursements

Operating cash receipts are those cash receipts that are generated directly from the primary activity of the Council. For the Council, these cash receipts are charges for services provided as well as certain governmental grants which are used for operations. Operating cash disbursements are necessary costs incurred to provide the goods and/or services that are the primary activity of the fund. For the Council, these expenses are for personal services, fringe benefits, purchased services, and any other operating related expenses which support the operation of the Council. All cash receipts and cash disbursements not meeting this definition are reported as non-operating.

3. DEPOSITS AND INVESTMENTS

Monies held by the Council are classified by State statute 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 Council 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 Council 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.

Interim monies held by the Council can be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or other obligations of or securities 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;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

South Central Ohio Computer Association Regional Council of Governments

Pike County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

3. DEPOSITS AND INVESTMENTS (Continued)

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio); and,
8. Commercial paper and bankers acceptances is training requirements have been met.

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 Council, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Council's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective repository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Council.

At fiscal year-end, the carrying amount of the Council's deposits was \$26,783 and the bank balance was the same. The Council's entire bank balance was covered by the Federal Deposit Insurance Corporation (FDIC).

4. RISK MANAGEMENT

The Council maintains commercial insurance for the following risks:

- General Liability & Casualty
- Public Officials Liability
- Vehicle
- Property

Settled claims have not exceeded commercial insurance coverage in any of the past three years. There has been no significant reduction in insurance coverage in fiscal year 2016 from fiscal year 2015.

The Council also provides health insurance to full time employees through private carriers. Workers' compensation benefits are provided through the State Bureau of Workers' Compensation.

South Central Ohio Computer Association Regional Council of Governments

Pike County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

5. DEFINED BENEFIT PENSION PLANS

Net Pension Liability

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability represents the Council’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the Council’s obligation for this liability to annually required payments. The Council cannot control benefit terms or the manner in which pensions are financed; however, the Council does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

Plan Description - School Employees Retirement System (SERS)

Plan Description – Council non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

South Central Ohio Computer Association Regional Council of Governments

Pike County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

5. DEFINED BENEFIT PENSION PLANS (Continued)

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Council is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For fiscal year 2016, the allocation to pension, death benefits, and Medicare B was 14 percent and nothing was allocated to the Health Care Fund.

On January 1, 2016, all Council employees became META Solutions employees, in accordance with the Subcontract Agreement disclosed in Note 9. The Council's contractually required contribution to SERS for employee salaries during the period July 1, 2015 through December 31, 2015 was \$219,486.

6. POSTEMPLOYMENT BENEFITS

Health Care Plan Description - The Council contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For the period ended December 31, 2015, 0.00 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For the period ended December 31, 2015, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

On January 1, 2016, all Council employees became META Solutions employees, in accordance with the Subcontract Agreement disclosed in Note 9. The Council's payments for health care, including the surcharge, for the six-month period ended December 31, 2015, and the fiscal years ended 2015 and 2014 were \$17,707, \$30,527, and \$4,031, respectively.

South Central Ohio Computer Association Regional Council of Governments

Pike County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

7. LEASE OBLIGATIONS

The Council has entered into capitalized leases for technology equipment, computer storage, networking equipment, and telephone equipment.

Due to the Council reporting on the regulatory cash basis of accounting, the accompanying technology equipment, computer storage, networking equipment, and telephone equipment are not reflected as assets and liabilities within the accompanying financial statements. Principal and interest payments associated with outstanding lease obligations are paid from the resources of the Council.

In fiscal year 2016, the Council made lease payments totaling \$1,705,548 in principal and \$251,998 in interest. Of these amounts, \$867,450 in principal and \$138,624 in interest were paid directly by the Council and the remaining amounts were paid on behalf of the Council by META Solutions, in accordance with the Subcontract Agreement disclosed in Note 9.

The agreements provide for future minimum annual lease payments as follows:

<u>Fiscal Year Ending June 30</u>	<u>Payments</u>	<u>Interest</u>
2017	\$ 1,858,463	\$ 175,848
2018	1,639,820	101,389
2019	1,141,499	42,883
2020	560,396	9,976
2021	27,464	143
	<u>\$ 5,227,642</u>	<u>\$ 330,239</u>

8. CONTINGENCIES

Grants

The Council received financial assistance from federal and state agencies in the form of grants. The cash disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Council. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Council at fiscal year-end.

Litigation

Relating to the Asset Purchase Agreement discussed in Note 10, as consideration for the sale, conveyance, and transfer of the Purchased Assets, META assumed the liabilities of the Council as detailed on Exhibit 2.1 of the Asset Purchase Agreement. META represents that it has paid or will pay all of the Assumed Liabilities prior to the Date of Closing. META shall assume no liabilities of Seller other than the Assumed Liabilities. Without limitation to the foregoing, the Council shall specifically retain any liability related to its accounts with USAC and E-Rate, including, but not limited to SPN 143027392, and shall also retain any liability for any findings by the Ohio Auditor of State related to conduct by the Council prior to the date of Closing.

On November 7, 2019, former executive director Shawn Clemmons pleaded guilty to submitting false claims to the federal government related to the federal E-Rate Program. In total, Mr. Clemmons failed to reimburse public schools more than \$2 million.

South Central Ohio Computer Association Regional Council of Governments

Pike County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

9. SUBCONTRACT AGREEMENT

On January 1, 2016, the Council executed a Merger Agreement with META Solutions, with META Solutions continuing as the surviving entity, to better control costs and strengthen Ohio's largest and most comprehensive educational solutions provider. With the execution of the Merger Agreement, all Council employees became employees of META Solutions.

On April 25, 2016, the Council executed a Subcontract Agreement with META Solutions that replaced the Merger Agreement executed on January 1, 2016. In accordance with the Subcontract Agreement, the merger with META Solutions was postponed until all of the Council's pre-Merger Agreement debts, obligations, and liabilities are fully satisfied, and META Solutions agreed to perform all work and do all things necessary to perform the information technology services on behalf of the Council to the Council's member districts. Based on this Subcontract Agreement, all disbursements to META Solutions for services provided to the Council's member districts is reported as purchased services in the Statement of Receipts, Disbursements and Changes in Fund Balance.

10. SUBSEQUENT EVENTS

On October 31, 2017, the Council executed an Asset Purchase Agreement with META Solutions whereas META Solutions purchased substantially all of the Council's assets, except items specifically excluded in Section 1.2 of the Asset Purchase Agreement. As consideration for the sale, conveyance, and transfer of the purchased assets, META Solutions assumed the liabilities of the Council, as detailed in Exhibit 2.1 of the Asset Purchase Agreement. Furthermore, the Council represented that it shall continue to exist as an entity for a minimum of five (5) years following the closing date of November 3, 2017. As of November 3, 2017, the balance that remained in the Council's bank account is to be utilized to address the liabilities that the Council retained per Section 2.1 of the Asset Purchase Agreement.

The Council received requests from the Universal Service Administrative Company (USAC) on behalf of the Federal Communications Commission (FCC) for return of funds from previous fiscal years of E-Rate distributions to the Council and its customers. The letters making the requests copied the Council's customers. As of August 11, 2020, the amount of total funds requested by USAC was \$3,210,837. The Council, through its attorneys, will be working with USAC and the FCC to mitigate or totally reduce these claims.

South Central Ohio Computer Association Regional Council of Governments
Pike County

*Statement of Receipts, Disbursements and Changes
in Fund Balance - Regulatory Cash Basis*

For the Fiscal Year Ended June 30, 2015

Operating Cash Receipts:	
Charges for Services	\$ 8,569,166
Intergovernmental	3,535,852
Miscellaneous	5,127
Total Operating Cash Receipts	<u>12,110,145</u>
Operating Cash Disbursements:	
Salaries	3,240,361
Employee Fringe Benefits	1,441,713
Purchased Services	4,638,603
Supplies and Materials	494,489
Other	76,786
Total Operating Cash Disbursements	<u>9,891,952</u>
Operating Income (Loss)	<u>2,218,193</u>
Non-Operating Receipts (Disbursements):	
Capital Outlay	(434,123)
Principal Retirement	(1,020,227)
Interest and Fiscal Charges	(196,525)
Total Non-Operating Receipts (Disbursements)	<u>(1,650,875)</u>
Net Change in Fund Cash Balance	567,318
Fund Cash Balances, July 1 (Restated)	<u>818,206</u>
Fund Cash Balances, June 30	<u>\$ 1,385,524</u>

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

South Central Ohio Computer Association Regional Council of Governments

Pike County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

1. DESCRIPTION OF COUNCIL OF GOVERNMENTS AND REPORTING ENTITY

The South Central Ohio Computer Association Regional Council of Governments, Pike County, Ohio (the Council), formed effective July 1, 2012, is a Regional Council of Governments, governed by and construed in accordance with the laws of the State, and it is the intention of the Council Members that they shall comply with Chapter 167 of the Ohio Revised Code. The Council is established for the purpose of exercising the rights and privileges conveyed to it by the Bylaws (agreement) of the Council.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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B. Fund Accounting

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C. Basis of Accounting

The Council's financial statements follow 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). This basis is similar to the cash receipts and disbursements accounting basis. The Council recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

D. Deposits and Investments

The Council's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively. The Council's cash is held in a demand deposit account.

E. Capital Assets

The Council records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statement does not report these items as assets.

South Central Ohio Computer Association Regional Council of Governments

Pike County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for vacation and sick benefits that are recorded when cash is disbursed. A liability for any unused benefits is not recorded on the Council's regulatory cash basis financial statement.

G. Operating Cash Receipts and Disbursements

Operating cash receipts are those cash receipts that are generated directly from the primary activity of the Council. For the Council, these cash receipts are charges for services provided as well as certain governmental grants which are used for operations. Operating cash disbursements are necessary costs incurred to provide the goods and/or services that are the primary activity of the fund. For the Council, these expenses are for personal services, fringe benefits, purchased services, and any other operating related expenses which support the operation of the Council. All cash receipts and cash disbursements not meeting this definition are reported as non-operating.

3. DEPOSITS AND INVESTMENTS

Monies held by the Council are classified by State statute 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 Council 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 Council 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.

Interim monies held by the Council can be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or other obligations of or securities 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;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;

South Central Ohio Computer Association Regional Council of Governments

Pike County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

3. DEPOSITS AND INVESTMENTS

5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio); and,
8. Commercial paper and bankers acceptances is training requirements have been met.

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 Council, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Council's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective repository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Council.

At fiscal year-end, the carrying amount of all of the Council's deposits was \$1,385,524 and the bank balance was \$1,551,121. Of the Council's bank balance, \$250,000 was covered by Federal Deposit Insurance (FDIC) and the remaining balance was exposed to custodial risk. Although all statutory requirement for the deposit of money has been followed, noncompliance with federal requirements could potentially subject the Council to a successful claim by the FDIC.

4. RISK MANAGEMENT

The Council maintains commercial insurance for the following risks:

- General Liability & Casualty
- Public Officials Liability
- Vehicle
- Property

Settled claims have not exceeded commercial insurance coverage in any of the past three years. There has been no significant reduction in insurance coverage in fiscal year 2015 from fiscal year 2014.

The Council also provides health insurance to full time employees through private carriers. Workers' compensation benefits are provided through the State Bureau of Workers' Compensation.

South Central Ohio Computer Association Regional Council of Governments

Pike County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

5. DEFINED BENEFIT PENSION PLANS

For fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68” were effective. These GASB pronouncements had no effect of beginning net position as reported June 30, 2014, as the net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below.

Pensions are a component of exchange transactions – between an employer and its employees – of salaries and benefits for employee services. Pensions are provided to an employee – on a deferred-payment basis – as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability represents the Council’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the Council’s obligation for this liability to annually required payments. The Council cannot control benefit terms or the manner in which pensions are financed; however, the Council does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes cost paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortized period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

Plan Description – School Employees Retirement System (SERS)

Plan Description – Council non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

South Central Ohio Computer Association Regional Council of Governments

Pike County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

5. DEFINED BENEFIT PENSION PLANS (Continued)

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The Council’s contractually required contribution to SERS was \$446,207 for fiscal year 2015.

6. POSTEMPLOYMENT BENEFITS

School Employees Retirement System

Postemployment Benefits – In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers a postemployment benefit plan.

Health Care Plan – Sections 3309.375 and 3309.69 of the Ohio Revised Code permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS’ Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Ohio Revised Code provides the statutory authority to fund SERS’ postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

South Central Ohio Computer Association Regional Council of Governments

Pike County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

6. POSTEMPLOYMENT BENEFITS (Continued)

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund to be used to subsidize the cost of health care coverage. For the year ended June 30, 2015, the health care allocation is .82%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the minimum compensation level was established at \$20,450. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Council's contributions assigned to health care, including the surcharge, for the years ended June 30, 2015, 2014, and 2013 were \$30,527, \$4,031, and \$4,088, respectively, which equaled the required contributions each year.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status. The financial reports of SERS' Health Care plan is included in its *Comprehensive Annual Financial Report*. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

7. LEASE OBLIGATIONS

The Council has entered into capitalized leases for technology equipment, computer storage, networking equipment, and telephone equipment.

Due to the Council reporting on the regulatory cash basis of accounting, the accompanying technology equipment, computer storage, networking equipment, and telephone equipment are not reflected as assets and liabilities within the accompanying financial statements. Principal and interest payments associated with outstanding lease obligations are paid from the resources of the Council.

In fiscal year 2015, the Council made lease payments totaling \$1,020,227 in principal and \$196,525 in interest.

The agreements provide for minimum annual lease payments as follows:

Fiscal Year Ending June 30	Payments	Interest
2016	\$ 1,401,399	\$ 202,653
2017	1,370,462	123,112
2018	1,159,132	64,117
2019	648,696	19,727
2020	82,179	1,426
	<u>\$4,661,868</u>	<u>\$411,035</u>

South Central Ohio Computer Association Regional Council of Governments

Pike County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

8. CONTINGENCIES

Grants

The Council received financial assistance from federal and state agencies in the form of grants. The cash disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Council. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Council at fiscal year-end.

Litigation

Relating to the Asset Purchase Agreement discussed in Note 9, as consideration for the sale, conveyance, and transfer of the Purchased Assets, META assumed the liabilities of the Council as detailed on Exhibit 2.1 of the Asset Purchase Agreement. META represents that it has paid or will pay all of the Assumed Liabilities prior to the Date of Closing. META shall assume no liabilities of Seller other than the Assumed Liabilities. Without limitation to the foregoing, the Council shall specifically retain any liability related to its accounts with USAC and E-Rate, including, but not limited to SPN 143027392, and shall also retain any liability for any findings by the Ohio Auditor of State related to conduct by the Council prior to the date of Closing.

Additionally, former executive director Shawn Clemmons pleaded guilty on November 7, 2019 to submitting false claims to the federal government related to the federal E-Rate Program.

9. SUBSEQUENT EVENTS

On July 1, 2015, the Council entered into a capital lease in the amount of \$222,072 for phone and computer equipment. The lease will be repaid in monthly installments ending in fiscal year 2020.

On July 30, 2015, the Council entered into a capital lease in the amount of \$1,367,267 for phone and computer equipment. The lease will be repaid in monthly installments ending in fiscal year 2020.

On January 1, 2016, the Council entered into a capital lease in the amount of \$708,038 for phone and computer equipment. The lease will be repaid in monthly installments ending in fiscal year 2021.

On October 31, 2017, the Council executed an Asset Purchase Agreement with Metropolitan Educational Technology Association (META) whereas META purchased all of the Council's assets, except items specifically excluded in Section 1.2 of the Asset Purchase Agreement. As consideration for the sale, conveyance, and transfer of the purchased assets, the Association assumed the liabilities of the Council, as detailed in Exhibit 2.1 of the Asset Purchase Agreement. Furthermore, the Council represented that it shall continue to exist as an entity for a minimum of five (5) years following the closing date of November 3, 2017. As of November 2, 2017, the balance that remained in the Council's bank account is to be utilized to address the liabilities that the Council retained per Section 2.1 of the Asset Purchase Agreement. Furthermore, the Council represented that it shall continue to exist as an entity for a minimum of five (5) years following the closing date of November 3, 2017.

The Council received requests from the Universal Service Administrative Company (USAC) on behalf of the Federal Communications Commission (FCC) for return of funds from previous fiscal years of E-Rate distributions to the Council and its customers. The letters making the requests copied the Council's customers. As of August 11, 2020, the amount of total funds requested by USAC was \$3,210,837. The Council, through its attorneys, will be working with USAC and the FCC to mitigate or totally reduce these claims.

South Central Ohio Computer Association Regional Council of Governments

Pike County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

10. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2015, the Council ceased to report using generally accepted accounting principles and reported on the regulatory cash basis as described in Note 2C.

The implementation of this change had the following effects on net position/fund cash balance of the Council as they were previously reported.

	<u>Net Position/ Fund Cash Balance</u>
Net Position, June 30, 2014	\$ 2,041,202
Eliminate Noncash Assets	(4,219,387)
Eliminate Liabilities	<u>2,996,391</u>
Fund Cash Balance, July 1, 2014	<u><u>\$ 818,206</u></u>

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OHIO AUDITOR OF STATE KEITH FABER



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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

South Central Ohio Computer Association Regional Council of Governments
Pike County
100 Executive Drive
Marion, Ohio 43302

To the Governing Board:

We were engaged to audit, 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 cash balances, receipts, and disbursements by fund type of the South Central Ohio Computer Association Regional Council of Governments, Pike County, (the Council) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, and have issued our report thereon dated May 5, 2021, wherein we noted the Metropolitan Educational Technology Association executed an Asset Purchase Agreement with the Council on October 31, 2017. We also noted the Council received requests from the Federal Communications Commission for the return of eRate distributions and the Council has elected to change its financial presentation to the regulatory cash basis beginning in 2015 following financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. We did not opine on these financial statements because Management has not provided certain written representations required by Auditing Standard Section AU-C Section 580 and because we were unable to obtain sufficient appropriate audit evidence from the Council to support the information contained within the Note 9 to the June 30, 2015 financial statements and Note 10 to the June 30, 2016 financial statements as of the date of this report.

Internal Control Over Financial Reporting

As part of our financial statement engagement, we considered the Council's internal control over financial reporting (internal control) as a basis for designing audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Council's internal control. Accordingly, we have not opined on it.

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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings, that we consider material weaknesses. We consider findings 2016-001 through 2016-005 to be material weaknesses.

Compliance and Other Matters

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 financial statements. 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 instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2016-001, 2016-003, and 2016-006 through 2016-010.

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 engagement performed under *Government Auditing Standards* in considering the Council's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber
Auditor of State
Columbus, Ohio

May 5, 2021

**SOUTH CENTRAL OHIO COMPUTER ASSOCIATION REGIONAL COUNCIL OF GOVERNMENTS
PIKE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2016 AND 2015**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2016-001

**Timely Filing of Annual Report
Noncompliance / Material Weakness**

Ohio Rev. Code § 117.38 provides that each public office, other than a state agency, shall file a financial report for each fiscal year. The report shall be certified by the proper officer or board and filed with the Auditor of State within sixty days after the close of the fiscal year, except that public offices reporting pursuant to generally accepted accounting principles shall file their reports within one hundred fifty days after the close of the fiscal year. The Auditor of State may extend the deadline for filing a financial report and establish terms and conditions for any such extension.

Furthermore, on January 1, 2016, the Council entered into a merger agreement with the Metropolitan Educational Technology Association (META). On April 25, 2016, the Council entered into a Subcontract Agreement with META that replaced the January 1, 2016 merger agreement and the proposed merger was postponed until pre-merger agreement debts, obligations, and liabilities were fully satisfied.

The Council initially filed its June 30, 2015 financial statements on February 2, 2016 and its June 30, 2016 financial statements on January 17, 2018 after entering into a contract with an accounting firm to compile the financial statements to account for all Council financial activity including the agreements noted in the paragraph above. The Council was reported as being merged with META within the June 30, 2016 financial statements, when in fact the merger agreement was replaced by a subcontract agreement. Therefore, the financial statements were not accurately presented and had to be updated by the accounting firm. The updated June 30, 2015 financial statements were filed on October 18, 2017 and the updated June 30, 2016 financial statements were filed on August 16, 2018.

Failure to maintain a centralized accounting system to track all financial activity of the Council when changes in the reporting entity occur (mergers, subcontracts with other entities, etc.) can lead to errors, irregularities or misappropriation of the Council's assets and misstated financial statements.

We recommend that the Council ensure that financial activity related to the organization is accounted for in a centralized accounting system. This will lead to accurately presented annual financial statements that can be filed with the Auditor of State within sixty days of year-end.

FINDING NUMBER 2016-002

**Monthly Bank Reconciliations & Board Monitoring
Material Weakness**

Sound accounting practices require that when designing the public office's system of internal control and the specific control activities, management should ensure adequate security of assets and records, and verify the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.

The reconciliation of cash (bank) balances to accounting system records (book) is the most basic and primary control process performed. Lack of completing an accurate and timely reconciliation may allow for accounting errors, theft and fraud to occur without timely detection.

**SOUTH CENTRAL OHIO COMPUTER ASSOCIATION REGIONAL COUNCIL OF GOVERNMENTS
PIKE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2016 AND 2015**

The Treasurer is responsible for reconciling the book (fund) balance to the total bank balance on a monthly basis. Additionally, the Board should be requesting financial reports and accurate bank reconciliations and supporting documentation be provided at least once a month for review.

During fiscal years 2016 and 2015, the Board did not review system-generated reports during the board meetings. Additionally, monthly bank to book reconciliations were not prepared from September 1, 2015 through June 30, 2016 and the Board did not review those that were prepared from July 2014 through August 2015.

Lack of regular monitoring of system generated financial reports and bank-to-book reconciliations may lead to errors or irregularities going undetected without the knowledge of the Board. Additionally, failure to reconcile monthly increases the possibility that the Council will not be able to identify, assemble, analyze, classify, and record its transactions correctly or to document compliance with finance related legal and contractual requirements.

We recommend the Board review monthly system generated reports. Additionally, the Treasurer should timely prepare monthly bank-to-book reconciliations, which include all bank accounts and all fund balances. Lastly, the Board should review the monthly bank-to-book reconciliations including the related support.

FINDING NUMBER 2016-003

**Maintaining Documentation
Noncompliance / Material Weakness**

Ohio Rev. Code § 149.351 provides that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under **Ohio Rev. Code Sections 149.38 through 149.42**.

Furthermore, **Ohio Rev. Code § 149.43(B)(2)** provides that a public office also shall have available a copy of its current records retention schedule at a location readily available to the public.

Additionally, **Ohio Rev. Code § 149.43(E)(2)** provides that the public office shall distribute the public records policy adopted by the public office under division (E)(1) of this section to the employee of the public office who is the records custodian or records manager or otherwise has custody of the records of that office. The public office shall require that employee to acknowledge receipt of the copy of the public records policy.

Lastly, maintaining organized documentation and support for financial transactions is essential in assuring the Council's financial statements are accurately presented and that all expenditures are made for a proper public purpose.

**SOUTH CENTRAL OHIO COMPUTER ASSOCIATION REGIONAL COUNCIL OF GOVERNMENTS
PIKE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2016 AND 2015**

The following documents were not maintained by the Council. Therefore, the related financial transactions lacked sufficient supporting documentation:

- Records retention schedule.
- Written evidence that the records custodian received the Public Records Policy.
- 941 Employer tax return forms for both fiscal years 2016 and 2015.
- Federal, state, and/or retirement withholding forms for three of eight employees tested in fiscal year 2015.
- Salary notices for two out of 19 employees testing in fiscal year 2015.
- Eight invoices ranging from \$1,557 to \$243,072.
- Board minutes for the “wind-down” board beginning January 1, 2016
- Deposit slips for 13 out of 49 charges for service receipts tested in fiscal year 2016 and for 10 out of 44 tested in fiscal year 2015.
- Signed contracts with stated service amounts for 12 out of 39 charges for service receipts tested in fiscal year 2016 and for 14 out of 44 tested in fiscal year 2015.
- Five of 83 timesheets for Fiscal Officer Sandra Benson.
- Seven of 203 expense reports submitted by certain Council employees.
- Itemized receipts for seven reimbursements to certain Council employees for meals and other items.
- 2,249 of 3,371 detailed receipts or invoice documentation or purchases made on the Council's US Bank credit card, Walmart and Sam's Club credit card, or checks issued.
- Sufficient support for the potential claim against the Council by the Federal Communications Commission included in Note 10 to the Financial Statements. As a result, a disclaimer of opinion was issued.

Regarding the two salary notices and eight invoices noted previously, alternative procedures were performed to provide assurance over proper public purpose.

Failure to maintain organized underlying documentation and support of financial transactions can increase the risk of fraud, inaccurate financial statements, and expenditures that are not for a proper public purpose.

We recommend the Council maintain support for all financial transactions occurring within the Council and that those records be maintained in an orderly manner to support all transactions. Furthermore, we recommend the Council establish a records retention schedule.

FINDING NUMBER 2016-004

**Financial Reporting
Material Weakness**

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; 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 as discussed in AU-C Section 210 paragraphs .A14 & .A16.

The Council does not have internal controls in place to ensure receipts and disbursements are properly classified on the financial statements.

An audit adjustment was made to the June 30, 2016 financial statement to properly record \$1,511,988 in Charges for Services erroneously not recorded on the financial statement.

In addition to the adjustment listed above, we also identified an additional misstatement in 2016 in the amount of \$119,511 that we have brought to the Council's attention.

**SOUTH CENTRAL OHIO COMPUTER ASSOCIATION REGIONAL COUNCIL OF GOVERNMENTS
PIKE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2016 AND 2015**

Lastly, adjustments were made to the 2016 and 2015 notes to the financial statements to add contingency and subsequent event disclosures regarding the Asset Purchase Agreement with the Metropolitan Educational Computer Association and potential claims and/or litigation involving the E-Rate program. The Council prepared the contingency note after the 2016 and 2015 financial statements were initially prepared and presented for audit. However, there was not sufficient appropriate audit evidence to support the estimated contingency amount disclosed as of the date of this report. As a result, a disclaimer of opinion was issued.

By not properly recording transactions, inaccurate financial reports could be disseminated to the governing board and management as well as financial statement readers.

We recommend the Council implement internal control procedures over financial reporting to help ensure the completeness and accuracy of financial information reported within the Council's financial report. The adjustment identified during the audit should be reviewed by the Treasurer to ensure that similar errors are not reported on the financial statements in subsequent years. In addition, the Board of Directors should review the financial statements and note disclosures to identify and correct errors and omissions.

FINDING NUMBER 2016-005

**Segregation of Duties
Material Weakness**

Ohio Admin. Code 117-2-01(D)(4) states, in part, when designing the public office's system of internal control and the specific control activities, management should plan for adequate segregation of duties or compensating controls.

During 2016 and 2015 the following was noted;

- The Fiscal Officer completed all processes related to payroll processing including modifying the employee master file (with no approval), preparing, approving, and generating payroll, and recording and reconciling payroll in the accounting system. Additionally, the Fiscal Officer also completed the record keeping, authorization, maintaining the master vendor files, and reconciling processes related to purchasing and disbursing related to non-payroll processing. As of June 30, 2016, there were no controls or compensating controls (such as review of payment supporting documentation, review of payment reports, etc) in place to prevent and/or detect a misstatement of payroll and nonpayroll expenditures.
- The Secretary completed the authorization (preparing and taking deposits to the bank), reconciling, and receiving cash/deposit processes related to charges for services. The Assistant Director completed the record keeping and authorization (taking deposits to the bank and approving noncash adjustments) processes related to charges for services. The Fiscal Officer, Executive Director, Fiscal Services Coordinator, Assistant Director, and Chief Financial Officer completed the record keeping, authorizing, asset custody, and reconciling processes related to the bank accounts. Although multiple individuals had access to complete the procedures above, which provides a low level of assurance of detecting or deterring fraud; no additional controls or compensating controls (such as consistent review of financial reports or bank statements by the Board, consistent review and authorization by other individuals including supervisors, or consistent assigned duties and approved processes) were in place.

Failure to have proper segregation of duties may result in errors or irregularities or undetected fraud.

We recommend the Council provide for adequate segregation of duties during its payroll, nonpayroll, and charges for services & banking processes. This should include, but not be limited to, ensuring an employee is not capable of accessing all aspects of an account process without proper review or monitoring. We also recommend monitoring of disbursement activity and adjustments via documented reviews of disbursement reports.

**SOUTH CENTRAL OHIO COMPUTER ASSOCIATION REGIONAL COUNCIL OF GOVERNMENTS
PIKE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2016 AND 2015**

FINDING NUMBER 2016-006

Finding for Recovery / Noncompliance

In February 2016, representatives from the Council and the Metropolitan Educational Technology Association (META) Solutions contacted the Auditor of State's Office regarding fraud concerns at the Council. META entered into a management contract with the Council on January 1, 2016, and soon thereafter irregularities were identified. Council and META representatives identified extensive purchases on Council credit cards, including a large amount of Apple purchases by the former Council Executive Director, Shawn Clemmons. They also discovered capital assets were not being properly tracked. There were additional concerns Mr. Clemmons had used the credit card to pay Council invoices but would not provide documentation for purchases to the Finance Department.

The Council was established in 1979 as a voluntary cooperative within the Ohio Education Computer Network, and on July 1, 2012, organized as a Regional Council of Government established in accordance with Ohio Rev. Code Section 167. The Council served between 62-65 governmental entities within 23 counties of south central Ohio. The Council also served a number of non-governmental entities. The Council provided educational services to their members, including E-rate eligible internet access, telecommunication services and other technology services. The Council paid for member services from vendors, including Time Warner Cable, and billed members for their portion.

During the Period, July 1, 2012 through December 31, 2015, Mr. Clemmons charged \$3,871 for personal or other non-Council related transactions on the Council's US Bank credit card issued in his name. One item supported by an original receipt was for food purchased in Ashland, Kentucky. Through our investigation, we did not identify a Council purpose for being in Ashland, Kentucky. We did identify a hotel purchase at the Carter Caves State Resort Park. The purchase of the hotel was on Mr. Clemmons' personal credit card. Also, on 26 occasions, Mr. Clemmons purchased hotel rooms on the Council's US Bank credit card issued in his name; however, we were unable to identify any travel reimbursement or information on Mr. Clemmons' schedule to determine whether the purchase was for Council operations. In addition, we identified \$3,187,385 charged to Mr. Clemmons Council issued US Bank credit card that was not supported by documentation. Approximately \$2.63 million of the unsupported charges were to Time Warner Cable for internet and telecommunication services. Mr. Clemmons contacted Time Warner Cable and was able to obtain invoices and other documentation to support an additional \$1,480,998 in Time Warner Cable expenditures. However, \$1,150,067 in Time Warner Cable expenditures remain unsupported. Due to the lack of documentation maintained by the Council, we were unable to determine whether these cable services and other unsupported expenditures were for purposes related to the Council. The remaining unsupported items included technology, food, hotels and other miscellaneous expenses. The Council paid these unsupported charges.

Mr. Clemmons also received reimbursement payments for mileage during the Period. We identified two reimbursements totaling \$944 that were not supported by a travel reimbursement form; therefore, we could not determine where Mr. Clemmons traveled, the exact mileage, and whether the travel was for purposes related to Council operations. In addition, we identified 10 reimbursement payments totaling, \$982, that do not appear to be for purposes related to Council operations. On two occasions, Mr. Clemmons reported on his travel reimbursement form he traveled to Columbus from the Council on two consecutive days for meetings; however, we identified overnight hotel stays purchased by Mr. Clemmons on the Council's US Bank credit card issued in his name for the night of the first day traveled to Columbus. Therefore, Mr. Clemmons did not return home and then travel back to Columbus the next day, as reported on his travel reimbursement form.

On another occasion, Mr. Clemmons reported on his travel reimbursement form he traveled to Cleveland from the Council for a meeting; however, his schedule indicated he was at a golfing event in Akron. We also identified several travel reimbursements for weekend travel. According to Council personnel, weekend travel would be extremely rare and normally only in emergency situations. Neither Mr. Clemmons' schedule nor the travel reimbursement form identified the need for weekend travel.

**SOUTH CENTRAL OHIO COMPUTER ASSOCIATION REGIONAL COUNCIL OF GOVERNMENTS
PIKE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2016 AND 2015**

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a finding for recovery for public monies illegally expended is hereby issued in the amount of \$1,712,184 against Shawn Clemmons and in favor of the Council.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.*, 120 Ohio St. 47 (1929); 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State, ex. rel. Village of Linndale v. Masten*, 18 Ohio St.3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen.

During the Period, Sandra Benson was the fiscal officer and was responsible for preparing disbursements and maintaining support for expenditures. Accordingly, Ms. Benson and her bonding company, Travelers Casualty and Surety Company of America, will be jointly and severally liable in the amount of \$1,707,331, and in favor of the Council.

FINDING NUMBER 2016-007

Finding for Recovery / Noncompliance

As the fiscal officer for the South Central Ohio Computer Association, Ms. Benson was responsible for preparing disbursements and maintaining support for expenditures. We identified three payments totaling \$1,316 charged on the Council's US Bank credit card issued to two Council departments not supported by detailed receipts or invoice documentation. We also identified 473 items purchased, totaling \$22,805 on three of the Council's Walmart and Sam's Club credit cards that were not supported by detailed receipts or invoice documentation. These three Walmart and Sam's Club credit cards were in the Council's name rather than an individual person's name. The credit cards were used by four Council employees to make purchases. Documentation to identify which employee made purchases on which card was not maintained. Due to the lack of documentation, we were unable to determine whether the expenditures were for purposes related to the Council.

Additionally, we identified three payments totaling \$9,026 that were not supported by detailed receipts or invoice documentation. Due to the lack of documentation, we were unable to determine whether the expenditures were for purposes related to the Council.

Ms. Benson also received travel reimbursements from the Council totaling \$257 that were not supported by documentation. Due to the lack of documentation, we were unable to determine whether the expenditures were for purposes related to the Council.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a finding for recovery for public monies illegally expended is hereby issued in the amount of \$33,404 against Sandra Benson and her bonding company, Travelers Casualty and Surety Company of America, jointly and severally, and in favor of the Council.

**SOUTH CENTRAL OHIO COMPUTER ASSOCIATION REGIONAL COUNCIL OF GOVERNMENTS
PIKE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2016 AND 2015**

FINDING NUMBER 2016-008

Finding for Recovery / Noncompliance

We noted the following employees received travel reimbursements during the Period that were not properly supported by documentation:

<u>Employee Name</u>	<u>Unsupported Amount</u>
Barbara Clemmons	\$ 770
Justin Brewster	141
James Tuggle	345
	<u>\$ 1,256</u>

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public monies illegally expended is hereby issued in the amount of \$1,256 against the identified employees in favor of the Council.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.*, 120 Ohio St. 47 (1929); 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. rel. *Village of Linndale v. Masten*, 18 Ohio St.3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen.

During the Period, Sandra Benson was the fiscal officer and was responsible for preparing disbursements and maintaining support for expenditures. Accordingly, Sandra Benson and her bonding company, Travelers Casualty and Surety Company of America, will be jointly and severally liable in the amount of \$1,256, and in favor of the Council.

FINDING NUMBER 2016-009

Finding for Recovery / Noncompliance

According to Mr. Clemmons' approved employment contract as Executive Director, he had the option to be reimbursed up to 10 vacation days annually at his daily rate of pay. During the Period, Mr. Clemmons received compensation for 20 vacation days; however, his vacation leave balance was only reduced by 10 days. Upon his separation from employment, Mr. Clemmons was compensated for his accrued and unused vacation leave. Mr. Clemmons received compensation for 33.34 days, totaling \$16,670; however, he should only have been compensated for 23.34 days. Mr. Clemmons was over compensated by \$4,667.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public monies illegally expended is hereby issued against Shawn Clemmons in the amount of \$4,667 and in favor of the Council.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. Rel. *Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen.

**SOUTH CENTRAL OHIO COMPUTER ASSOCIATION REGIONAL COUNCIL OF GOVERNMENTS
PIKE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2016 AND 2015**

The fiscal officer, Sandra Benson, was responsible for Council payroll disbursements and maintaining and updating leave balances. Accordingly, Sandra Benson and her bonding company, Travelers Casualty and Surety Company of America, will be jointly and severally liable in the amount of \$4,667, and in favor of the Council.

FINDING NUMBER 2016-010

Finding for Recovery / Noncompliance

Sandra Benson was hired as the Council's fiscal officer, beginning in June 2012, at a rate of \$45 per hour. Ms. Benson was also the treasurer of the Chesapeake Union Exempted Village School District (Chesapeake Union) through August 2012. An examination of hours Ms. Benson recorded on her Council timesheet conflicted with hours Ms. Benson recorded on her Chesapeake Union timesheet. Ms. Benson recorded working 11 hours for the Council on July 2, 2012, from 7:00 am to 6:00 pm. However, Ms. Benson also recorded working eight hours for Chesapeake Union on the same date. In addition, we noted Ms. Benson recorded working 12 hours for the Council on August 9, 2012, from 7:00 am to 7:00 pm. However, Ms. Benson also recorded working eight hours for Chesapeake Union on the same date. Therefore, Ms. Benson received an overpayment of \$720.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public monies illegally expended is hereby issued against Sandra Benson, and her bonding company, Travelers Casualty and Surety Company of America, in the amount of \$720 and in favor of the Council.

Official's Response

We did not receive a response from Officials to the findings reported above.



South Central Ohio Computer Association
175 Beaver Creek Road
P.O. Box 577
Piketon, Ohio 45661

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2016 AND 2015**

Finding Number	Finding Summary	Status	Additional Information
2013-001	Material audit adjustments were necessary to properly reflect the activity of Council.	Not Corrected	Repeated as Finding 2016-004
2013-002 2014-001	The Fiscal Officer did not prepare accurate monthly reconciliations of bank balances to book balances.	Not Corrected	Repeated as Finding 2016-002

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OHIO AUDITOR OF STATE KEITH FABER



SOUTH CENTRAL OHIO COMPUTER ASSOCIATION REGIONAL COUNCIL OF GOVERNMENTS

PIKE COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

This is a true and correct copy of the report, which is required to be filed pursuant to Section 117.26, Revised Code, and which is filed in the Office of the Ohio Auditor of State in Columbus, Ohio.



Certified for Release 6/15/2021

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov