AUDIT REPORT
OF THE
EDUCATIONAL SERVICE UNIT
COORDINATING COUNCIL

SEPTEMBER 1, 2010 THROUGH AUGUST 31, 2011

Issued on May 17, 2012

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

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BACKGROUND

The Educational Service Unit Coordinating Council (ESUCC) was created in statute to coordinate statewide activities of Nebraska's 17 Educational Service Units (ESUs). The governing body for ESUCC consists of one administrator from each ESU. ESUCC came into existence per Neb. Rev. Stat. § 79-1245 (Cum. Supp. 2010) on July 1, 2008. The statutory description and duties of the ESUCC can be found in Neb. Rev. Stat. §§ 79-1245 through 79-1249 (Reissue 2008, Cum. Supp. 2010). According to Neb. Rev. Stat. § 79-1246 (Reissue 2008):

> The Educational Service Unit Coordinating Council shall work toward statewide coordination to provide the most cost-effective services for the students, teachers, and school districts in each educational service unit. ESUCC's duties include, but are not limited to:
> (a) Preparation of strategic plans to assure the cost-efficient and equitable delivery of services across the State;
> (b) Administration of statewide initiatives and provision of statewide services; and
> (c) Coordination of distance education.

Based on the above statutory authority, ESUCC, in its first year of existence starting July 1, 2008, determined that all statewide projects previously offered in partnership by various ESUs would be placed under the umbrella of ESUCC. The ESU hosting the statewide project became known as the "fiscal agent" for that project, now under ESUCC. ESUCC then established agreements with each fiscal agent to continue to provide the services of the project and also established a master services agreement with each ESU enabling them to choose which statewide projects they wanted to participate in. During the fiscal year ended August 31, 2010, ESUCC began a transition away from the fiscal agent organization. This transition took the form of ESUCC contracting with ESU 17 to provide all staff for ESUCC. This was accomplished for the fiscal year ended August 31, 2011, by ESU 17 developing employment contracts with all previous ESUCC project employees including the Executive Director of ESUCC. Thus all ESUCC project employees and ESUCC Executive Director became ESU 17 employees. Through an interlocal agreement, ESUCC agreed to reimburse ESU 17 for all salaries and benefits for these employees. The following is a brief description of each statewide project as they operated during the fiscal year ended August 31, 2011:

- **<u>ESU Professional Development Organization (ESUPDO)</u>**
  ESUPDO serves as a collaborative effort to provide training for ESU employees statewide. Professional development is among the core services identified by State statute for ESUs. ESUCC manages ESUPDO functions as part of the overall general administrative costs and activities of ESUCC. ESUPDO consists of five affiliate groups comprised of ESU employees across the 17 ESUs. These groups are:
  - **Staff Development Affiliate (SDA):** Members are generally responsible for providing staff development for their school districts and have assisted the Nebraska Department of Education (Education) efforts on statewide and local assessment, as well as, school improvement for Nebraska's school districts.
  - **Technology Assistance Group (TAG):** Members provide assistance to school districts in the dissemination and integration of new educational technologies deployed by school districts. Recently, this has included initiatives including learning

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management systems, one-to-one laptop initiatives, as well as, classroom technologies including whiteboards, clickers, and other educational technologies. Additionally, the TAG members may assist districts in the use of new software and computer applications including statewide assessment.

- **Network Operations Committee (NOC):** NOC supports the extensive communications network within and among the ESUs and school districts. NOC provides network security and protocols for their districts and ESUs and ensures the communications network for distance education, internet, email, and internet protocol phones are functioning and secure. Statewide this group establishes common frameworks and capacities for assisting one another to ensure the education network functions well.
- **Instructional Materials (I-Mat):** I-Mat consists of media professionals from across the State. It serves the dual role of providing for and assisting school districts to make use of the statewide I-Mat media as well as the integration of media materials in school districts. Originally, I-Mat served to ensure that school districts had access to educational films, videos, and DVDs. Currently, I-Mat is developing plans for digital delivery of library and media materials. This service is among the core services identified by State statute.
- **ESU Special Populations Directors (ESPD):** This affiliate group consists of the Special Education Directors and staff from across the State. This affiliate group was included in ESUPDO as the need for special education professional development is developed in the age of standards and assessment and the need to develop and share professional development efforts for special education teachers and classroom teachers alike. ESPD is also involved with Education in providing leadership for special education training and support as well as programs such as Response To Intervention (RTI).

- **<u>Distance Education (Formerly the Distance Education Council or DEC)</u>**

Originating with the Distance Education Council formed by legislation in 2006 (LB 1208), distance education is now a responsibility of ESUCC. Neb. Rev. Stat. § 79-1248 (Cum. Supp. 2010) describes the following as part of the effort to build, improve, and maintain the State's distance education network:

a) Providing public access to lists of qualified distance education courses;
b) Collecting and providing school schedules for participating educational entities;
c) Facilitation of scheduling for qualified distance education courses;
d) Brokering of qualified distance education courses to be purchased by educational entities;
e) Assessment of distance education needs and evaluation of distance education services;
f) Compliance with technical standards as set forth by the Nebraska Information Technology Commission (NITC) and academic standards as set forth by the State Department of Education related to distance education;

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(Continued)

g) Establishment of a system for scheduling courses brokered by the Council and for choosing receiving educational entities, when the demand for a course exceeds the capacity as determined by either the technology available or the course provider;
h) Administration of learning management systems, either through the staff of ESUCC or by delegation to an appropriate educational entity, with the funding for such systems provided by participating educational entities; and
i) Coordination with ESUs and postsecondary educational institutions to provide assistance for instructional design for both two-way interactive video distance education courses and the offering of graduate credit courses in distance education.

- **Nebraska ESU Cooperative Purchasing (Coop)**
  Nebraska ESU Cooperative Purchasing provides cooperating purchasing services to ESU member schools throughout the State of Nebraska. Beginning in 1990, Coop operations were directed and supervised via a Board of Control. The Board of Control consisted of eight representatives. Representatives include three ESU Administrators appointed by the ESU Administrators Association (ESUAA), three ESU Board Members appointed by the Nebraska ESU Board Association (NESUBA), and two ESU staff members appointed by the Coop Board of Control. Effective with the July 2008 creation of ESUCC, the same representation is maintained on a Cooperative Purchasing Advisory Committee with ESUCC replacing the role of the ESUAA. The advisory structure for Cooperative Purchasing may be modified in the future to include school and ESU level stakeholders.

- **Instructional Materials (I-Mat)**
  I-Mat also has a long history in providing services statewide for school districts through Nebraska's network of ESUs. For approximately 30 years, the ESUs have worked together to purchase rights to media materials and made those available through local ESUs in a variety of formats. Annually, the I-Mat membership gathers to select titles to propose for purchase at a statewide level. ESUs contribute to the project for the "spring buy" and "special projects" each year. As technology moves forward so does the I-Mat project. Currently, videos are available in physical formats including VHS, DVD, and CD. Additionally, media materials are being digitized and made available as "media on demand" through Discovery Education's "Power Media Plus." This digital format is opening up media materials, once difficult to obtain, to schools across the State. Additionally, the project works to match media to specific standards and is making media searchable for the most appropriate classroom use.

- **My E-Learning (MyE)**
  My E-Learning is a statewide project to make an online learning management system available to school districts, teachers, and students. The mission of MyE is "to implement an asynchronous web-based learning management system to ensure statewide accessibility to: 1) expanded educational opportunities for all K-12 students; and 2) timely delivery of staff development opportunities." MyE is staffed by a director and one

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(Concluded)

additional staff and also is guided by an advisory board consisting of ESU and school district (users) representatives. Currently, MyE supports the ANGEL Learning Management System and a support system for Moodle is in development. Recent statistics indicate that there are approximately 40,000 user accounts in use by 160 entities (schools and ESUs) across the State. The service is provided with user contracts and fees.

- **Special Education (SPED) Projects**
  The purpose of the SPED Project is for participating parties to pool their resources in connection with the special education services and for the training of special education teachers and other staff members employed by educational institutions within the State. Each participating ESU contributes a $5,000 annual fee in general support of the projects and, additionally, each participating school is assessed a fee for services provided under the Student Records System (SRS) fee structure. There are three special education projects:
  - **Improving Learning for Children with Disabilities (ILCD):** ILCD is a State self-assessment Project that gathers information for Federal reporting requirements. The ILCD Project utilizes parent, teacher, and administration survey assessments. The survey results can be accessed via the ILCD website. The ESUs technology role includes purchasing, distributing, and scanning surveys. ESU staff provides technical assistance for the ILCD website and survey design.
  - **Project PARA:** Project PARA is a web-based method for school districts to provide introductory training for their paraeducators. Project PARA assists schools in meeting the paraeducator training requirements of No Child Left Behind, Rule 11, and the Individuals with Disabilities Education Act (IDEA). Project PARA is a collaborative effort between the University of Nebraska, the Nebraska Department of Education, and Nebraska ESUs.
  - **Student Records System (SRS):** SRS is an online special education record keeping system. It creates all special education documents required by Rule 51, including Individual Education Program (IEP), Multidisciplinary Evaluation Team (MDT), Individualized Family Service Plan (IFSP), and all required notices. SRS is a highly secure system that organizes and stores documents and provides easy access to files from anywhere via the internet. SRS training is provided across the State for district staff and college and university staff.

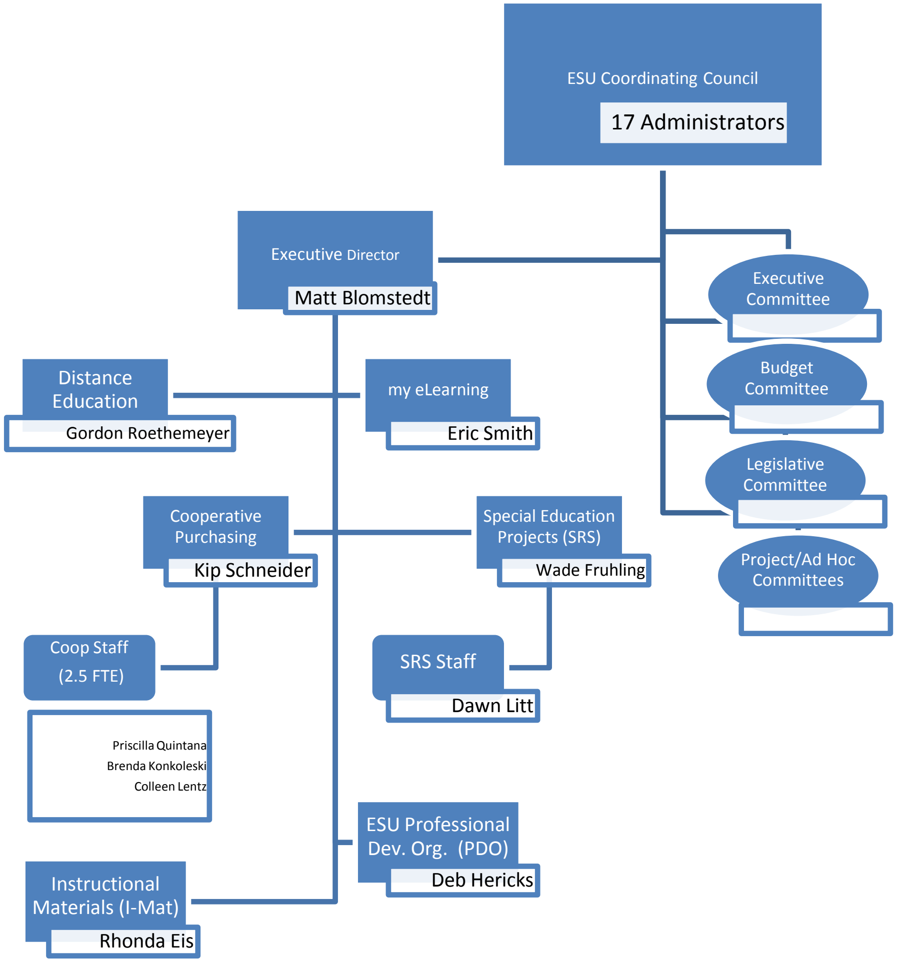
EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

MISSION STATEMENT

The mission of ESUCC is to provide the most cost effective educational support for the students, teachers, and school districts in each Nebraska educational service unit by facilitating statewide coordination of educational services and strategic planning.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

ORGANIZATIONAL CHART



EXIT CONFERENCE

An exit conference was held May 4, 2012, with the Educational Service Unit Coordinating Council to discuss the results of our examination. Those in attendance for ESUCC were:

NAME	TITLE
Matthew Blomstedt	Executive Director
Marge Beatty (Via Teleconference)	President
Dennis Radford (Via Teleconference)	Treasurer
Jan Foster (Via Teleconference)	ESU 17 Bookkeeper
Dennis Pool (Via Teleconference)	President-Elect

SUMMARY OF COMMENTS

During our audit of the Educational Service Unit Coordinating Council (ESUCC), we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here.

1. ***Organizational Structure and Internal Control Systems:*** ESUCC is made up of several statewide projects; therefore, documents were not always in a central location. A lack of segregation of duties exists throughout the organization since staff is spread out amongst the various projects. There was also a lack of policies and procedures to govern ESUCC's payroll, expenditures, revenues, travel, and capital assets.

2. ***Contractual Employees:*** Several findings were noted in this area as follows: a lack of segregation of duties overall; several timesheets were not approved properly; leave time was not being properly calculated; and the retirement calculation was not being properly calculated. Overall, there was a lack of policies and procedures.

3. ***Expenditures:*** Our review noted an overall lack of segregation of duties including: lack of a documented review of payment approval, a lack of policies and procedures, documentation of management's review of the bank reconciliation, bank statements, and the general ledger. We also noted several contract issues which included: several contracts did not go through the competitive bidding process, no basis for selecting the vendor for several contracts, no documented legal review on contracts, and no termination clause included in several contracts. Lastly, issues involving travel expense reimbursements: inadequate support for the reimbursements, lack of original receipts, and lack of approval of the reimbursements.

4. ***Revenues:*** Deposits were not being made in a timely manner and a lack of segregation of duties existed.

5. ***Capital Assets:*** Policies and procedures were not in place to govern capital assets.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to ESUCC to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next audit.

COMMENTS AND RECOMMENDATIONS

1. Organizational Structure and Internal Control Systems

As described in the Background Section of this report, the organizational structure ESUCC operated under from its inception on July 1, 2008, through the fiscal year ended August 31, 2010, was essentially an umbrella organization made up of several statewide projects. This umbrella organization was based on all statewide projects previously offered in partnership by various Educational Service Units (ESUs) on July 1, 2008. The ESU hosting the statewide project became known as the "fiscal agent" for that project, now under ESUCC. ESUCC then established agreements with each fiscal agent to continue to provide the services of the project.

Beginning in September 2010, as also noted in the Background Section of this report, ESUCC started the process of transitioning from a decentralized entity with multiple locations for accounting and administrative functions to a more centralized entity with one location for accounting and payroll functions. This was accomplished by ESUCC by contracting with ESU 17 in Ainsworth, Nebraska to provide all accounting and payroll functions for ESUCC. In addition, effective September 2011, ESUCC transitioned all ESUCC project employees to ESU 17 employees. This transition took the form of ESUCC contracting with ESU 17 to provide all staff for ESUCC. This was accomplished by ESU 17 developing employment contracts with all previous ESUCC project employees including the Executive Director of ESUCC. Thus all ESUCC project employees and the ESUCC Executive Director became ESU 17 employees. Through an interlocal agreement ESUCC agreed to reimburse ESU 17 for all salaries and benefits for these employees.

Due to the decentralized organizational structure and internal control system established by ESUCC at its inception on July 1, 2008, the Auditor of Public Accounts (APA) has made Comments and Recommendations to the ESUCC to improve on their organizational structure and internal control systems the past two audits. ESUCC has implemented some of our recommendations; however, during the fiscal year ended August 31, 2011, there were four issues remaining uncorrected for the current audit, they are as follows:

a. Because of the current organizational structure, which remains somewhat decentralized, it continues to be difficult for the ESUCC Board and Executive Director to be involved in the day to day administrative review and approval process.

b. Documentation of transactions was not readily available and, was not always adequately maintained.

c. There was a lack of segregation of duties, as noted in Comments 2 through 4 below, which would likely be corrected if there were some cross-training of accounting and payroll positions, as well as an adequate review process completed and documented.

d. There were no formalized policies and procedures for ESUCC as a whole. (Per discussion with the Executive Director, ESUCC is currently still in the process of building formal policies and procedures. This process began in the fall of 2010 and the actual start of the adoption of the policies and procedures began on March 2, 2011).

COMMENTS AND RECOMMENDATIONS
(Continued)

1. **Organizational Structure and Internal Control Systems** (Concluded)

A good internal control system requires some centralization of administrative responsibilities and management's involvement in reviewing and approving transactions, the ability to adequately segregate duties and pay all payroll expenses appropriately, as well as the establishment of formalized policies and procedures. Without good internal control systems that include these elements, there is an increased risk of errors, fraud, waste, or abuse occurring and not being detected. Some specific errors were noted as a result of the current internal control systems as described in Comments 2 through 4 below.

> We recommend ESUCC continue improving their internal control systems. There should also be a process to ensure adequate and complete documentation is maintained, segregation of duties is in place, and policies and procedures for ESUCC as a whole are formalized and adopted.

ESUCC's Response: The ESUCC will continue to address formalizing policies and procedures that best address the nature and processes of the organization, the internal control system and such matters including segregation of duties as the APA recommends.

2. **Contractual Employees**

We noted during the review of the payroll process ESUCC had eleven employees, which includes the ESUCC Executive Director, working on ESUCC projects. These eleven employees were officially ESU 17 employees. This was accomplished through an interlocal agreement with ESU 17. The interlocal agreement also stipulates the employees are under the direct supervision of ESUCC.

In payroll testing, we noted multiple findings in both the processing of payroll and the policies of ESUCC for processing payroll and for personnel policies in general. The findings are outlined below.

The contract between ESUCC and ESU 17 for employees was not dated when signed and does not state what the duration of the time period is for the contract.
ESUCC and ESU 17 approved and signed an interlocal agreement that contracted ESU 17 employees to work on ESUCC projects, and, in return, ESUCC would pay ESU 17 the cost of the employees' payroll. We noted on the agreement that the signers did not date when they signed the contract and the agreement does not specifically state the time period in which the contract is valid.

Good business practices require that contracts be dated and state the duration of the time period the contract covers.

When a contract is not dated and does not specifically state the time period in which the contract is valid, the contract may not be binding or a party in the contract may not be in compliance with the contractual agreement.

2. Contractual Employees (Continued)

> We recommend ESUCC ensure contracts are dated by the signer when signed and the contract states the time period for which the contract is valid.

Employees are being paid in advance for half the pay period.
When ESUCC transitioned into its new system of payroll for the fiscal year ended August 31, 2011, the pay date for ESUCC project employees was set up to be paid monthly on the 15th to match the system already in place by ESU 17. Instead of setting it up to pay the previous month's pay on the 15th, payroll was set up to pay employees the current month's pay on the 15th. This meant that, on the date of pay, the wages for the second half of the month were paid prior to being earned by the employees.

Neb. Rev. Stat. § 79-1245 (Cum. Supp. 2010) defines ESUCC as "*a political subdivision and a public body corporate and politic of this state*" and further states, "*The council shall have the duties, privileges, immunities, rights, liabilities, and disabilities of a political subdivision.*"

Article III, Section 19, of the Nebraska Constitution states, "*The Legislature shall never grant any extra compensation to any public officer, agent, or servant after the services have been rendered nor to any contractor after the contract has been entered into, except that retirement benefits of retired public officers and employees may be adjusted to reflect changes in the cost of living and wage levels that have occurred subsequent to the date of retirement.*"

The Nebraska Supreme Court in *Myers v. Nebraska Equal Opportunity Commission*, 255 Neb. 156, 163, 582 N.W.2d 362, 367(1998) (quoting *Matter of Mullane v McKenzie*, 269 N.Y. 369, 377, 199 N.E. 624, 627 (1936)) explained the meaning of extra compensation by stating, "*A payment of compensation to a public servant constitutes extra compensation whenever there is no legal obligation to pay such compensation*." If an employee has not worked half a pay period, then there is no legal obligation to pay the compensation for that half of the pay period, therefore, making the pay extra compensation.

Attorney General Opinion No. 95063 (Aug. 9, 1995) further explains Article III, Section 19's prohibition of extra compensation by stating, "*As we state in Op. Att'y Gen. No. 94064 (August 22, 1994), the purpose of state constitutional provisions such as Art. III §19 which prohibit extra compensation to public employees after services are rendered is to prevent payments in the nature of gratuities for past services.*"

The Nebraska Supreme Court also states in *Retired City Civilian Employees Club of City of Omaha v. City of Omaha Employees' Retirement System et al.*, 199 Neb. 507, 512, 260 N.W.2d 472, 475 (1977), "*Appellants, by inference, contend that the prohibition contained in Article III, Section 19, Constitution of Nebraska, applies only to the state as an entity and has no*

2. Contractual Employees (Continued)

application to a political subdivision thereof……We hold the prohibition contained in Article III, Section 19, Constitution of Nebraska, applies to the state and to all ***political subdivisions*** *thereof.*" [Emphasis added] Therefore, as a political subdivision of the State of Nebraska, Article III, Section 19 applies to ESUCC and the payment of extra compensation is strictly prohibited.

When salaries and benefits are paid to employees before earned there is a potential for noncompliance with the Nebraska Constitution and a potential overpayment of an employee if after the payroll, the employee would leave the position unexpectedly or not work the required number of days.

> We recommend ESUCC adjust the pay period so that the pay date comes after the employees have earned their pay and completed timesheets for the pay period.

Approved timesheets are not reviewed prior to processing payroll.
For a timesheet, ESUCC requires its contracted employees to submit monthly time certification calendars at the end of each month. These calendars would then be reviewed and approved by the ESUCC Executive Director. Payroll is processed in the middle of the pay period before the employees have submitted their time certification calendars. This means no review of timesheets is done prior to payroll being processed.

Good business practices require reviewing and approving timesheets for a pay period prior to the employee being paid for that time period.

When timesheets are not reviewed prior to payroll being processed there is a greater risk for overpayment of payroll for time not worked by the employee.

> We recommend ESUCC review all timesheets prior to processing payroll.

There is a lack of segregation of duties in the payroll process.
Only one employee has access to the Harris Fund Accounting program used to process payroll at ESU 17 for the ESUCC project employees, and there isn't adequate review of the payment requests submitted by ESU 17 to ESUCC for reimbursement of payroll costs for the ESUCC project employees. In addition, only one employee has access to the AccountEdge system used by ESUCC to process payroll reimbursement payments to ESU 17, and there is not adequate review of the payroll reimbursement entries after they are entered into ESUCC's general ledger. ESUCC's Executive Director also uses an electronic signature stamp to approve payroll calendars; however, other employees also have access to this stamp.

Good business practices require a complete segregation of duties for internal control.

2. <u>Contractual Employees</u> (Continued)

When there is a lack of segregation of duties or when an electronic stamp is being used without the supervisor's permission, there is a greater risk of asset misappropriation.

> We recommend ESUCC develop a proper segregation of duties by ensuring a documented detail supervisory review of payroll records before the payroll is processed and restrict access to the Executive Director's electronic signature stamp to only the Executive Director.

For one of two employees tested, five of twelve timesheets were not approved by a supervisor. For one employee, five of twelve time certification calendars for the fiscal year ended August 31, 2011 were not signed by a supervisor. These months were September, November, May, June, and August.

Good business practices require that timesheets should be approved by an employee's supervisor and the approval should be documented.

When timesheets are not approved by a supervisor, there is a potential misstatement of timesheets or potential overpayment or underpayment of payroll for time not worked or time worked not documented by the employee or misstatements in leave balances.

> We recommend ESUCC ensure timesheets have been reviewed and approved by the employee's supervisor prior to processing payroll and ensure the Administrator of ESU 17 and the Executive Director of ESUCC both sign off on timesheets prior to processing payroll.

For one of two employees tested, one of twelve timesheets was not signed by the employee. One employee did not sign their time certification calendar for July 2011.

Good business practices require that employees should certify their timesheets and this should be documented with a signature.

When timesheets are not signed by the employee, there is a potential for misstatement of time recorded on the timesheet, resulting in potential overpayment or underpayment of payroll to the employee or misstatements in leave balances.

> We recommend ESUCC ensure timesheets have been reviewed and signed by the employees prior to processing the employee's payroll for the month.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. <u>Contractual Employees</u> (Continued)

For both the employees tested, leave time was calculated incorrectly.
Sick time taken by one employee was not entered into the software program utilized by ESUCC and ESU 17 to keep track of leave time for employees. The employee's balance of sick time in the system was over what it should have been. Another employee used two days of sick time; however, it was double entered into the system leaving the employee's balance two days short of what it should have been.

Good business practices require leave balances for employees should be calculated correctly and the calculation should be reviewed to ensure accuracy.

When leave time is calculated incorrectly, there is a potential over usage of leave time by employees and potential contract violations from not granting the appropriate amount of leave time each year.

> We recommend ESUCC develop a review procedure to ensure leave time usage is entered into the system correctly when entered manually or transitioning to a leave system where leave time usage would electronically be enter into the system.

Retirement contributions were being calculated on ineligible income from insurance premiums converted into cash payments.
In the place of employer paid health insurance premiums, ESUCC provided ESUCC project employees with additional income from a 125 Plan to help cover the costs of health care coverage. With this insurance plan, the income offset by health insurance premium costs can be used in calculating retirement contributions for an employee. If the health insurance costs do not completely offset the 125 Plan income, then the extra amount is considered a premium converted into cash and is ineligible to be included in the calculation of the retirement contributions.

Neb. Rev. Stat. § 79-902(35)(b) (Supp. 2011) provides: *"Compensation does not include (i) fraudulently obtained amounts as determined by the retirement board, (ii) amounts for unused sick leave or unused vacation leave converted to cash payments, (iii) insurance premiums converted into cash payments, (iv) reimbursement for expenses incurred, (v) fringe benefits, (vi) bonuses for services not actually rendered, including, but not limited to, early retirement inducements, cash awards, and severance pay, or (vii) beginning on September 4, 2005, employer contributions made for the purposes of separation payments made at retirement and early retirement inducements as provided for in section 79-514."*

ESUCC was including the total amount of the 125 Plan income, including the excess over health insurance premium costs, in the calculation for retirement contributions. The total overpayment amount for retirement contributions is $13,081.43, with $6,508.15 being overpaid by the employees and $6,573.28 being overpaid by ESUCC. We calculated the following amounts per employee for overpayment:

2. <u>Contractual Employees</u> (Continued)

	Employee Overpayment	Employer Overpayment
Employee 1	$ 0.00	$ 0.00
Employee 2	$ 655.92	$ 662.55
Employee 3	$ 1,311.84	$ 1,324.96
Employee 4	$ 350.38	$ 353.84
Employee 5	$ 1,261.96	$ 1,274.54
Employee 6	$ 189.33	$ 191.22
Employee 7	$ 833.35	$ 841.74
Employee 8	$ 425.39	$ 429.61
Employee 9	$ 305.26	$ 308.30
Employee 10	$ 1,174.72	$ 1,186.52
Employee 11	$ 0.00	$ 0.00
Total	**$ 6,508.15**	**$ 6,573.28**

When retirement contributions are calculated on ineligible income from insurance premiums converted into cash payments, ESUCC is potentially in noncompliance with State statute.

> We recommend ESUCC work with the State Retirement System to determine whether the 125 Plan Income in excess of health insurance costs should be used in the calculation for retirement contributions. In addition, if it is determined excess retirement contributions were made, ESUCC should also work with the State Retirement System to correct the overpayments made.

For both employees tested, there was not adequate documentation on file showing the ESUCC Board specifically approved the salary amount each employee was being paid.
Minutes from the September 8, 2010, ESUCC Board meeting show the total amount of salary expenses per ESUCC project were approved. However, there is no documentation showing employees' individual salaries being approved by the Board. In addition, individual documentation of the salaries did not occur until after the Board approved the collective amount reported for the budget process.

Good business practices require salaries be approved individually for employees rather than as a whole, and adequate documentation should be maintained showing board approval of the employees' salaries.

When there is not adequate documentation on file showing the ESUCC Board specifically approved the salary amount each employee was being paid, there is a greater risk of salaries and benefits being paid which are not in accordance with Board directives.

> We recommend the ESUCC Board approve each employee's salary individually and adequately document the process.

2. <u>Contractual Employees</u> (Continued)

Policies are not properly documented by ESUCC for granting general (vacation) leave time to employees.
General (vacation) leave is determined informally each year by the Executive Director of ESUCC. However, policies and procedures for this process have not formally been adopted or documented by ESUCC.

Good business practices require documenting procedures and policies for determining the amount of leave time granted to employees each fiscal year.

When policies are not properly documented by ESUCC for granting general (vacation) leave time to employees, there is a greater risk for over/under-allocation of general (vacation) time to employees.

> We recommend ESUCC establish and document the criteria and process for granting employees general (vacation) leave time.

Formal policies and procedures are not in place for monitoring employees' progress in completing their required number of work days per their contract with ESU 17, and no policies and procedures are in place for corrective measures if an employee does not complete the required number of work days per their contract with ESU 17.
We noted the ESUCC Executive Director informally checks in with the Business Manager at ESU 17 towards the end of the fiscal year to learn the progress of the number of work days each employee has worked and then follows up with ESUCC project employees to ensure they meet the required number of work days as outlined in each ESUCC project employee's employment contract with ESU 17. However, there is no formal process of monitoring in place, and ESUCC has not adopted policies and procedures on how to handle situations where an employee has not worked the required amount of work days per their employment contract.

Good business practices require having formal policies and procedures for monitoring employees' progress of completing their required number of work days.

When formal policies and procedures are not in place for monitoring employees' progress in completing their required number of work days, there is a greater risk of overpayment of wages to employees or noncompliance by the employee with their employment contract.

> We recommend ESUCC develop documented policies and procedures to monitor employees' progress towards working the required work days per their employment contract with ESU 17 and establish corrective procedures should an employee not work the required amount of work days per their employment contract.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. <u>Contractual Employees</u> (Continued)

ESUCC lacks formal policies and procedures for the supervision of it contractual employees for ESUCC projects.
ESUCC is still developing its own policies and procedures for ESUCC project employees being contracted from ESU 17. While ESUCC project employees are technically ESU 17 employees, the contract between ESUCC and ESU 17 states that ESUCC is in charge of supervising and overseeing the contracted employees.

Good business practices require formal policies and procedures be in place to supervise contractual employees when the contract states the entity is responsible for supervising the employees.

When there is a lack of formal policies and procedures for the supervision of its contractual employees for ESUCC projects, there is a greater risk Board directives may not be followed in accordance with the work performed by the ESUCC project employees.

> We recommend ESUCC formally adopt personnel policies and procedures.

Errors were noted in the payroll journal entries in AccountEdge.
We noted multiple offages in the amounts recorded monthly for payroll costs in AccountEdge compared to the actual amounts paid to ESUCC project employees recorded in the Harris Fund Accounting program used to process payroll by ESU 17. This was due to errors in the billing process between ESU 17 and ESUCC for the payroll costs of salaries and benefits of the ESUCC project employees and a lack of adequate review by the ESUCC of the payment requests submitted to the ESUCC by ESU 17 for the payroll costs. Errors noted in billing included a double billing in the month of October and other smaller errors due to ESU 17 only basing each month's payroll off the first paystub of ESUCC's 2011 fiscal year. Offages totaled to an overpayment of $62,865.07 from ESUCC to ESU 17.

Good business practices require payroll journal entries to accurately reflect actual payroll costs incurred.

When the amount of payroll costs is billed incorrectly and a lack of adequate review of payment requests for payroll costs exists, ESUCC faces a risk of over/underpaying payroll costs.

> We recommend ESUCC and ESU 17 work together to determine a plan to correct the offages in AccountEdge from the billing errors for payroll costs for the ESUCC project employees. Additionally, we recommend ESUCC develop formal policies and procedures to ensure an adequate review of payment requests submitted to ESUCC by ESU 17 for the payroll costs of the ESUCC project employees is performed.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Contractual Employees (Concluded)

ESUCC's Response: The ESUCC management will work with ESU 17 to resolve employee contracts, timing of payroll, leave time, payroll offages and other policies and procedures as recommended by the APA. Additionally, the ESUCC will work with ESU 17 and the State Retirement System to determine appropriate retirement contributions.

3. Expenditures

During our review of ESUCC's expenditures/accounts payable process and our testing of selected transactions, we noted the following:

A. There is a lack of segregation of duties over the expenditures/accounts payable process. The lack of segregation of duties arises as one person has the ability to receive purchased items, approve the invoice for payment, prepare payment voucher, and reconcile documents to the general ledger. We also noted only one employee has access to the accounting system software utilized by ESUCC, and other employees are not cross-trained to do the employees duties if the employee is unable to work. The ESUCC Executive Director also uses an electronic signature stamp to approve expenditures. Other employees of ESUCC have access to the electronic stamp, which creates a risk to the segregation of duties.

   A good internal control plan requires there be an adequate segregation of duties over the expenditures and accounts payable processes.

   When segregation of duties does not exist there is a greater risk of fraud and misuse of funds.

   > We recommend ESUCC review their staffing and assignments to determine if an adequate segregation of duties can be obtained so no one individual would be able to process a transaction from being to end. We also recommend ESUCC assign unique user IDs and passwords for the accounting software to other employees and cross-train them to use the program. ESUCC should also limit the use of the Executive Director's electronic signature stamp to only the Executive Director.

B. We noted ESUCC's policy is to have dual signatures on all checks issued; however, the Executive Director's signature is printed on the check by the business manager during the printing process while ESUCC's Board Treasurer manually signs the checks. Our testing of expenditures supported our observation that all 25 checks issued, had only the ESUCC's Board Treasurer's signature on them.

   A good internal control plan would include a requirement that all checks have actual dual signatures.

   When checks do not have dual signature as required by Board procedures, there is greater risk of fraud and misuse of funds.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. <u>Expenditures</u> (Continued)

> We recommend ESUCC review their procedures and organizational structure and determine if actual dual signatures on the checks can be accomplished rather than one printed signature. Matters to consider should be: who would be able to review the documentation to determine that it is adequate, who is physically located where the checks are printed so they could be signed, and who should be given the responsibility and authority by the Board to sign checks.

C. ESUCC uses a claim form to approve expenditures for payment. For 17 of 25 expenditures tested, there was no claim form on file to approve the expenditures. These 17 expenditures related to coop purchasing expenditures.

A good internal control plan would include a requirement that all claim forms be signed by authorized personnel.

When approved claim forms are not completed there is greater risk that expenditures will not be in accordance with Board policies and greater risk of fraud and misuse of funds.

> We recommend a claim form be prepared and signed by the Executive Director, or his authorized representative, in accordance with current Board policies.

D. It was noted that ESUCC does not have policies or procedures to follow up on old outstanding checks.

A good internal control plan would include a requirement that old outstanding checks be followed up on a regular basis. ESUCC might consider the following policies regarding old outstanding checks: a procedure to review for old outstanding checks on a regular basis; a procedure to follow-up on old outstanding checks, and a procedure to determine when old outstanding checks should be cancelled and monies turned over to the Nebraska State Treasurer as unclaimed property in accordance with the Uniform Disposition of Unclaimed Property Act---Neb. Rev. Stat. § 69-1301 through 69-1332.

When policies and procedures to follow up on old outstanding checks are not available for staff there is a greater risk that they may not be detected and a greater risk ESUCC may not be in compliance with the Uniform Disposition of Unclaimed Property Act.

> We recommend ESUCC develop policies regarding the identification and follow-up for old outstanding checks.

E. In our review of the bank reconciliation/bank statement process and the review of the general ledger reports process, we noted the processes did include a process to review the bank reconciliation/bank statements and general ledger report by management but that review was not documented.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. <u>Expenditures</u> (Continued)

A good internal control plan would include a requirement that reviews performed be documented.

When procedures performed are not documented there is no support the procedure was performed and who performed that procedure.

> We recommend the review of bank reconciliation/bank statements and general ledger reports by management be documented.

F. We reviewed 23 ESUCC contracts and noted the following:

- ESUCC has a committee to review all bid proposals for Coop Annual Buys; however, there is no final review and approval of the committee's bidding documentation and recommendation by ESUCC's Coop Purchasing Director.

  A good internal control plan would include a requirement that all approved committee bid proposals be reviewed and approved by the Coop Purchasing Director.

  Without such a review there is a greater risk that all ESUCC bidding requirements may not be met.

  > We recommend the Coop Purchasing Director review and approve all bidding documentation prepared by the Coop Buy Committee.

- For five contracts tested, there was no competitive bidding conducted for services and products. ESUCC staff indicated that these vendors were sole source vendors and, as such, the competitive bidding process did not apply. However, there was a lack of documentation showing the basis for those vendors being truly sole source vendors.

  A good internal control plan would include a requirement that the basis for sole source determination be documented to support that the competitive bidding process would not be required.

  When this documentation is not prepared there is a greater risk the ESUCC may not be given all potential bidders an opportunity to submit a bid proposal and that ESUCC may not be receiving the lowest possible price for its services and products.

  > We recommend that ESUCC considers a vendor to be a sole source then documentation should be prepared to support that decision. If a sole source vendor cannot be supported, then the

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Expenditures (Continued)

> service or goods being purchased should go through the ESUCC formal bidding process. The final review and approval of this process should be completed by the Coop Purchasing Director.

- For 23 contracts tested, there was no documentation of a legal review being performed prior to the signing of the contract.

  A good internal control plan would include a requirement that all contracts have a legal review.

  When a legal review is not documented for contracts entered into, there is a greater risk that all legal contractual requirements would not be considered and included in the contract; resulting in possible unnecessary litigation and disputes with vendors.

  > We recommend ESUCC document the legal review performed prior to final approval and signing of all contracts.

- For one expenditure tested for legal services, there was no contract or agreement with the law firm for the legal service to be provided. In our review of a billing statement from the law firm to ESUCC for services provided, we noted it did indicate what service they provided but it did not include the hours or the cost per hour rate by each type of service provided. It simply had the total to be paid. Therefore, we were unable to tell if the amount paid was appropriate.

  A good internal control plan would include a requirement that ESUCC enter into a contractual arrangement for legal services and that the contractual arrangement entered into contains a requirement that service provided include the rate per hour that will be charged, and that rate per hour be included on the invoices by each type of legal service provided.

  When there is no contractual arrangement for legal services which requires the rate per hour by each type of service provided to be identified in billing statements, it is more difficult to determine if the billing statement is accurate and complete.

  > We recommend ESUCC develop a contractual arrangement for legal services that includes an agreed upon hourly rate for services and an agreement that requires billings to include hours, per hour, and rate type of legal services provided.

3. Expenditures (Continued)

- For four contracts tested there was no termination clause included in the contract.

  A good internal control plan would include a requirement that a termination clause be included in all contracts. A termination clause protects ESUCC's interest during the period of the contract.

  When a termination clause is not included in all contracts, ESUCC is at risk of being legally liable should they exit a contract.

  > We recommend ESUCC include in all of its contracts a termination clause.

G. We reviewed 17 travel related expenditure documents and noted the following:

- Although ESUCC has informal travel policies and procedures, ESUCC does not have formal policies and procedures officially adopted and approved by the ESUCC Board relating to travel expenses and reimbursements. (It should be noted that since ESUCC does not have formal policies and procedures related to the payment of travel related expenses the APA performed its testing procedures based on the policies outlined for travel in the State of Nebraska's Department of Administrative Services, State Accounting Manual).

  A good internal control plan would include adopting formal policies and procedures relating to expensing and reimbursing items for travel.

  Lack of formal policies and procedures for travel can potentially lead to payment of unallowable or unnecessary expenses.

  > We recommend ESUCC adopt formal policies and procedures that address the requirements for travel expenses, including but not limited to policies and procedures related to the exceptions noted in this comment.

- For 7 of 15 travel expenditures tested, auditors were unable to trace the dates and locations of events requiring travel adequately to supporting documentation or were unable to agree dates back to supporting documentation. Six of the seven expenditures in question lacked supporting documentation in the form of official conference/training agendas, meeting minutes, travel logs, etc. This is due to a lack of formal policies and procedures relating to travel expenditures. Additionally, one of seven expenditures in question involved a consultant on contract who incurred expenses for reimbursement prior to the contract date.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Expenditures (Continued)

A good internal control plan would require information listed on travel expense reimbursement forms be supported by adequate documentation agreeing with the dates, locations, and amounts listed on the reimbursement form. Good business practices require only expenses incurred after the contract date be reimbursed.

When travel expense reimbursement forms are not adequately supported there is a greater risk of improper travel reimbursement being made and when travel expenses are paid before the beginning of the contact period those expenses may not be allowable expenses to reimburse.

> We recommend ESUCC implement the use of employee travel logs that document travel locations, dates, meal purchases, and other expenses incurred while traveling. The policies and procedures should also provide requirements for the items listed on the travel log be supported by adequate documentation in the form of agendas, receipts, invoices, and other relevant supporting documentation. We recommend ESUCC develop policies and procedures requiring consultants to officially be on contract prior to incurring expenses related to the contract.

- For 5 of 12 travel expenditures tested involving mileage reimbursements, auditors were unable to verify mileage reimbursements were reasonable based on the most direct route of travel. There is a lack of supporting documentation to adequately identify the locations of events requiring travel.

A good internal control plan would require adequate supporting documentation of mileage incurred for work travel purposes.

When there is a lack of adequate documentation for mileage incurred, there is greater risk for fraud or abuse of travel expenses.

> We recommend ESUCC ensure policies and procedures provide requirements for documenting mileage in a travel log which would be turned in along with the reimbursement request and other supporting documentation verifying the location of the work event.

- For 5 of 9 travel expenditures tested with meal and lodging reimbursements, meals over $5 were not adequately documented with detailed receipts. Documentation for these meals was provided in the form of credit card slips or bank printouts or was not provided at all.

3. **<u>Expenditures</u>** (Continued)

Good business practices require meal reimbursements over $5 be supported by detailed receipts in order to be approved for reimbursements.

When meals over $5 are not adequately documented with detailed receipts, there is greater risk for expense reimbursement abuse.

> We recommend ESUCC develop policies and procedures requiring employees to submit detailed receipts along with the travel reimbursement request as well as submitting a meal log itemizing the entire meal expenses for the employees.

- For 2 of 9 travel expenditures tested with miscellaneous expenses, a detailed itemized receipt or invoice was not on file for miscellaneous reimbursable expenses. In one reimbursement, $29 worth of miscellaneous expenses did not have any supporting documentation on file to support the expense. For another reimbursement, one of three miscellaneous expenses listed on the reimbursement form was documented with an employee's bank account printout instead of a detailed receipt or invoice.

  Good business practices require verifying the cost of miscellaneous expenses with a detailed receipt or invoice prior to reimbursing the expense.

  When a detailed itemized receipt or invoice is not provided for miscellaneous reimbursable expenses there is a greater risk for expense reimbursement abuse.

> We recommend ESUCC develop policies and procedures to require itemized receipts for all miscellaneous reimbursable expenses.

- For 3 of 5 travel expenditures tested involving in-state hotels; sales, use, and lodging taxes were inappropriately paid for in-state hotel/lodging reimbursements.

  We noted this was mainly caused by not direct billing in-state hotel accommodations to ESUCC.

  A good internal control plan would require having policies and procedures to ensure the entity does not inappropriately pay taxes for in-state hotel/lodging accommodations.

  When sales, use, and lodging taxes are inappropriately paid for in-state hotel/lodging reimbursements; more expenses are being paid than would be required.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. <u>Expenditures</u> (Continued)

> We recommend ESUCC develop policies and procedures to ensure in-state hotel/lodging accommodations for traveling ESUCC project employees are directly billed to ESUCC to avoid the inappropriate payment of taxes for in-state lodging.

- For 3 of 15 travel expenditures tested, the expenditures were not properly approved by an appropriate member of management and/or the Board prior to expensing. One of the travel expenditures in question did not have a signature of approval from the ESUCC Executive Director on the reimbursement request form. This is likely due to an inadequate review of expense documents by ESUCC management prior to processing for payment. For the other two travel expenditures tested, a contract outlining the agreement between ESUCC and a consultant for reimbursement of travel expenses and fees was not properly approved by the Board.

  A good internal control plan would require the proper approval of expenditures, which includes an adequate review process and established approval guidelines for consultant contracts.

  When procedures are not in place to require the proper approval of expenditures, there is a greater risk for fraud or abuse.

> We recommend ESUCC improve the review process for expenditure documents and develop standard approval procedures for contracts with outside consultants.

- For 5 of 17 expenditures tested, the expenses were improperly coded or not identified properly in AccountEdge. The miscoding is due to inadequate account organization in AccountEdge, ESUCC's accounting software program, manual entry of expenditures into the accounting system, a lack of review of expenses after they have been entered into the accounting systems, the grouping of multiple reimbursements into one accounting system entry, and inadequate reimbursement request forms that do not list expenses individually for proper identification.

  A good accounting plan requires expenses be properly coded to the correct accounts and be properly identified when being entered into the accounting system.

  When transactions are miscoded the financial records used by management maybe misleading.

> We recommend ESUCC continue to streamline their chart of accounts used in AccountEdge journal entries.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. <u>Expenditures</u> (Concluded)

- Two travel expense reimbursement requests were not submitted in a timely manner, or within sixty days. We noted both travel expenses reimbursement requests included multiple reimbursement requests. One included two requests for reimbursement over sixty days and one included three requests for reimbursement over sixty days. The untimely submission is due to the decentralized nature of the offices and location of the ESUCC project employees, a lack of formal and consistent policies and procedures pertaining to submitting reimbursement requests for travel and general non-travel expenses, and entering multiple reimbursements into one expense entry on AccountEdge.

  A good internal control plan would require that requests for expense reimbursements be submitted in a timely manner in order to ensure proper documentation, review, and payment of the reimbursement.

  When requests for expense reimbursements are not submitted in a timely manner there is a greater risk of errors and it is more likely that proper documentation for reimbursement would not be available.

  > We recommend ESUCC develop formal, consistent policies for the submission of reimbursement requests to minimize the number of locations the ESUCC project employees are stationed out of, and to only have one reimbursement request per journal entry when entering the expense onto AccountEdge.

ESUCC's Response: The ESUCC will continue to develop and implement policies and procedures as recommended by the APA. Many of the recommendations are currently being implemented to ensure consistent and appropriate practices in reviewing expenditures. The ESUCC continues to refine organizational structures and employee duties to address segregation of duties as recommended. The ESUCC will continue to develop policies and procedures to address contracts, Cooperative Purchasing bid processes, general expense reimbursements, and general administration and accounting.

4. <u>Revenues</u>

In our review of the revenue process and test of revenue transactions we noted the following:

- A lack of segregation of duties for the revenues/receipts for ESUCC. One person had the ability to receive checks and record initial control. Another person has the ability to perform the deposit entry and reconcile the deposit document to the general ledger. ESUCC had multiple review processes in place; however, documentation of these reviews was inadequate.

- Deposits were not made in a timely manner – within 3 to 5 days – for 7 of 20 receipts tested.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. <u>Revenues</u> (Concluded)

- A 2% late fee assessed by ESUCC, for coop purchasing late payments, could not be located in ESUCC's policies, procedures, or Board minutes.

A good internal control plan involves adequate segregation of duties and adequate documentation of reviews performed to ensure no one person is in a position to both perpetuate and conceal errors or irregularities, includes a plan to have deposits made in a timely manner and includes a plan to ensure fees are approved by the Board.

When there is a lack of segregation of duties and deposits are not made timely there is a greater risk of error or fraud and misuse of funds. When fees are not approved by the Board they may not be in accordance with Board policies.

> We recommend ESUCC put in place controls that effectively decreases the chance of fraud and misuse of funds, and that ESUCC document these controls with signatures, dates, e-mails etc. We further recommend deposits be made timely and fees, fines, and penalties all be included in the ESUCC's policies and procedures and approved by the Board.

ESUCC's Response: The ESUCC management will work to development and implement controls as recommended. Additionally policies and procedures will be reviewed and presented for formal approval of the Board as recommended.

5. <u>Capital Assets</u>

There was no formal system in place to track capital assets of ESUCC for all of the fiscal year. There were no policies or procedures in place to govern capital asset additions, deletions, useful life, or depreciation method for the fiscal year.

A good internal control plan requires a system be in place to track capital assets in order to decrease the risk that assets of ESUCC will be lost or stolen. A good internal control plan requires policies and procedures to ensure capital assets are being recorded properly.

Without the above noted elements of a good internal control plan and good business practices in place, there is an increased risk fraud, waste, or abuse will occur.

> We recommend the ESUCC Board continue to implement a strong internal control plan which would include policies and procedures for capital assets.

ESUCC's Response: The ESUCC management has developed and implemented an inventory system and will develop policies and procedures for capital assets for formal approval by the Board as recommended by the APA.

COMMENTS AND RECOMMENDATIONS
(Continued)

ESUCC's General Response & Overview: The ESUCC continues to develop and implement policies and procedures to which address the general comments and recommendations of the APA. The ESUCC has undertaken a substantial effort to restructure and centralize activities of the ESUCC. This audit represents the first audit review of those efforts that were initiated in the three or four months preceding the beginning of fiscal year 2010-11. A more detailed plan will be developed by ESUCC management to implement specific recommendations. The ESUCC appreciates the recommendations offered by the APA.

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Educational Service Unit Coordinating Council

We have audited the accompanying financial statements of the governmental activities and the general fund of the Educational Service Unit Coordinating Council, as of and for the year ended August 31, 2011, which collectively comprise the Educational Service Unit Coordinating Council's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Educational Service Unit Coordinating Council's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ESUCC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described in Note 1, Educational Service Unit Coordinating Council, prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously present fairly, the respective financial position-modified cash basis of the Educational Service Unit Coordinating Council as of August 31, 2011, and the respective changes in financial position-modified cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2012, on our consideration of the Educational Service Unit Coordinating 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 is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparison Schedule on pages 31 through 36 and 49 through 50 are not a required part of the basic financial statements but are supplementary information. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Educational Service Unit Coordinating Council's basic financial statements. The combining schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SIGNED ORIGINAL ON FILE

May 7, 2012

Don Dunlap, CPA
Assistant Deputy Auditor

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Educational Service Unit Coordinating Council (ESUCC) provides the following discussion and analysis of ESUCC's financial performance, as reflected in the financial report for the fiscal year ended August 31, 2011. Please read it in conjunction with ESUCC's basic financial statements, which follow.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to ESUCC's financial statements. The provisions of Statement No. 34 ("Statement 34") of the Governmental Accounting Standards Board (GASB), "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments," established standards for external financial reporting for all state and local government entities. These standards require three components for ESUCC's basic financial statements. They are: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements. This report also contains other supplementary information (e.g., combining schedules), required supplementary information (e.g., budgetary information) in addition to the basic financial statements. These components are described below:

Government-wide Financial Statements

These statements are intended to provide a broad view of ESUCC's operations in a manner similar to the private sector, providing both a short-term and a long-term view of ESUCC's financial position. ESUCC prepared its government-wide statements on the accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual, i.e., are both measurable and available, and expenditures are recorded when the liability is incurred. Accordingly, ESUCC's government-wide financial statements are not intended to present the financial position and results of operations in conformity with generally accepted accounting principles (GAAP) accepted in the United States of America. The government-wide financial statements include two statements, the Statement of Net Assets and the Statement of Activities.

The *Statement of Net Assets* (page 37) presents all of ESUCC's assets and liabilities on the cash and modified accrual basis as described above with the difference between the two reported as "net assets."

The *Statement of Activities* (page 38) presents information showing how ESUCC's net assets changed during the reported year. Changes reported are on the cash and modified accrual basis as described above. The statement of activities demonstrates the degree to which the direct expenditures of a given function or segment are offset by program revenues. Direct expenditures are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Appropriations and other items not properly included among program receipts/revenues are reported, instead, as general revenues.

Fund Financial Statements
This is the second set of financial statements presented in the report. Under GAAP these statements would be different from the government-wide statements in that these statements would use a different accounting approach and focus on the near-term inflows and out flows of ESUCC operations.

ESUCC has only one fund, the general fund. GAAP classifies funds into three categories- Governmental Funds, Proprietary Funds, and Fiduciary Funds. The general fund of an entity is classified as a Governmental Fund, as it accounts for all basic services. The Fund Financial Statements, which can be found on pages 39 and 40, provide detailed information about ESUCC's general fund. A fund is a method of accounting that uses a set of accounts to maintain accountability and control over specific sources of funding and spending for a particular activity or objective. GAAP requires governmental funds to use the modified accrual basis of accounting.

The six projects that make up the general fund in addition to ESUCC Administration are: ESU Professional Development Organization (ESUPDO), Nebraska ESU Cooperative Purchasing Unit (Coop), Distance Education, My E-Learning (MyE), Instructional Materials (I-Mat), and Special Education Projects (SPED).

Notes to the Financial Statements
The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in all of the basic financial statements. The notes can be found beginning on page 41.

Required Supplementary Information
Following the basic financial statements and the accompanying notes thereto, is additional Required Supplementary Information that further explains and supports the information in such financial statements. The required supplementary information consists of the budgetary schedule and notes.

Other Supplementary Information
Other supplementary information consists of combining schedules. This information can be found on page 51.

FINANCIAL AND OPERATING HIGHLIGHTS

ESUCC's Net Assets for the fiscal year ended August 31, 2011, compared to the fiscal year ended August 31, 2010, increased by $579,782. This increase is primarily due to the timing of receipts and expenditures of Cooperative Purchasing because of activities of the annual buy process. The table below provides a more detailed picture of the changes in net assets.

FINANCIAL ANALYSIS OF ESUCC AS A WHOLE

Net Assets

ESUCC's assets totaled $4,516,528 at August 31, 2011, as compared to $4,727,083 at August 31, 2010. Total liabilities totaled $2,193,052, net assets amounted to $1,963,476 as of August 31, 2011. As of August 31, 2010, these amounts were $3,343,389 and $1,383,694, respectively.

Restricted net assets are subject to external restrictions or enabling legislation on how they can be used. The restricted net assets of $1,383,694 as of August 31, 2011, was restricted for the member equity according to past practice of the project and may be used to help defray costs of the provision of the service or investment in cooperative purchasing project by member ESUs.

	Net Assets As of August 31	
	2011	**2010**
ASSETS:		
Cash and Cash Equivalents	$ 3,028,277	$ 3,102,586
Accounts Receivable	1,125,908	1,622,743
Prepaid Items	2,343	1,754
Total Assets	4,156,528	4,727,083
LIABILITIES	2,193,052	3,343,389
NET ASSETS:		
Restricted	1,383,694	835,142
Unrestricted	579,782	548,552
Total Net Assets	$ 1,963,476	$ 1,383,694

As of August 31, 2011, 73% of ESUCC's assets consisted of cash and cash equivalents. This compares to 66% as of August 31, 2010. The majority of the remaining assets consist of accounts receivable at the Nebraska ESU Cooperative Purchasing Unit in the amount of $1,125,908 and $1,622,743 as of August 31, 2011, and 2010, respectively. The difference between the two years is generally a result of timing of receipts and expenditures of the annual buy project of Cooperative Purchasing.

ESUCC's liabilities consist primarily of liabilities at the Nebraska ESU Cooperative Purchasing Unit in the amount of $2,193,052 and $3,343,389 as of August 31, 2011, and 2010, respectively. The difference in liabilities year to year also varies based on the annual buy project.

ESUCC's net assets were $1,963,476 and $1,383,694 as of August 31, 2011, and 2010, respectively. ESUCC's net assets may vary based on receipts and expenditures in Cooperative Purchasing as well as other ESUCC projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Changes in Net Assets
The condensed financial information below was derived from the government-wide Statement of Activities and reflects how ESUCC's net assets changed during the year. Following the table is management's analysis of the changes in net assets for the fiscal year ended August 31, 2011.

Changes in Net Assets

	Fiscal Year Ended August 31, 2011	Fiscal Year Ended August 31, 2010
Revenues:		
Program Revenues		
Charges for Services	$ 6,533,389	$ 6,858,317
Operating Grants and Contributions	18,435	357,873
General Revenues:		
State Appropriations	580,647	483,893
Penalties and fees	99,098	72,018
Interest Income	720	2,288
Miscellaneous	64	5,961
Total Revenues	7,232,353	7,780,350
Expenditures:		
ESU Professional Development	377,675	615,210
Distance Education Council	257,120	270,960
My E-Learning	238,489	353,053
Special Education	396,369	500,947
Instructional Materials	235,927	265,635
Nebraska ESU Cooperative	5,146,991	5,337,661
Total Expenditures	6,652,571	7,343,466
Change in Net Assets	579,782	436,884
Net Assets - Beginning	1,383,694	946,810
Net Assets - Ending	$ 1,963,476	$ 1,383,694

Receipts/Revenues
The largest single source of receipts/revenues for ESUCC is charges for services. Charges for services are primarily revenues generated by the Nebraska ESU Cooperative Purchasing Unit for services provided to ESUs and school districts and program receipts/revenues for the various projects. Charges for Services for the fiscal year ended August 31, 2011, were $6,533,389 and for the fiscal year ended August 31, 2010, were $6,858,317. Some or all of the change between the two periods reflects the timing of Cooperative Purchasing revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

The second largest source of receipts/revenues is generated by general receipts/revenues. The general receipts/revenues were primarily made up of State appropriations for 2% of core services funding, but also included capital grants. General receipts/revenues for the fiscal year ended August 31, 2011, were $680,529 and for the fiscal year ended August 31, 2010, were $564,160. Some or all of the change between periods is the availability of general revenues from state appropriations as well as grant sources supporting ESUCC projects.

Expenditures
The largest single purpose of expenditures for ESUCC were expenditures for goods and services expended by the Nebraska ESU Cooperative Purchasing Unit for goods and services which are then provided to ESUs and school districts. Disbursements/expenditures for these services for the fiscal year ended August 31, 2011, were $5,146,991 and for the fiscal year ended August 31, 2010, were $5,337,661. Some or all of the changes between periods reflect the level of participation in Cooperative Purchasing's annual buy.

The remaining expenditures for ESUCC relate primarily to the various other programs managed by ESUCC. Disbursements for various programs for the fiscal year ended August 31, 2011, were $1,505,580 and for the fiscal year ended August 31, 2010, were $2,005,805. Decreases in disbursements for other programs managed by the ESUCC included changes in strategic management, prioritization of program services, and an overall reduction in program spending.

ANALYSIS OF ESUCC'S GENERAL FUND VARIATIONS

The table below provides a comparison of budgeted revenues and expenditures to actual revenues and expenditures.

	Budget	Actual	Positive (Negative) Variance
Beginning Balance	$ 996,566	$ 1,383,694	$ (387,128)
Total Revenues	10,523,444	7,232,353	(3,291,091)
Total Expenditures	10,744,610	6,652,571	4,092,039
Net Increase (Decrease)	(221,166)	579,782	(800,948)
Ending Balance	$ 775,400	$ 1,963,476	$ (1,188,076)

The largest variance between budgeted and actual revenues was Local Revenues which were budgeted to be $9,928,114, but were actually $6,533,389. The majority of this variance can be explained primarily by the ESU Coop which typically experiences large fluctuations each year between budgeted and actual figures due to the high volume of purchases that can be made.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

The largest variances between budgeted and actual expenditures were due to the Coop Annual Buy and the Coop Special Buy which had budgeted $6,500,000 and $1,950,000 respectively, but incurred actual costs of $4,519,832 and $273,654 respectively. Again, this is due to the ESU Coop's large fluctuations described above.

FACTORS THAT WILL AFFECT THE FUTURE

Several factors influence the future of ESUCC and its projects. Projects that are based on conditions of ESUs and school districts as far as purchasing of products and services tend to vary depending on the levels of participation in Cooperative Purchasing, My eLearning, and professional development. General economics have created an environment where schools and ESUs have fewer resources available to buy goods and services. Additionally, State appropriations have been reduced for support of ESUCC and the Distance Education program. These reductions will impact overall resources available for the foreseeable future. Long-term trends may include further strategic reorganization of projects and services to address the likelihood of a decrease in future resources.

CONTACTING ESUCC'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers a general overview of ESUCC's finances and to demonstrate ESUCC's accountability for the money with which it is entrusted. If you have questions about this report or need additional financial information, contact Matthew L. Blomstedt, Executive Director, Educational Service Unit Coordinating Council, 455 South 11th Street, Suite C, Lincoln, Nebraska 68508. The telephone number is (402) 499-6756 and email address is matt@esucc.org.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

STATEMENT OF NET ASSETS

August 31, 2011

		Governmental Activities
ASSETS		
Cash and Cash Equivalents	$	3,028,277
Accounts Receivable		1,125,908
Prepaid Items		2,343
Total Assets		4,156,528
LIABILITIES		2,193,052
NET ASSETS		
Restricted		1,383,694
Unrestricted		579,782
Total Net Assets	$	1,963,476

The accompanying notes are an integral part of the financial statements.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended August 31, 2011

		Program Revenues		Net (Expenditures), Revenues, and Changes in Net Assets
	Expenditures	Charges for Services	Operating Grants and Contributions	Total Governmental Activities
FUNCTIONS/PROGRAMS:				
Primary Government				
ESU Professional Development	$ 377,675	$ 52,132	$ 18,435	$ (307,108)
Distance Education Council	257,120	86,381	-	(170,739)
My E-Learning	238,489	564,600	-	326,111
Special Education	396,369	356,339		(40,030)
Instructional Materials:				
General Administration	41,935	233,452	-	191,517
I-Mat Spring Buy	65,156		-	(65,156)
I-Mat Special Project	8,035		-	(8,035)
Power Media Plus Services	120,801		-	(120,801)
Nebraska ESU Cooperative Purchasing:				
General Administration	353,505	-	-	(353,505)
Coop Annual Buy	4,519,832	5,240,485	-	720,653
Special Buy	273,654	-	-	(273,654)
Total Governmental Activities	$ 6,652,571	$ 6,533,389	$ 18,435	(100,747)
General Revenues:				
State Appropriations				580,647
Penalties and Fees				99,098
Interest Income				720
Miscellaneous				64
Total General Revenues				680,529
Change in Net Assets				579,782
Net Assets - Beginning				1,383,694
Net Assets - Ending				$ 1,963,476

The accompanying notes are an integral part of the financial statements.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCE
GOVERNMENTAL FUND

August 31, 2011

	General Fund
ASSETS:	
Cash and Cash Equivalents	$ 3,028,277
Accounts Receivable	1,125,908
Prepaid Items	2,343
Total Assets	$ 4,156,528
LIABILITIES AND FUND BALANCE:	
Liabilities	$ 2,193,052
Fund Balance	
Reserved	1,383,694
Unreserved	579,782
Total Fund Balance	1,963,476
Total Liabilities and Fund Balance	$ 4,156,528

The accompanying notes are an integral part of the financial statements.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Fiscal Year Ended August 31, 2011

	General Fund
REVENUES:	
Local	$ 6,533,389
State	591,582
Federal	7,500
Penalties and Fees	99,098
Miscellaneous	784
Total Revenues	7,232,353
EXPENDITURES:	
Purchased Services (Note 6)	1,321,917
General Administration	178,494
Supplies and Equipment	48,932
Capital Outlay	12,321
Miscellaneous	44,556
I-Mat	3,812
NOC	17,937
SDA	20,031
SPED	15,546
TAG	1,547
I-Mat Spring Buy	65,156
I-Mat Special Project	8,035
Power Media Plus Services	120,801
Coop Annual Buy	4,519,832
Coop Special Buy	273,654
Total Expenditures	6,652,571
Excess of Revenues Over (Under) Expenditures	579,782
Fund Balance - Beginning	1,383,694
Fund Balance - Ending	$ 1,963,476

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Organization

The Educational Service Unit Coordinating Council (ESUCC) was created in statute to coordinate statewide activities of Nebraska's 17 Educational Service Units (ESUs). The governing body for ESUCC consists of an administrator representative from each of the 17 ESUs and an executive director. ESUCC was created by 2007 Neb. Laws LB 603 and officially came into existence according to statute on July 1, 2008. Neb. Rev. Stat. § 79-1246 (Reissue 2008) outlines ESUCC's general responsibilities and duties as follows:

> The Educational Service Unit Coordinating Council shall work toward statewide coordination to provide the most cost-effective services for the students, teachers, and school districts in each educational service unit. ESUCC's duties include, but are not limited to:
>
> (a) Preparation of strategic plans to assure the cost-efficient and equitable delivery of services across the State;
>
> (b) Administration of statewide initiatives and provision of statewide services; and
>
> (c) Coordination of distance education.

Previous to the creation of ESUCC by the Nebraska Legislature, the 17 ESUs worked in partnership to provide statewide activities. Based on the above statutory authority, ESUCC decided that all statewide activities offered in partnership by the ESUs would be placed under the umbrella of ESUCC. In order to transition to the new structure, ESUCC established a master services agreement with each ESU. Additionally, fiscal agents for each of the projects were continued in the transition to ESUCC. Although identified separately in the "ESUCC Admin and Professional Development Organization" column of the Combining Schedule, ESUCC reports the general administrative costs of ESUCC overall along with the ESUPDO project costs. During the fiscal year ended August 31, 2010, ESUCC began a transition away from the fiscal agent organization. This transition took the form of ESUCC contracting with ESU 17 to provide all staff for ESUCC. This was accomplished for the fiscal year ended August 31, 2011, by ESU 17 developing employment contracts with all previous ESUCC project employees including the Executive Director of ESUCC. Thus all ESUCC project employees and ESUCC Executive Director became ESU 17 employees. Through an interlocal agreement ESUCC agreed to reimburse ESU 17 for all salaries and benefits for these employees.

The following is a brief description of each statewide project budgeted for and administered by ESUCC:

- **ESU Professional Development Organization (ESUPDO):** The ESUPDO serves as a collaborative effort to provide statewide training for ESU employees statewide. Professional development is among the core services identified by State statute for ESUs.

1. **Summary of Significant Accounting Policies** (Continued)

- **Distance Education:** Originating with the Distance Education Council formed by legislation in 2006 and evolving to a program under ESUCC. The State's distance education director is housed at ESU 10. Neb. Rev. Stat. § 79-1248 (Cum. Supp. 2010) describes the objectives of the project as an effort to build, improve and maintain the State's distance education network.

- **Nebraska ESU Cooperative Purchasing (Coop):** Nebraska ESU Cooperative Purchasing provides cooperating purchasing services to Educational Service Unit Member schools throughout the State of Nebraska. The Nebraska ESU Cooperative Purchasing's director and operations are housed at ESU 17 (Ainsworth).

- **Instructional Materials (I-Mat):** I-Mat is a statewide project that purchases rights to media materials and makes those available through local ESUs in a variety of formats. The staff member for I-Mat is housed at ESU 5 (Beatrice).

- **My E-Learning (MyE):** My E-Learning is a statewide project to make available an online learning management system to school districts, teachers, and students. My E-Learning staff are housed at ESU 3 (Omaha).

- **Special Education (SPED) Projects:** There are three special education projects managed by ESUCC in its Lincoln offices. The purpose of the SPED Project is for participating parties to pool their resources in connection with the special education services and for the training of special education teachers and other staff members employed by educational institutions within the State of Nebraska.

B. Reporting Entity

ESUCC is a governmental entity established under and governed by the laws of the State of Nebraska. In evaluating how to define ESUCC for financial reporting purposes, all potential component units have been considered. The basic – but not the only – criteria for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. Based upon the above criteria, the accompanying financial statements include all funds for which ESUCC has oversight responsibility. ESUCC does not have any component units and has only one fund – the General Fund.

1. **Summary of Significant Accounting Policies** (Continued)

C. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide and fund financial statements. The reporting model based on GASB Statement 34 focuses on ESUCC as a whole in the government-wide financial statements and major individual funds in the fund financial statements. The government-wide financial statements report information on all of the activities of the primary government and any component units. ESUCC has just one fund – the General Fund – and has no component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately.

The statement of activities demonstrates the degree to which the direct expenditures of a given function or segment are offset by program revenues. Direct expenditures are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Appropriations and other items not properly included among program receipts/revenues are reported instead as general receipts/revenues.

D. Fund Types

The accounts of ESUCC are organized on the basis of funds. ESUCC has only one governmental fund type – the General Fund.

E. Basis of Accounting

ESUCC prepares its financial statements, both its governmental-wide and fund statements, on the modified cash basis of accounting. Under the modified cash basis of accounting, ESUCC has modified the cash basis of accounting to record accounts receivables, as such revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. ESUCC has modified the cash basis of accounting to record accounts payables, as such expenditures are recorded when the liability is incurred. Under Generally Accepted Accounting Principles (GAAP) the government-wide financial statements would be prepared using the full accrual basis of accounting. The governmental fund statements would be prepared on the modified accrual basis of accounting, consequently, these financial statements are not intended to present financial information in accordance with GAAP.

1. <u>Summary of Significant Accounting Policies</u> (Continued)

F. Cash and Cash Equivalents

In addition to ESUCC's bank account, this classification includes all short-term investments such as certificates of deposit, repurchase agreements, and U.S. obligations guaranteed as to principal by the U.S. Treasury and U.S. agency and instrumentalities having original maturities of one year or less as invested with the Nebraska Public Agency Investment Trust (NPAIT). These investments are valued at amortized cost, which approximates fair value due to the short-term nature of the investments.

G. Receivables

Receivables are stated without estimated allowances for uncollectible amounts. This determination is based upon past collection experience and current economic conditions. Historically ESUCC has not experienced any uncollectible accounts.

H. Basis of Presentation

ESUCC adopted the provisions of Statement No. 34 ("Statement 34") of the Government Accounting Standards Board (GASB), "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." Statement 34 established standards for external financial reporting for all state and local government entities, which includes government-wide financial statements, fund financial statements, and the classification of net assets into three components – (a) invested in capital assets, net of related debt; (b) restricted; and (c) unrestricted. The ESUCC reported only restricted and unrestricted net assets.

I. Net Asset Classification

Government-Wide Statements:

Net Assets are displayed in two components:

1) Restricted net assets – Consists of net assets with constraints placed on the use either by a) external groups such as creditors, grantors, contributors or laws, and regulations of other governments, or b) law through constitutional provisions or enabling legislation. ESUCC had restricted net assets in the Nebraska ESU Cooperative Purchasing, which consisted of members' equity in the amount of $1,383,694. This amount is restricted by an agreement with each member ESU of the Coop project.

2) Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. <u>Summary of Significant Accounting Policies</u> (Concluded)

It is ESUCC's policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balances are further classified as reserved or unreserved. Reservations of fund balances are established to identify the existence of assets that are not available for subsequent year appropriations or have been legally segregated for specific purposes. ESUCC had reservations of fund balance in the Nebraska ESU Cooperative Purchasing, in the amount of $1,383,694 which is reserved as members' equity.

J. Fixed Assets

Assets purchased by ESUCC are recorded as capital outlay disbursements. These financial statements do not include a statement of general fixed assets, which is required by generally accepted accounting principles.

K. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. <u>Deposits and Investments</u>

Listed below is a summary of the deposit and investment portfolio that comprises the Cash and Cash Equivalents on ESUCC's August 31, 2011, basic financial statements.

Deposits – Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. At August 31, 2011, ESUCC's carrying amount of deposits was $(50,839) and the bank balance was $50,224.

The deposits at August 31, 2011, were covered by Federal Depository Insurance Corporation (FDIC). However, at certain times during the year deposits were not fully covered by FDIC or secured by collateral.

Investments – State statute authorizes ESUCC's Board to invest funds in securities, the nature of which individuals of prudence, discretion, and intelligence acquire or retain in dealing with property of others.

2. **Deposits and Investments** (Concluded)

ESUCC has chosen to invest its available cash reserves in the Nebraska Public Agency Investment Trust (NPAIT). The NPAIT was established in June 1996 through the Interlocal Cooperation Act, and commenced operations July 25, 1996. NPAIT was established to assist public bodies throughout the State of Nebraska with the investment of their available cash reserves. Participation in the investment trust is voluntary for its members. The objective of NPAIT is to provide its owner members with a conservative and effective investment alternative tailored to the needs of its members. NPAIT portfolio management generally follows established investment criteria developed by the Securities and Exchange Commission (SEC) for money market funds designed to offer acceptable yield while maintaining liquidity. NPAIT is not registered with the SEC as an investment company. For a copy of the most recent audit report for NPAIT, contact Matthew L. Blomstedt, Executive Director, Educational Service Unit Coordinating Council, 455 South 11th Street, Suite C, Lincoln, Nebraska 68508. The telephone number is (402) 499-6756 and email address is matt@esucc.org.

NPAIT may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. Agency and Instrumentalities and in bank repurchase agreements. It may also invest in guaranteed student loans, loans guaranteed by the Small Business Administration, Federal Home Administration, or any other agency of the United States, as well as any other type of investment permitted for public agencies by State law.

Interest Rate Risk – As a means of limiting its members exposure to fair value losses arising from rising interest rates, all of NPAIT's investments have maturities of less than one year.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2011, the latest audit report on NPAIT, NPAIT's investments in government agency securities were rated by Standard & Poor's as AAA.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty, NPAIT will not be able to recover the value of its investment or collateral securities that are in the possession of the outside party. NPAIT has no specific policy as to credit risk. All of the underlying securities for NPAIT investments in repurchase agreements at June 30, 2011, the latest audit report on NPAIT, are held by the counterparties in NPAIT's name.

Concentration of Credit Risk – NPAIT places on limit on the amount that may be invested in any one issuer.

Reconciliation of deposits and NPAIT investments to Cash and Cash Equivalents on the Statement of Net Assets is as follows:

Carrying Value:	
Deposits	$ (50,839)
NPAIT Investments	3,079,116
Cash & Cash Equivalents	$ 3,028,277

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Contingencies and Commitments

Risk Management – ESUCC is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. During the fiscal year, ESUCC chose to purchase the following commercial insurance policies to cover these risks:

	Limit	Deductible
Personal Property Coverage	$ 1,000	$ 500
General Liability	$ 2,000,000	$ -
Employee Benefits Liability (deductible is per employee)	$ 3,000,000	$ 1,000
School Leaders E&O Liability	$ 1,000,000	$ 5,000
Automobile (Non-Owned & Hired) Liability	$ 1,000,000	$ -
Workers Compensation Insurance	$ 500,000	$ -

In addition, the Nebraska ESU Cooperative Purchasing paid premiums to ESU 17 to maintain commercial insurance coverage for each of the above risks of loss.

No insurance claims resulting from these risks were filed during the fiscal year by ESUCC, except for the Nebraska ESU Cooperative Purchasing. Settled claims for the Nebraska ESU Cooperative Purchasing have not exceeded the above coverage in the past three years.

4. School Retirement

ESUCC, through a contractual agreement, contracts with ESU 17 to provide all staff for ESUCC. This was accomplished for the fiscal year ended August 31, 2011, by ESU 17 developing employment contracts with all previous ESUCC project employees including the Executive Director of ESUCC. Thus all ESUCC project employees and the ESUCC Executive Director became ESU 17 employees. Through an interlocal agreement ESUCC agreed to reimburse ESU 17 for all salaries and benefits for these employees. Benefits provided by ESUCC included retirement benefits as ESU 17 employees are eligible to be members of the Nebraska School Employees Retirement System. Thus, ESU 17 contributes to the Nebraska School Employees Retirement System on behalf of ESUCC. The Nebraska School Employees Retirement System is a cost-sharing multiple-employer defined benefit pension plan administered by the Nebraska Public Employees Retirement System (NPERS). Benefits are based on both service and contributions or salary.

The State's contribution is based on an annual actuarial valuation. The employees' contribution was 8.28% of their compensation and ESUCC's contribution was 101% of the employees' contribution for the fiscal year ended August 31, 2011.

4. **School Retirement** (Concluded)

NPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Nebraska School Employees Retirement System. That report may be obtained by writing NPERS, 1221 N Street, Suite 325, P.O. Box 94816, Lincoln, NE 68509-4816.

5. **Lease Commitments**

ESUCC leases office facilities under operating leases. The minimum annual lease payments for operating leases as of August 31, 2011, were as follows:

Year	Governmental Activities
2012	$ 2,874
2013	3,018
2014	3,168
2015	3,327
Total	$ 12,387

Operating lease payments for the year ended August 31, 2011, totaled $12,825.

6. **Reclassification**

Salaries and benefits expenditures were re-classified as purchased services expenditures due to the fact that ESUCC does not have any employees. ESUCC contracts with ESU 17 to provide staffing for ESUCC, therefore making them contract employees. The amount of the adjustment was $882,650. The $882,650 was moved on the financial statements from Salaries and Benefits to Purchased Services.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended August 31, 2011

	Budget (Original/Final)	Actual	Positive (Negative) Variance with Final Budget
REVENUES:			
Local	$ 9,928,114	$ 6,533,389	$ (3,394,725)
State	595,330	591,582	(3,748)
Federal	-	7,500	7,500
Penalties and Fees	-	99,098	99,098
Miscellaneous	-	784	784
Total Revenues	10,523,444	7,232,353	(3,291,091)
EXPENDITURES:			
Purchased Services (Note 2)	487,000	1,321,917	(834,917)
Salaries and Benefits (Note 2)	815,945	-	815,945
General Administration	525,512	178,494	347,018
Supplies and Equipment	33,750	48,932	(15,182)
Capital Outlay	15,000	12,321	2,679
Miscellaneous	-	44,556	(44,556)
I-Mat	13,700	3,812	9,888
NOC	32,700	17,937	14,763
SDA	28,500	20,031	8,469
SPED	45,000	15,546	29,454
TAG	19,400	1,547	17,853
I-Mat Spring Buy	76,500	65,156	11,344
I-Mat Special Project	81,600	8,035	73,565
Power Media Plus Services	120,003	120,801	(798)
I-Mat Ancillary Projects	6,500,000	4,519,832	1,980,168
Coop Annual Buy	1,950,000	273,654	1,676,346
Total Expenditures	10,744,610	6,652,571	4,092,039
Excess Revenues Over (Under) Expenditures	(221,166)	579,782	800,948
Fund Balance - Beginning	996,566	1,383,694	387,128
Fund Balance - Ending	$ 775,400	$ 1,963,476	$ 1,188,076

See Notes to Required Supplementary Information.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. Budget

Budget Process and Property Taxes – ESUCC follows these procedures in establishing the budgetary data reflected in the accompanying statements:

- Public hearings are conducted at public meetings to obtain taxpayer comments.

- Prior to September 20, the budget is legally adopted by the Board through passage of a resolution. Total expenditures may not legally exceed total appropriations. Appropriations lapse at year end and any revisions require Board approval.

2. Reclassification

Budget to Actual has a significant variance due to salaries and benefits expenditures being re-classified as purchased services expenditures due to the fact that ESUCC does not have any employees. ESUCC contracts with ESU 17 to provide staffing for ESUCC, therefore making them contract employees. The amount of the adjustment was $882,650. The $882,650 was reclassified on the financial statements from Salaries and Benefits to Purchased Services.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

COMBINING SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND
For the Fiscal Year Ended August 31, 2011

	ESUCC Admin and Professional Development Organization	Distance Education Council	Instructional Materials	My E-Learning	Special Education	Nebraska ESU Cooperative Purchasing	Total General Fund
REVENUES:							
Local	$ 52,132	$ 86,381	$ 233,452	$ 564,600	$ 356,339	$ 5,240,485	$ 6,533,389
State	285,935	305,647	-	-	-	-	591,582
Federal	7,500	-	-	-		-	7,500
Penalties and Fees	-	-	-	-	-	99,098	99,098
Miscellaneous		-	-	-	-	784	784
Total Revenues	$ 345,567	$ 392,028	$233,452	$ 564,600	$ 356,339	$ 5,340,367	$ 7,232,353
EXPENDITURES:							
Purchased Services	$ 180,631	$ 246,074	$ 34,484	$ 213,042	$ 356,540	$ 291,146	$ 1,321,917
General Administration	125,146	-	-	-	-	53,348	178,494
Supplies and Equipment	-	2,153	6,512	3,970	27,342	8,955	48,932
Capital Outlay	-	2,853	-	9,468	-	-	12,321
Miscellaneous	13,025	6,040	939	12,009	12,487	56	44,556
I-Mat	3,812	-	-	-	-	-	3,812
NOC	17,937	-	-	-	-	-	17,937
SDA	20,031	-	-	-	-	-	20,031
SPED	15,546	-	-	-	-	-	15,546
TAG	1,547	-	-	-	-	-	1,547
I-Mat Spring Buy	-	-	65,156	-	-	-	65,156
I-Mat Special Project	-	-	8,035	-	-	-	8,035
Power Media Plus Services	-	-	120,801	-	-	-	120,801
Coop Annual Buy	-	-	-	-	-	4,519,832	4,519,832
Coop Special Buy	-	-	-	-	-	273,654	273,654
Total Disbursements/Expenditures	$ 377,675	$ 257,120	$ 235,927	$ 238,489	$ 396,369	$ 5,146,991	$ 6,652,571

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
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EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Educational Service Unit Coordinating Council
Lincoln, Nebraska

We have audited the financial statements of the governmental activities and the general fund of the Educational Service Unit Coordinating Council as of and for the year ended August 31, 2011, which collectively comprise Educational Service Unit Coordinating Council's basic financial statements and have issued our report thereon dated May 7, 2012. Our report notes the Educational Service Unit Coordinating Council prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
Management of the Educational Service Unit Coordinating Council is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Educational Service Unit Coordinating Council's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Educational Service Unit Coordinating Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Educational Service Unit Coordinating Council's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the Comments Section of this report we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the Comments Section of this report as Comment Number 1 (Organizational Structure and Internal Control Systems) to be a material weakness.

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 the deficiencies described in the Comments Section of this report as Comment Number 2 (Contractual Employees), Comment Number 3 (Expenditures), and Comment Number 4 (Revenues) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Educational Service Unit Coordinating Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted a certain matter which is described in the Comments Section of this report as Comment Number 5 (Capital Assets).

The Educational Service Unit Coordinating Council's responses to the findings identified in our audit are described in the accompanying Comments Section of this report. We did not audit the Educational Service Unit Coordinating Council's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the ESUCC Board of Directors and management and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

SIGNED ORIGINAL ON FILE

May 7, 2012

Don Dunlap, CPA
Assistant Deputy Auditor