

**AUDIT REPORT
OF THE
EDUCATIONAL SERVICE UNIT
COORDINATING COUNCIL**

SEPTEMBER 1, 2011 THROUGH AUGUST 31, 2012

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Issued on June 12, 2013

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

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EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

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. 2012) on July 1, 2008. The statutory description and duties of ESUCC can be found in Neb. Rev. Stat. §§ 79-1245 through 79-1249 (Reissue 2008, Cum. Supp. 2012). 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 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. The following is a brief description of each statewide project as they operated during the fiscal year ended August 31, 2012:

- **ESU Professional Development Organization (ESUPDO)**

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).
- **Distance Education (Formerly the Distance Education Council or DEC)**
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. 2012) describes the following as part of the effort to build, improve, and maintain the State's distance education network:
 - (1) *Providing public access to lists of qualified distance education courses;*
 - (2) *Collecting and providing school schedules for participating educational entities;*
 - (3) *Facilitation of scheduling for qualified distance education courses;*
 - (4) *Brokering of qualified distance education courses to be purchased by educational entities;*
 - (5) *Assessment of distance education needs and evaluation of distance education services;*
 - (6) *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;*
 - (7) *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;*

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

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- (8) 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*
 - (9) Coordination with educational service units 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 was maintained on a Cooperative Purchasing Advisory Committee with ESUCC replacing the role of ESUAA. The advisory structure for Cooperative Purchasing was recently modified to include input from school and ESU level stakeholders and advisory members serve at the request of the ESUCC Executive Director.
 - **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, 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 may be 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" for the 2011-12 school year and are now made available through Learn360. 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. The evolution of media use continues as the new statewide systems for media are under development.
 - **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 additional staff and also is guided by an advisory board consisting of ESU and school

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district (users) representatives. Currently, MyE supports the ANGEL Learning Management System and a support system for Blackboard, Moodle, and other related services 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.

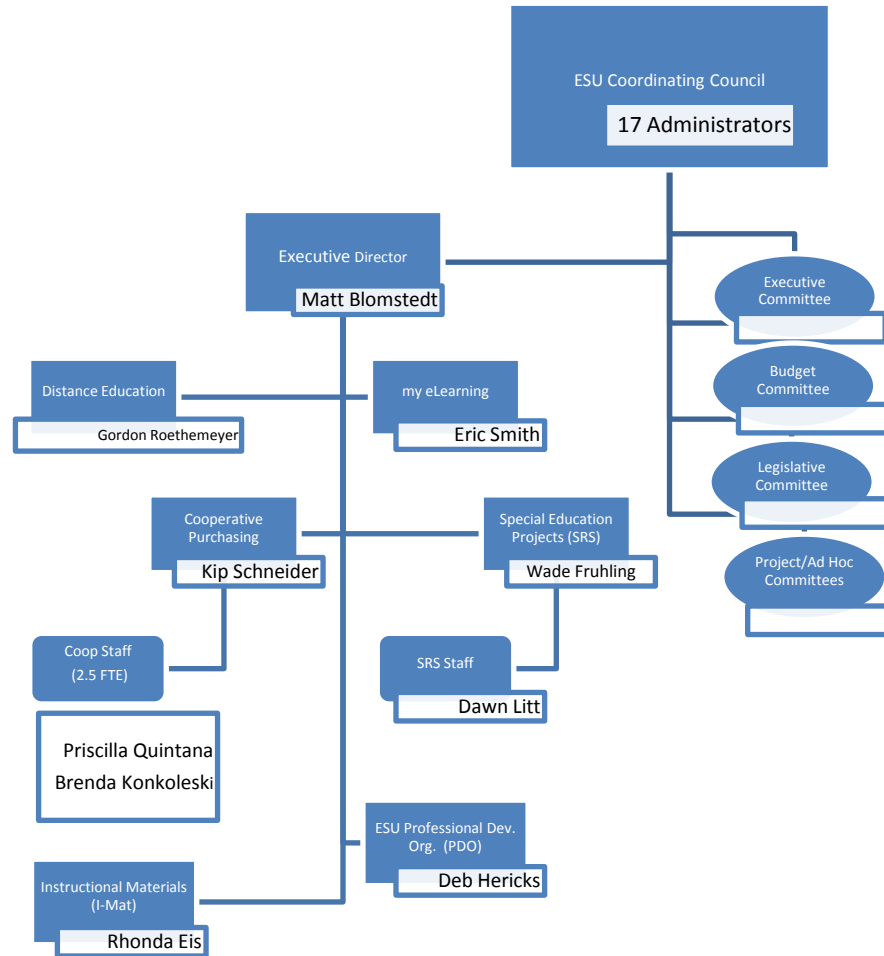
EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

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



EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

EXIT CONFERENCE

An exit conference was held May 31, 2013, with the Educational Service Unit Coordinating Council to discuss the results of our examination. Those in attendance for ESUCC were:

NAME	TITLE
Dennis Pool	President
Dennis Radford	Treasurer
Jeff West (via Teleconference)	President-Elect
Matt Blomstedt	Executive Director

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

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:*** 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 reconciliations, 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 reimbursements, lack of original receipts, lack of approval of the reimbursements, and a lack of timely submission of reimbursement requests.
4. ***Revenues:*** Amounts charged were incorrect per vendor agreements and a lack of segregation of duties existed.
5. ***Capital Assets:*** Policies and procedures were not in place to govern capital assets and a lack of segregation of duties existed.

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.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

COMMENTS AND RECOMMENDATIONS

1. Organizational Structure and Internal Control Systems

As described in the Background Section of this report, the organizational structure the Educational Service Unit Coordinating Council (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 contracting with ESU 17 in Ainsworth, Nebraska to provide all payroll processing functions for ESUCC and to have the ESUCC project staff responsible for accounting functions housed at ESU 17 facilities. 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 ESUCC to improve on their organizational structure and internal control systems in the past three audits. ESUCC has implemented some of our recommendations; however, during the fiscal year ended August 31, 2012, there were three 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. While improvements have been made in this area, there are still areas of concern as noted in Comments 2 and 3 below.
- B. There was a lack of segregation of duties, as noted in Comments 2 through 5 below, which would likely be corrected if there were some cross-training of the accounting and payroll positions, as well as an adequate review process completed and documented.
- C. There were limited formalized policies and procedures for ESUCC as a whole. 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. However, as noted in Comments 2, 3, and 5 below, additional detailed formalized policies and procedures are still needed.

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COMMENTS AND RECOMMENDATIONS

(Continued)

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

Policies and procedures were most notably lacking as they relate to the Cooperative Purchasing Unit (Coop). The Coop provides purchasing services to ESU member schools throughout the State of Nebraska, with expenditures totaling over \$5 million for the fiscal year ended August 31, 2012. There are currently no policies and procedures in place to govern the bid process or vendor selection. We noted during testing that a bid committee does review vendor bids for the Coop Annual Buy; however, there are no policies or procedures in place to govern how the committee makes their selections or who the committee should consist of.

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, and for the Cooperative Purchasing Unit specifically, are formalized and adopted.

ESUCC's Response: Although the organizational structure including the physical location of key staff remains somewhat decentralized, the ESUCC continues to evolve the structure and processes to accommodate for various internal controls. Specifically the ESUCC is seeking to better use available accounting software that will enhance internal controls and management oversight accounting and payroll functions. Additionally, the ESUCC will review policies, processes and procedures with a focus on areas identified by the APA including the cooperative purchasing project and other fundamental areas of the ESUCC processes including documentation. The ESUCC has developed a timeline to further review and adopt necessary policies.

2. **Contractual Employees**

During the fiscal year ended August 31, 2012, ESUCC had a total of eleven employees, which included the Executive Director, working on ESUCC projects. These eleven employees were officially ESU 17 employees. This was accomplished through an interlocal agreement between ESUCC and ESU 17, which stipulated the employees were under the direct supervision of ESUCC, and ESUCC was ultimately responsible for the payroll costs of the employees.

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

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Contractual Employees (Continued)

A. The contract between ESUCC and ESU 17 for employees was not dated when signed and does not state the time period of the contract.

ESUCC and ESU 17 entered into an interlocal agreement that ESU 17 employees were to work on ESUCC projects, and, in return, ESUCC would pay ESU 17 the cost of those employees' payroll. In the prior year's audit, we noted: 1) the signers to the agreement did not date their signatures; and 2) the agreement did not specify the time period for which it was valid; however, per email verification with ESUCC, was meant to cover the fiscal years ended August 31, 2011, and August 31, 2012.

In following up on the prior year's audit findings, we reviewed the latest interlocal agreement between ESUCC and ESU 17. Our examination of that agreement revealed that ESUCC had dated its signature, but ESU 17's signature was again not dated. Once more, we noted also that the agreement does not specify its time period; however, per verbal verification from the ESUCC Executive Director, covered the fiscal years ended August 31, 2013, and August 31, 2014.

A good internal control plan requires that contracts be dated, as well as state the time period covered by the contract.

A contract that is neither dated by the signatories nor specifies the time period to be covered may give rise to legal complications, including misunderstandings that lead to concerns over possible noncompliance.

We recommend ESUCC ensure its contracts are dated by the signer and specify the time period for which they are valid.

B. Employees were paid in advance for half the pay period.

In the prior audit, we noted that the contracted employees for ESUCC were paid on the 15th of the month. Instead of being set 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. ESUCC did not correct this issue until the end of the fiscal year, August 31, 2012, during which the employment contracts were changed in order to realign the pay periods.

Neb. Rev. Stat. § 79-1245 (Cum. Supp. 2012) defines ESUCC as "a political subdivision and a public body corporate and politic of this state." That same statute states further, "The council shall have the duties, privileges, immunities, rights, liabilities, and disabilities of a political subdivision."

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

COMMENTS AND RECOMMENDATIONS

(Continued)

2. **Contractual Employees** (Continued)

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.

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)), the Nebraska Supreme Court 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, there is no legal obligation to pay him or her for that time. In fact, doing so would constitute, according to the Nebraska Supreme Court’s analysis, extra compensation.

Attorney General Opinion No. 95063 (Aug. 9, 1995) addresses the prohibition in Article III, Section 19, against extra compensation, as follows:

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.

Additionally, the Nebraska Supreme Court 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 application to a political subdivision thereof. We do not agree...We hold the prohibition contained in Article III, Section 19, Constitution of Nebraska, applies to the state and to all political subdivisions thereof.

Therefore, as a political subdivision of the State of Nebraska, ESUCC is subject to the prohibition in Article III, Section 19, against extra compensation.

When salaries and benefits are paid before actually being earned, there is a potential for overpayment if, after the payroll, the employee should leave his or her position unexpectedly or not work the required number of days. This could give rise to concerns regarding an unintentional grant of extra compensation.

As noted previously in this comment, ESUCC and ESU 17 have adjusted the payment dates in their employment contracts for the fiscal year ended August 31, 2013, in order to prevent prepayments. We recommend that ESUCC continue to draft its employee contracts accordingly.

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COMMENTS AND RECOMMENDATIONS

(Continued)

2. Contractual Employees (Continued)

C. Employee time calendars are not reviewed and approved prior to processing payroll.

In a prior year's finding, it was noted that ESUCC required each contracted employee to submit a monthly time certification calendar, rather than a timesheet, at the end of each month. These time calendars are then reviewed and approved by the ESUCC Executive Director. Payroll was processed in the middle of the pay period before the employees had submitted their time calendars. This means that no review of the time calendars was done prior to processing the payroll.

In order to address the issue of payroll being processed in the middle of the pay period, ESUCC and ESU 17 changed their employment contracts so that the pay period is now from the 15th of the month to the 14th of the next month. Thus, payroll is paid out on the 15th of the next month (e.g., the first pay period, paid on September 15th, was from August 15, 2012 to September 14, 2012). When following up on the prior year's time calendar finding, it was noted that the employees submitted their new time calendars to management on the 14th; however, leave usage and balances reported on the time calendars are not consistently recorded in the accounting system used to process payroll in order to consistently report the leave usage and balances on the paystubs issued to the employees. This is due to the fact the leave usage and balances reported on the employee's paystubs are based on whatever is recorded in the system when the payroll is processed instead of recording the leave using a systematic approach, such as only recording and reporting leave usage, awarding, and balances for the previous monthly pay period in order to reflect changes from one monthly pay period to the next monthly pay period.

A good internal control plan requires reviewing and approving the employees' time calendars prior to processing the payroll for that time period. A good internal control plan requires consistently recording and reporting leave usage from time calendars and leave balances on employee paystubs in order for both management and employees to be able to verify the balances reported on paystubs are correct.

When time calendars are not reviewed and approved prior to payroll being processed, there is an increased risk of inaccurate payments to employees. When leave usage and balances are not recorded and reported consistently in order for both management and the employees to verify the leave usage and balances, there is a risk the leave recorded and reported is not correct.

We recommend the recording of leave usage and awarding be consistently recorded in the accounting system used for processing payroll in order for usage and balances reported on paystubs to be easily verified by both employees and management. We further recommend this reporting be handled in way to report only the leave usages and ending leave balances for a specific pay period like the previous monthly pay period.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Contractual Employees (Continued)

D. A lack of segregation of duties exists in the payroll process, and certain controls over the payroll could be improved.

Only one employee, the ESU 17 Business Manager, has access to the Harris Fund Accounting program used to process payroll at ESU 17 for ESUCC project employees, and the review process for the payroll registers is inadequate. The payroll registers are run by ESU 17's Business Manager, who also notes changes from the prior month's payroll register and gives it to the ESU 17 Administrator for review. The ESU 17 Administrator does not trace the changes to original documentation of the changes to ensure they were properly approved and correctly recorded. Also, the ESU 17 Administrator does not compare the current month's payroll register to the prior month's payroll register to ensure all changes noted by ESU 17's Business Manager on the payroll register were complete and accurate.

We also noted the following: 1) Only one employee, the Business Manager for ESUCC, has access to AccountEdge, the accounting system used by ESUCC to process payroll reimbursement payments to ESU 17; 2) A review of the payroll reimbursement entries is performed by an individual other than the individual entering the payroll entries into ESUCC's general ledger, but this review is not adequately documented to ensure that it has been performed; and 3) ESUCC does not compare what it is billed to the actual payroll costs incurred by ESU 17 for ESUCC project employees. Such a comparison is necessary to ensure ESUCC is paying ESU 17 the correct amount for payroll costs on an annual basis.

A good internal control plan requires a segregation of duties that prevents one individual from processing a transaction from beginning to end.

A lack of segregation of duties and a lack of controls over the payroll process creates an increased risk of asset misappropriation.

We recommend ESUCC develop a proper segregation of duties over the payroll process. If a proper segregation of duties cannot be developed due to a shortage of staff, we recommend compensating controls be developed. ESUCC might consider the following:

- Perform a documented, detailed supervisory review of payroll records before the payroll is processed.
- Compare what is billed to the actual payroll costs incurred by ESU 17 to ensure ESUCC has paid the correct amount.
- Document the review of the payroll entries in AccountEdge by an individual other than the individual processing the entries.

E. For one of two employees tested, a certification calendar was not signed by a supervisor.

The September 2011 time certification calendar – which, as explained previously, is used instead of a standard timesheet – for one employee was not signed by the Executive Director of ESUCC.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Contractual Employees (Continued)

A good internal control plan requires that timesheets be approved by an employee's supervisor, and the approval should be documented.

When all timesheets are not approved by a supervisor, there is an increased risk of payroll error.

We recommend ESUCC ensure timesheets have been reviewed and approved by the Executive Director of ESUCC prior to processing payroll.

F. For both employees tested, leave time was calculated incorrectly.

For one employee, four days of sick leave were not properly recorded on the employee's time certification calendar. As a result, the employee's leave balances in the spreadsheet used by the ESU 17 Business Manager to track leave, as well as in the Harris Fund Accounting program, were incorrect. The ESU 17 Business Manager is working to correct this in the system. Also, half a day of vacation leave used in the last week of August 2012, the last month of ESUCC's fiscal year 2012, was recorded in September 2012, the first month of ESUCC's fiscal year 2013 due to employment contractual changes in the pay period and time recording during August 2012. This caused the employee's fiscal year 2012 vacation leave carry-over balance to be larger than it otherwise would have been if it was recorded as used in fiscal year 2012.

For the other employee tested, two days of vacation and one day of sick leave used in the last two weeks of August 2012 were recorded in September 2012. This is a situation similar to that noted above – with a similar effect. That is, the employee's fiscal year 2012 vacation leave carry-over balance was larger than it otherwise would have been if it was recorded as used in fiscal year 2012.

A good internal control plan requires employee vacation and sick leave to be recorded during the fiscal year in which it is used.

When leave time is recorded 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 review its process for recording employee vacation leave used – especially when contract periods overlap – to ensure that all leave is recorded during the fiscal year in which it was used. In addition, ESUCC should 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 entered into the system.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Contractual Employees (Continued)

G. Unauthorized Leave Awarded

Per their employment contracts for the fiscal year ended August 31, 2012, employees were required to complete a minimum number of work days annually. The required workdays were calculated using the total number of weekdays in the fiscal year net holidays, breaks ESU 17 was closed for, and the amount of general/vacation leave days authorized by the Executive Director. However, that calculation neglected to include the extra weekday gained due to 2012 being a leap year. Instead of calculating the required workdays using 262 total weekdays, therefore, ESUCC used only 261 days. This resulted in all ESUCC contracted employees being granted an extra unauthorized day of leave during the 2012 fiscal year.

A good internal control plan requires that all leave awarded to employees be calculated appropriately, taking into account such anomalies as days gained due to leap years.

Permitting unauthorized leave gives rise to an increased risk of employee overpayment.

We recommend ESUCC develop policies and procedures for verifying that the calculations of required workdays for employment contracts are correct in order to ensure only authorized leave amounts are awarded to employees.

H. Pay Splits between ESUCC Projects are Inadequately Supported

ESUCC has one employee whose pay is split equally between two different projects. However, this employee does not track her time worked on each project, and no time study has been completed to determine if the split is reasonably accurate.

Also, per the Executive Director, ESUCC employees are often utilized in different projects depending on the expertise needed for the projects managed by ESUCC. Their time worked on the different projects was not recorded and pay was not split between the projects to account for that time.

A good internal control plan requires pay splits to be adequately supported by documentation and also requires time worked on a project be paid from that project's funds.

When time worked is not tracked by project, there is an increased risk that expenses reported for projects will be inaccurate – which, for budgeting purposes, makes it difficult to anticipate the amount of payroll costs needed for each project in the future.

We recommend ESUCC either direct its project employees to start tracking their time worked on each project or have the employees do time studies periodically to ensure their pay is being split correctly between the various ESUCC projects.

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COMMENTS AND RECOMMENDATIONS

(Continued)

2. Contractual Employees (Continued)

I. Incorrect Tax Withholdings

For both employees tested, we determined their net pay was incorrect due to incorrect tax withholding calculations in 2012 and in the premium holiday in December 2011. It was noted the Harris Fund Accounting system was not updated for the 2012 Federal rates, so Federal income tax withholdings in 2012 were withheld at the 2011 rates. Also, for the employee tested with health insurance, we could not verify through recalculation her Federal and State income taxes were withheld correctly in her December 2011 pay check. That month was a health insurance premium holiday, which should have increased her income tax withholdings; however, the withholdings decreased a small amount.

A good internal control plan requires employers to ensure the tax withholdings from employees' pay are correct and in compliance with the withholding rates published by the IRS in Publication 15 every year.

Incorrectly withholding taxes from employees' paychecks could result in under or over withholding, which might affect the employees' tax returns. ESU 17 also risks potential penalties from the IRS should the IRS examine the ESUs withholding records.

ESUCC and ESU 17 cannot remedy incorrect withholdings from the employees' pay for 2011 and 2012. Nevertheless, we recommend that they ensure the 2013 withholding rates entered into the Harris Fund Accounting system are correct, as well as notify employees of any problems related thereto. We recommend further that, in the event of changes to payroll, such as a premium holiday, ESU 17 verify that the calculation of taxes from the Harris Fund Accounting system are correct prior to processing payroll.

J. Retirement contributions were being calculated on ineligible income from insurance premiums converted into cash payments.

In the prior year's audit, it was noted that ESU 17 and ESUCC were incorrectly calculating retirement contributions for ESUCC project employees using ineligible income from a 125 Plan. In the place of employer paid health insurance premiums, ESUCC and ESU 17 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.

ESU 17 and ESUCC were including the total amount of the 125 Plan income, including the excess over health insurance premium costs, in the calculation for retirement contributions. In following up on the prior finding by recalculating all of the retirement contributions made by ESUCC project employees, we noted that the ineligible income was still being used to calculate the retirement contributions.

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(Continued)

2. Contractual Employees (Continued)

Neb. Rev. Stat. § 79-902(35)(b) (Cum. Supp. 2012) 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.

The total overpayment amount for retirement contributions in the fiscal year ended August 31, 2012, was \$16,359, with \$8,138 being overpaid by the employees, and \$8,221 being overpaid by ESUCC. We calculated the following amounts per employee for overpayment:

	Employee Overpayment	Employer Overpayment
Employee 1	\$ 78	\$ 78
Employee 2	\$ 703	\$ 711
Employee 3	\$ 1,407	\$ 1,421
Employee 4	\$ 920	\$ 929
Employee 5	\$ 1,353	\$ 1,367
Employee 6	\$ 348	\$ 352
Employee 7	\$ 920	\$ 929
Employee 8	\$ 508	\$ 513
Employee 9	\$ 417	\$ 422
Employee 10	\$ 1,407	\$ 1,421
Employee 11	\$ 77	\$ 78
Total	\$ 8,138	\$ 8,221

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

We recommended, as we did in the prior year's report, that ESU 17 and ESUCC consult with the Nebraska Public Employees Retirement System (NPERS) to determine whether income in excess of health insurance costs should be included in calculations of employee compensation for purposes of calculating retirement contributions. Moreover, we recommend that, if, due to previous employee compensation miscalculations, excess retirement contributions were found to have been made, ESUCC and ESU 17 should work with NPERS to correct any such overpayments. Discussions with ESU 17's attorney revealed that NPERS had not

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COMMENTS AND RECOMMENDATIONS

(Continued)

2. Contractual Employees (Continued)

been contacted about this issue; however, we were assured that NPERS would be contacted in the future. We reiterate our previous recommendation that ESU 17 and ESUCC consult with NPERS and take any corrective action needed.

K. ESUCC lacks formal personnel policies and procedures for the supervision of its contractual employees for ESUCC projects – including, but not limited to, such areas as termination policies, leave awarding guidelines, monitoring completion of required workdays, and corrective measures should required workdays not be met in the contract period.

Per the interlocal agreement between ESUCC and ESU 17, as well as the individual employee contracts, ESUCC is in charge of supervising contracted employees from ESU 17. The prior year's audit noted that ESUCC lacked its own formal policies and procedures for supervising these employees; instead, ESUCC was informally relying upon ESU 17's personnel policies. Since the last audit, ESUCC has been working on drafting the needed policies, but none have been officially adopted by the Board. These policies would need to include termination policies and procedures.

For granting leave to employees each year, the Executive Director uses informal guidelines for authorizing vacation leave each year, but no formal guidelines have been documented and approved by the ESUCC Board as part of its formal policies and procedures. This was also a prior year finding. The only change completed, in an attempt to address this finding, is that vacation is now formally recognized and awarded in the employment contracts for the fiscal year ended August 31, 2013, as opposed to the fiscal year ended August 31, 2012, in which the Executive Director would informally tell the Business Manager at ESU 17 what to enter into the Harris Fund Accounting system for awarding and tracking leave.

Additionally, in last year's audit, we noted the absence of formal policies and procedures governing employees' progress toward completing the required number of workdays, as outlined in their employment contracts. There were also no corrective measures to address a situation in which an employee fails to complete his or her required workdays for the contract period. Since the finding, the Business Manager at ESU 17, the Administrative Assistant at ESUCC, and the Executive Director track and review employees' workdays each month. However, no formal policies and procedures for such monitoring, much less any related disciplinary measures, have been developed and approved by the Board since the last audit.

A good internal control plan requires formal personnel policies and procedures to include, among other things:

- Policies and procedures to supervise contractual employees when the contract states the entity is responsible for supervising the employees.

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COMMENTS AND RECOMMENDATIONS

(Continued)

2. Contractual Employees (Continued)

- Policies and procedures for handling employee terminations.
- Policies and procedures for determining the amount of leave time granted to employees each fiscal year.
- Policies and procedures for monitoring employees' progress toward completing their required number of workdays and establishing corrective measures in the event the required number of workdays are not met.

A lack of formal personnel policies and procedures, as recommended above, gives rise to an increased risk that Board directives may not be followed in accordance with the work performed by ESUCC project employees.

We recommend ESUCC adopt formal personnel policies and procedures for the supervision of its contractual employees on ESUCC projects. We recommend further that ESUCC establish and document its criteria and process for granting employees vacation leave time. Lastly, we recommend ESUCC develop documented policies and procedures for monitoring employees' progress towards working the required workdays per their employment contracts with ESU 17, as well as establish corrective procedures should an employee not work the required amount of workdays.

L. **Prior Year Billing Errors**

In the last audit, we noted what we understood to be a billing error of \$62,865. This was due, in part, to what we believed was an unintentional double billing of \$61,688 and \$1,177 of errors resulting from the first payroll register being used to bill ESUCC for all payrolls in the fiscal year ended August 31, 2011, instead of actual costs.

When following up to determine if the billing error had been corrected, we learned the double billing was actually ESUCC advancing money to ESU 17 in order for ESU 17 to cover the costs of the payroll for ESUCC project employees. ESU 17 and ESUCC meant to set it up so ESUCC would be paying a month ahead for payroll. However, in the fiscal year ended August 31, 2011, there were 13 payments made for payroll costs for the fiscal year, so the money is still in the possession of ESU 17 and being used to help fund the payroll without ESU 17 having to use its own funds.

The advanced money is equivalent to a deposit for payroll services, which would have to be paid back to ESUCC if their relationship with ESU 17 dissolves. There was no documentation of a formal approval for the money being advanced to ESU 17, and the money was recorded as an expense instead of an asset by ESUCC and a payment received instead of a liability by ESU 17. As a result, the fiscal year ended August 31, 2012, financial statements were adjusted to reflect \$61,688 as an asset of ESUCC.

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(Continued)

2. Contractual Employees (Continued)

Also, the remaining \$1,177 of actual billing errors overpaid to ESU 17 from fiscal year 2011 had not been corrected. In fiscal year 2012, ESU 17 adjusted its billing practices for the final billing of the fiscal year to ensure the annual amount charged to ESUCC for payroll matched actual costs incurred by ESU 17 for payroll. However, as noted in Comment 2D, ESUCC does not perform any review to ensure the amount billed matches what was actually paid out by ESU 17.

A good internal control plan requires the proper recording of assets and the documentation of approval for advancing assets to another entity. It also requires a review to ensure that what is being billed was for actual expenses incurred. Furthermore, a good internal control plan requires taking corrective action once an error has been noted.

Incorrectly recording assets as expenses affects the financial statements, including what is reported for assets, net assets, expenditures, and fund balances. When proper approval and a proper agreement between two entities for advancing funds are not in place, there is an increased risk of unauthorized funds being paid out – and, in the event the relationship between the two entities is dissolved, an increased risk that the entity advancing the funds will not obtain a return of the deposited funds.

We recommend the following:

- ESUCC make adjustments in its accounting system to properly record the payroll deposit.
- ESUCC and ESU 17 work together on a formal agreement for the payroll deposit to ensure it has been properly approved and both parties know it must be paid back in the event the relationship between ESUCC and ESU 17 dissolves.
- ESUCC and ESU 17 develop a system for increasing the deposit to account for increases in salaries for ESUCC project employees.
- ESUCC and ESU 17 work together to determine a plan to correct the discrepancies in AccountEdge from the billing errors for payroll costs for the ESUCC project employees.
- 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 ESUCC project employees to determine the amount billed was what was actually paid out by ESU 17.

M. Incorrect Calculation of Workdays Completed

When the fiscal year ending August 31, 2013, employment contract went into effect, it overlapped the fiscal year ended August 31, 2012, contract from August 15, 2012 to August 31, 2012. The ESUCC Executive Director performed a calculation to determine if employees had met the required workdays as outlined in their fiscal year ended August 31,

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COMMENTS AND RECOMMENDATIONS

(Continued)

2. **Contractual Employees** (Continued)

2012, contract. We reviewed his calculations, which determined whether the employees met their required days by adding their days worked as of August 14, 2012, sick usage as of August 14, 2012, and vacation carryover balances as of August 14, 2012. Because the fiscal year ended August 31, 2012, contracts did not include vacation time in the calculation of workdays completed, we do not find this to be a reasonable calculation for determining if employees met their contractual workday requirements for the fiscal year ended August 31, 2012.

Also, from notes on the spreadsheet for an employee who did not meet the required number of days, we learned that the employee later used vacation time and comp time to meet the requirement. Per the Business Manager at ESU 17, ESUCC contractual employees do not earn comp time, and there is no ESUCC or ESU 17 policy allowing for the earning and using of comp time. When asked, the Executive Director explained that the employee's position requires him to put in many of his work hours on the weekend, which happens to be prohibited in the employee's contract. Consequently, the Executive Director was unsure how to classify the days worked. Also, as previously mentioned, vacation days were not included in the workday calculation for the fiscal year ended August 31, 2012, contract, so the employee could not have met the requirements using vacation time.

We tested two employees in the detail test and noted they completed their required number of days for the fiscal year ended August 31, 2012, contract. Nevertheless, based upon the calculations used and the notations made in the spreadsheet calculation, as noted above, it is reasonable to conclude that exceptions exist in the calculation of workdays completed for other ESUCC contracted employees.

A good internal control plan requires using only eligible days for determining if employees have met the contractually required number of workdays.

Using ineligible days to determine if an employee has met his or her contractual workday requirement creates an increased risk of an employee not completing his or her workdays and ESUCC being unaware of the contract breach.

We recommend ESUCC only use eligible days for determining if employees have met their contractual workday requirements. We recommend further that ESUCC adopt formal policies and procedures to address situations in which employees need to work on weekends or work more than forty hours a week. Lastly, we recommend ESUCC perform a correct calculation of days to determine if all of its employees met their fiscal year ended August 31, 2012, workday requirements.

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(Continued)

2. **Contractual Employees** (Continued)

N. Leave Issues Noted in the New Contract Structure

We observed both sets of the employment contracts for the fiscal year ended August 31, 2012, and the fiscal year ending August 31, 2013, for ESUCC project employees and observed how leave was used by employees and recorded by management. There are potential issues with vacation leave where ESU 17 and ESUCC may not be in compliance with the Nebraska Supreme Court's ruling in *Roseland v. Strategic Management Inc.*, 272 Neb. 434, 722 N.W.2d 499 (2006). There is also a general issue of determining how the leave should be tracked and recorded due to the change in contract periods, which caused the two sets of employment contracts to overlap from August 15, 2012 to August 31, 2012.

In the *Roseland* case, the Nebraska Supreme Court ruled that it is unlawful under the Wage Payment and Collection Act, which is set out at Neb. Rev. Stat. §§ 48-1228 through 48-1232 (Reissue 2010), not to pay out accumulated vacation leave balances to employees upon termination of employment. This is because, the Court's decision explained, "fringe benefits" are encompassed, under § 48-1229(4), in the definition of the "wages" to which employees are entitled. Section 48-1229(3) defines "fringe benefits" to include "sick and vacation leave plans."

In an attempt to avoid paying for unused vacation leave without running afoul of either State statute or the *Roseland* decision, ESUCC altered its employee contracts for the fiscal year ended August 31, 2012, by eliminating any mention of vacation time. Instead, those contracts required the employees to work a minimum number of days based upon a payment calculation that included an authorized number of non-work days. Despite this change, the non-work days were recorded and treated like vacation days by employees and management alike. ESUCC contracts ESU 17 to perform payroll functions, including leave tracking, in ESU 17's accounting system. The non-work days were also designated as "vacation days" in ESU 17's accounting system.

In the fiscal year ended August 31, 2013, contracts, vacation days are formally recognized, and employees were awarded a set amount of vacation days as of August 15, 2012. However, per our conversations with the Business Manager at ESU 17, no accumulated leave, including vacation leave, is paid out upon an ESUCC project employee's termination. The treatment of the non-work days as vacation leave under the fiscal year ended August 31, 2012, contract, along with the official recognition of vacation leave in the fiscal year ended August 31, 2013, contract create a situation in which ESU 17 and ESUCC may not be in compliance with State statute and the *Roseland* ruling.

Also, leave from the fiscal year ended August 31, 2013, was supposed to be awarded on August 15, 2012, when the employment contracts were executed. Per the ESU 17 Business Manager, the leave was awarded on August 15, 2012, but not recorded until August 30, 2012, and not included in the August 31, 2012 ending leave balances. Leave from the last two

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(Continued)

2. Contractual Employees (Concluded)

weeks of August, as previously noted in our comment (F. *For both employees tested, leave time was calculated incorrectly*), was also recorded in September 2012. The effect on the August 31, 2012, ending leave balances for sick and vacation is also noted in the above comment.

A good internal control plan requires drafting policies and contracts so as to be in compliance with State statute and Nebraska Supreme Court rulings and also requires earned leave to be recorded accurately.

When employment contracts provide – either directly or otherwise – for earned vacation time, but unused vacation time is not paid out, there are concerns regarding compliance with both State statute and the Nebraska Supreme Court’s ruling in the *Roseland* case. Moreover, a failure to report leave time accurately increases the risk of overuse of leave and incorrect leave balances.

We recommend ESUCC and ESU 17 work together to address any questions regarding leave time occasioned by the terminology found in the fiscal years ended August 31, 2012, and August 31, 2013, contracts. Of particular importance is determining whether the resulting practices for dealing with employee vacation leave complies with both State statute and the *Roseland* ruling. We recommend also that the appropriate procedures be implemented to ensure that earned leave is being recorded correctly.

ESUCC’s Response: All of the ESUCC employees are employed as contractual employees through an interlocal agreement with ESU 17. The ESUCC has worked with ESU 17 management to address many of the areas addressed in this audit and will continue to review contracts, payroll processes, timesheet/leave review, and retirement contribution calculations. Additionally, the ESUCC will examine tracking employee leave time by project or doing periodic time studies to address pay splits between various projects. The ESUCC will also review policies impacting personnel and either adopt policies aligned with ESU 17 or adopt specific personnel policies. The ESUCC will review the remainder of the recommendations provided by the APA and anticipate most areas impacting contractual employees can be addressed with a policy and administrative procedure review.

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 the payment voucher, and reconcile documents to

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(Continued)

3. Expenditures (Continued)

- B. 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 employee's duties if the employee is unable to work. This finding was also noted in the prior year.

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 is 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.

- C. ESUCC uses a claim form to approve expenditures for payment. For 18 of 24 expenditures tested, there was either no claim form on file to approve the expenditures, or the claim form was not properly approved. Of the expenditures in question, 17 had no claim form attached and were all related to Coop purchasing expenditures. The claim form for one additional expenditure was not properly approved.

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 the risk of fraud and misuse of funds increases.

We recommend claim forms 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.

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(Continued)

3. Expenditures (Continued)

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 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.

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

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

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

- F. We reviewed 20 ESUCC contracts and noted the following:

- For three contracts tested, there was no competitive bidding conducted for services and products. ESUCC staff indicated that two of these contracts were with 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. The third expenditure in question was made outside of the competitive bidding processes without any documentation to support the lack of competitive bidding.

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 ESUCC may not be giving all potential bidders an opportunity to submit a bid proposal and ESUCC may not be receiving the lowest possible price for its services and products.

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

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(Continued)

3. Expenditures (Continued)

- For 20 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 the final approval and signing of all contracts.

- For one expenditure tested for legal services, there was a contract or agreement with the law firm for the legal service to be provided; however, it was not signed or dated by the appropriate ESUCC personnel. Additionally, 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 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 all contracts entered into by ESUCC be signed and dated by the appropriate personnel. Additionally, those contractual arrangements entered into should contain 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 contracts are not signed by the appropriate personnel, there is an increased risk that they will be unenforceable. Additionally, 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 is signed by the appropriate personnel and that includes an agreed upon hourly rate for services and an agreement that requires billings to include hours, per hour rate, and type of legal services provided.

- For two 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.

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(Continued)

3. Expenditures (Continued)

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 a termination clause in all of its contracts.

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 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 3 of 17 travel expenditures tested, auditors were unable to trace the expenditure adequately back to supporting documentation. The expenditures in question lacked supporting documentation in the form of official conference/training agendas, meeting minutes, travel logs, attendee listings, etc. This is due to a lack of formal policies and procedures relating to travel expenditures.

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 reimbursements being made.

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

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(Continued)

3. Expenditures (Continued)

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.

- For 2 of 7 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 4 of 10 travel expenditures with meal and lodging reimbursements tested, meal and lodging costs were either not adequately documented with detailed receipts or invoices, or were not considered reasonable based on Federal GSA per diem rates. Three of the four expenditures in question were for meal reimbursements. These requests either had documentation provided in the form of credit card slips; were for noon meals on one-day trips, which are not reimbursable per policies outlined for travel in the State of Nebraska's Department of Administrative Services, State Accounting Manual; or were for meals claimed twice (a total of \$10.70 double reimbursement). One of the four expenditures in question was a lodging reimbursement request. This reimbursement was for lodging costs for one night stays at two hotels which exceeded the Federal GSA per diem rates of \$77 by \$3 at one hotel and \$48 at the other.

Good business practices require meal reimbursements over \$5 be supported by detailed receipts in order to be approved for reimbursements. Additionally, meal reimbursement requests should include only meals which were actually purchased and allowable, and lodging reimbursements should fall within Federal GSA per diem rates.

When meals over \$5 are not adequately documented with detailed receipts, claimed multiple times, or are for unallowable expenditures, there is greater risk for expense reimbursement abuse. Additionally, when lodging reimbursements exceed Federal GSA per diem rates, there is an increased risk that reimbursements are not reasonable.

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(Continued)

3. Expenditures (Continued)

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. Additionally, we request that Federal GSA per diem rates be followed for lodging expenditures.

- For 1 of 6 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.

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 9 of 17 travel expenditures tested, the expenditures were not properly approved by an appropriate member of management and/or the Board prior to expensing. Five of the expenditures in question had payment dates which preceded the date of management's approval. Additionally, the signature of the ESUCC Executive Director on two of those five expenditures was electronically applied. No supporting documentation was available to verify that the Executive Director gave permission for his signature to be applied; however, for one of those expenditures he indicated a subsequent review of the supporting documentation was completed by applying his actual signature and date on the reimbursement form. Two of the nine expenditures in question had no claim form attached and no approval signature of management. Two of the nine expenditures in question were not signed or dated by either management or the employee. This is likely due to an inadequate review of expense documents by ESUCC management prior to processing for payment.

A good internal control plan would require the proper approval of expenditures, which includes an adequate review process. Additionally, if the electronic signature of the ESUCC Executive Director is applied for expenditure payments, documentation should be retained that demonstrates his approval of the use of his signature and his subsequent documented review those expenditures.

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

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Expenditures (Concluded)

We recommend ESUCC improve the review process for expenditure documents to ensure that all expenditures are reviewed and approved prior to payment.

- For 1 of 17 expenditures tested, there was not enough supporting documentation provided to verify that the expenditure was coded to the correct program and account in ESUCC's accounting software program, AccountEdge.

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 a lack of sufficient documentation is provided to ensure the correct coding of expenditures, there is an increased risk that transactions can be miscoded and the financial records used by management, in turn, could be misleading.

We recommend ESUCC obtain and retain sufficient supporting documentation for all expenditures to ensure they are coded correctly in the accounting system.

- Two travel expense reimbursement requests were not submitted in a timely manner, or within sixty days. We noted both travel expense reimbursement requests included multiple reimbursement requests. One included 16 requests for reimbursement over sixty days and one included 8 requests for reimbursement over sixty days. The untimely submission is due to the decentralized nature of the offices and location of ESUCC project employees, and a lack of formal and consistent policies and procedures pertaining to submitting reimbursement requests for travel and general non-travel expenses.

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 timely submission of reimbursement requests.

ESUCC's Response: The ESUCC will review the processes and procedures and will explore opportunities to address segregation of duties through increased management oversight anticipated to be possible in a new accounting system to be implemented in FY13-14. Additionally, the ESUCC management will explore options for monitoring and detection that might mitigate issues arising from segregation of duties that are inherent in a small/decentralized organization. The ESUCC will particularly focus on policy areas that impact cooperative purchasing as well as processes to review contract review, expense documentation, and timelines for expense submission and approval.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Revenues

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 process for ESUCC exists. One person has 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 has multiple review processes in place; however, documentation of these reviews is inadequate. This finding was also noted in the prior year.
- For 3 of the 20 receipts tested, the amounts charged were incorrect per the vendor agreement.

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. Additionally, good business practices require that receipt amounts charged and receipted agree to the amounts set forth in agreements and contracts with vendors.

When there is a lack of segregation of duties, there is a greater risk of error or fraud and misuse of funds. There is also a risk of lost revenue or an increased chance for fraud and misuse of funds if amounts are not charged at the proper rates, or if those rates are not properly documented.

We recommend ESUCC put in place controls that effectively decrease the chance of fraud and misuse of funds, and that ESUCC document these controls with signatures, dates, e-mails etc. We further recommend amounts charged by ESUCC agree to amounts set forth in agreements and contracts with vendors.

ESUCC's Response: The ESUCC will seek to mitigate the lack of segregation of duties in the receipt of revenues. Generally, the ESUCC will explore options that would enhance monitoring and detective controls recommend by the APA. Vendor agreements will be reviewed to align requirements with practice.

5. Capital Assets

There was no formal system in place to track capital assets of ESUCC for all of the fiscal year. While an informal policy on fixed asset management was developed, including the creation of forms for the disposal of assets, there were no formal and approved policies or procedures in place to govern capital asset additions, deletions, useful life, or depreciation method for the fiscal year. This finding was also noted in the prior year. Additionally, there was a lack of segregation of duties noted as one person can perform all the functions for capital asset inventory.

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, policies and procedures to ensure capital assets are being recorded properly, and an adequate segregation of duties exists over the capital asset inventory process.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Capital Assets (Concluded)

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 and review their staffing and assignments to determine if an adequate segregation of duties can be obtained.

ESUCC's Response: ESUCC management and staff have developed processes and a recommendation for formal policy adoption. The ESUCC tracks inventory and will seek to formalize policies and processes to track capital assets.



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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, 2012, 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, in all material respects, the respective financial position-modified cash basis of the governmental activities and general fund of the Educational Service Unit Coordinating Council as of August 31, 2012, 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 June 7, 2013, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparison Schedule on pages 35 through 40 and 53 are not a required part of the basic financial statements but are other information. We have applied certain limited procedures to the other information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 financial statements. The combining schedule-general fund is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedule-general fund is fairly stated in all material respects in relation to the financial statements as a whole.

SIGNED ORIGINAL ON FILE

June 7, 2013

Don Dunlap, CPA
Assistant Deputy Auditor

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

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, 2012. 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), other 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 41) 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 42) 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.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

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 43 and 44, 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 45.

Other Information

Following the basic financial statements and the accompanying notes thereto, is additional information that further explains and supports the information in such financial statements. The other 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 55.

FINANCIAL AND OPERATING HIGHLIGHTS

ESUCC's Net Assets for the fiscal year ended August 31, 2012, compared to the fiscal year ended August 31, 2011, decreased by \$14,804. This decrease is generally due to modest increases in program expenses compared to slower growth in revenues. The table below provides a more detailed picture of the changes in net assets.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

FINANCIAL ANALYSIS OF ESUCC AS A WHOLE

Net Assets

ESUCC's assets totaled \$4,378,357 at August 31, 2012, as compared to \$4,218,216 at August 31, 2011. Total liabilities totaled \$2,367,997, net assets amounted to \$2,010,360 as of August 31, 2012. As of August 31, 2011, these amounts were \$2,193,052 and \$2,025,164, respectively.

Unrestricted net assets are all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." ESUCC's unrestricted net assets totaled \$2,010,360 as of August 31, 2012.

	Net Assets	
	As of August 31	
	2012	2011
ASSETS:		
Cash and Cash Equivalents	\$ 3,394,129	\$ 3,089,965
Accounts Receivable	983,669	1,125,908
Prepaid Items	559	2,343
Total Assets	<u>4,378,357</u>	<u>4,218,216</u>
LIABILITIES	<u>2,367,997</u>	<u>2,193,052</u>
NET ASSETS:		
Unrestricted	2,010,360	2,025,164
Total Net Assets	<u>\$ 2,010,360</u>	<u>\$ 2,025,164</u>

As of August 31, 2012, 77.5% of ESUCC's assets consisted of cash and cash equivalents. This compares to 73% as of August 31, 2011. The majority of the remaining assets consist of accounts receivable at the Nebraska ESU Cooperative Purchasing Unit in the amount of \$983,669 and \$1,125,908 as of August 31, 2012, and 2011, 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 \$2,367,997 and \$2,193,052 as of August 31, 2012, and 2011, respectively. The difference in liabilities year to year also varies based on the annual buy project.

ESUCC's net assets were \$2,010,360 and \$2,025,164 as of August 31, 2012, and 2011, respectively. ESUCC's net assets may vary based on receipts and expenditures in Cooperative Purchasing as well as other ESUCC projects.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

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, 2012.

Changes in Net Assets

	Fiscal Year Ended August 31, 2012	Fiscal Year Ended August 31, 2011
Revenues:		
Program Revenues		
Charges for Services	\$ 6,037,674	\$ 6,533,389
Operating Grants and Contributions	60,523	18,435
General Revenues:		
State Appropriations	565,593	580,647
Penalties and fees	34,187	99,098
Interest Income	-	720
Miscellaneous	502	64
Total Revenues	<u>6,698,479</u>	<u>7,232,353</u>
Expenditures:		
ESU Professional Development	414,394	364,185
Distance Education Council	299,416	248,350
My E-Learning	281,457	228,661
Special Education	350,444	386,874
Instructional Materials	207,356	233,469
Nebraska ESU Cooperative	5,160,216	5,129,341
Total Expenditures	<u>6,713,283</u>	<u>6,590,883</u>
Change in Net Assets	(14,804)	641,470
Net Assets - Beginning	<u>2,025,164</u>	<u>1,383,694</u>
Net Assets - Ending	<u>\$ 2,010,360</u>	<u>\$ 2,025,164</u>

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, 2012, were \$6,037,674 and for the fiscal year ended August 31, 2011, were \$6,533,389. Some or all of the change between the two periods reflects the timing of Cooperative Purchasing revenues.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

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, 2012, were \$600,282 and for the fiscal year ended August 31, 2011, were \$680,529. 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, 2012, were \$5,160,216 and for the fiscal year ended August 31, 2011, were \$5,129,341. 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, 2012, were \$1,553,067 and for the fiscal year ended August 31, 2011, were \$1,461,542. Increases in disbursements for other programs managed by ESUCC are basic inflationary increases in program costs including but not limited to salary and benefit increases and general inflationary costs of maintaining existing programs and services.

ANALYSIS OF ESUCC'S GENERAL FUND VARIATIONS

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

	<u>Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Beginning Balance	\$ 2,296,537	\$ 2,025,164	\$ (271,373)
Total Revenues	10,733,343	6,698,479	(4,034,864)
Total Expenditures	<u>10,777,482</u>	<u>6,713,283</u>	<u>4,064,199</u>
Net Increase (Decrease)	<u>(44,139)</u>	<u>(14,804)</u>	<u>29,335</u>
Ending Balance	<u>\$ 2,252,398</u>	<u>\$ 2,010,360</u>	<u>\$ (242,038)</u>

The largest variance between budgeted and actual revenues was Local Revenues which were budgeted to be \$10,167,750, but were actually \$6,052,474. 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.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

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 \$1,703,858 respectively, but incurred actual costs of \$4,623,045 and \$87,505, respectively. Again, this is due to the potential for 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 E-Learning, 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 will include further strategic reorganization of projects and services to address the likelihood of a decrease in future resources. Strategic reorganization efforts impacting the future will include organizing professional development services under a new structure that will allow for the development of new statewide projects. Additionally, existing projects in technology are being organized to most efficiently and effectively manage the changing environment in educational technology. Future fiscal years will combine efforts in instructional materials, my elearning, and distance education under a "BlendEd" initiative. Similarly, professional development efforts will include new statewide projects and services. Future projects and services of ESUCC will be maintained through expanded partnerships and possibly through statewide grants or contracts facilitated by ESUCC.

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, 2012

	<u>Governmental Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 3,394,129
Accounts Receivable	983,669
Prepaid Items	<u>559</u>
Total Assets	<u>4,378,357</u>
LIABILITIES	
	<u>2,367,997</u>
NET ASSETS	
Unrestricted	<u>2,010,360</u>
Total Net Assets	<u><u>\$ 2,010,360</u></u>

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, 2012

	Expenditures	Program Revenues		Net (Expenditures), Revenues, and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Total Governmental Activities
FUNCTIONS/PROGRAMS:				
Primary Government				
ESU Professional Development	\$ 414,394	\$ 46,915	\$ 60,523	\$ (306,956)
Distance Education Council	299,416	390	-	(299,026)
My E-Learning	281,457	234,784	-	(46,673)
Special Education	350,444	357,241	-	6,797
Instructional Materials:				
General Administration	37,654	205,468	-	167,814
I-Mat Spring Buy	63,610	-	-	(63,610)
I-Mat Special Project	22,092	-	-	(22,092)
Media on Demand	84,000	-	-	(84,000)
Nebraska ESU Cooperative Purchasing:				
General Administration	449,666	-	-	(449,666)
Coop Annual Buy	4,623,045	5,192,876	-	569,831
Special Buy	87,505	-	-	(87,505)
Total Governmental Activities	<u>\$ 6,713,283</u>	<u>\$ 6,037,674</u>	<u>\$ 60,523</u>	<u>(615,086)</u>
General Revenues:				
State Appropriations				565,593
Penalties and Fees				34,187
Miscellaneous				502
Total General Revenues				<u>600,282</u>
Change in Net Assets				(14,804)
Net Assets - Beginning (Note 7)				<u>2,025,164</u>
Net Assets - Ending				<u>\$ 2,010,360</u>

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, 2012

	<u>General Fund</u>
ASSETS:	
Cash and Cash Equivalents	\$ 3,394,129
Accounts Receivable	983,669
Prepaid Items	<u>559</u>
Total Assets	<u><u>\$ 4,378,357</u></u>
 LIABILITIES AND FUND BALANCE:	
Liabilities	<u>\$ 2,367,997</u>
 Fund Balance:	
Assigned	1,429,671
Unassigned	<u>580,689</u>
Total Fund Balance	<u><u>2,010,360</u></u>
Total Liabilities and Fund Balance	<u><u>\$ 4,378,357</u></u>

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, 2012

	General Fund
REVENUES:	
Local	\$ 6,052,474
State	576,580
Federal	34,736
Penalties and Fees	34,187
Miscellaneous	502
Total Revenues	<u>6,698,479</u>
EXPENDITURES:	
Purchased Services (Note 6)	1,218,694
General Administration	147,932
Supplies and Equipment	270,169
Capital Outlay	22,392
Miscellaneous	53,983
I-Mat	7,569
NOC	27,547
SDA	41,558
SPED	24,707
TAG	18,480
I-Mat Spring Buy	63,610
I-Mat Special Project	22,092
Media on Demand	84,000
Coop Annual Buy	4,623,045
Coop Special Buy	87,505
Total Expenditures	<u>6,713,283</u>
Excess of Revenues Over (Under) Expenditures	(14,804)
Fund Balance - Beginning (Note 7)	<u>2,025,164</u>
Fund Balance - Ending	<u>\$ 2,010,360</u>

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

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended August 31, 2012

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.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

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. 2012) 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 is in Lincoln, 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.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

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 all 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.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies** (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. Also included in this classification is a deposit held by ESU 17 for purchased services (payroll).

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. ESUCC reported only unrestricted net assets.

I. Net Asset Classification

Government-Wide Statements. Net Assets are displayed as unrestricted net assets. Unrestricted net assets are all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements. Governmental fund equity is classified as fund balance. Fund balances are further classified as assigned or unassigned. Assignments of fund balances are established to identify the existence of assets that are intended to be used for specific purposes. The Executive Director is the official authorized to assign amounts to a specific purpose. ESUCC had assignments of fund balance in the Nebraska ESU Cooperative Purchasing, in the amount of \$1,429,671. Unassigned fund balance is the residual classification for the general fund.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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. **Deposits and Investments**

Listed below is a summary of the deposit and investment portfolio that comprises the Cash and Cash Equivalents on ESUCC's August 31, 2012, 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. ESUCC does not have a policy for custodial credit risk associated with deposits. At August 31, 2012, ESUCC's carrying amount of bank deposits was \$(51,178) and the bank balance was \$56,127.

The bank deposits at August 31, 2012, 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.

A deposit of \$61,688 was also held by ESU 17 for purchased services (payroll) for ESUCC. ESU 17 processes payroll for ESUCC and this deposit was used to help ESU 17's cash flow for the monthly salary and benefit costs for ESUCC employees.

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.

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

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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 two years.

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, 2012, 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, 2012, the latest audit report on NPAIT, are held by the counterparties in NPAIT’s name.

Concentration of Credit Risk – NPAIT places no 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:	
Bank Deposits	\$ (51,178)
Deposit with ESU 17	61,688
NPAIT Investments	<u>3,383,619</u>
Cash & Cash Equivalents	<u>\$ 3,394,129</u>

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

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	\$ -

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 plan has been created in accordance with Internal Revenue Code, Sections 401(a) and 414(h). Contributions and benefit provisions are established by State law and may only be amended by the State Legislature.

The State's contribution is based on an annual actuarial valuation. The employees' contribution was 8.88% of their compensation and ESUCC's contribution was 101% of the employees' contribution for the fiscal year ended August 31, 2012. ESUCC employees contributed \$61,814 and ESUCC contributed \$62,432, which equals the required contribution.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

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, 2012, were as follows:

<u>Year</u>	<u>Governmental Activities</u>
2013	\$ 13,638
2014	6,268
2015	3,327
Total	<u>\$ 23,233</u>

Operating lease payments for the year ended August 31, 2012, totaled \$22,163.

6. Reclassification

Salaries and benefits expenditures were reclassified 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 \$805,764. The \$805,764 was moved on the financial statements from Salaries and Benefits to Purchased Services.

7. Prior Period Adjustment

The beginning fund balance was increased by \$61,688 to reflect the change in the classification of an expenditure in fiscal year 2011. This amount was moved on the financial statements to Cash and Cash Equivalents to reflect an amount on deposit with ESU 17 for purchased services (payroll). Prior year totals were also adjusted to reflect the adjustment in assets and expenses.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL
OTHER INFORMATION
BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND

For the Fiscal Year Ended August 31, 2012

	Budget (Original/Final)	Actual	Positive (Negative) Variance with Final Budget
REVENUES:			
Local	\$ 10,167,750	\$ 6,052,474	\$ (4,115,276)
State	565,593	576,580	10,987
Federal	-	34,736	34,736
Penalties and Fees	-	34,187	34,187
Miscellaneous	-	502	502
Total Revenues	<u>10,733,343</u>	<u>6,698,479</u>	<u>(4,034,864)</u>
EXPENDITURES:			
Purchased Services	1,371,524	1,218,694	152,830
General Administration	166,575	147,932	18,643
Supplies and Equipment	247,100	270,169	(23,069)
Capital Outlay	40,500	22,392	18,108
Miscellaneous	278,525	53,983	224,542
I-Mat	13,700	7,569	6,131
NOC	33,200	27,547	5,653
SDA	70,000	41,558	28,442
SPED	45,000	24,707	20,293
TAG	19,400	18,480	920
I-Mat Spring Buy	76,500	63,610	12,890
I-Mat Special Project	81,600	22,092	59,508
Media on Demand	130,000	84,000	46,000
Coop Annual Buy	6,500,000	4,623,045	1,876,955
Coop Special Buy	1,703,858	87,505	1,616,353
Total Expenditures	<u>10,777,482</u>	<u>6,713,283</u>	<u>4,064,199</u>
Excess Revenues Over (Under) Expenditures	(44,139)	(14,804)	29,335
Fund Balance - Beginning	<u>2,296,537</u>	<u>2,025,164</u>	<u>(271,373)</u>
Fund Balance - Ending	<u>\$ 2,252,398</u>	<u>\$ 2,010,360</u>	<u>\$ (242,038)</u>

See Notes to Other Information.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO OTHER INFORMATION

1. Budget

Basis of Budgeting – ESUCC prepares its budget on the modified cash basis which includes consideration of accounts payable and accounts receivable and is consistent with the financial statement presentation.

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.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**COMBINING SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND**

For the Fiscal Year Ended August 31, 2012

	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	\$ 61,715	\$ 390	\$ 205,468	\$ 234,784	\$ 357,241	\$ 5,192,876	\$ 6,052,474
State	286,215	290,365	-	-	-	-	576,580
Federal	34,736	-	-	-	-	-	34,736
Penalties and Fees	-	-	-	-	-	34,187	34,187
Miscellaneous	502	-	-	-	-	-	502
Total Revenues	<u>\$ 383,168</u>	<u>\$ 290,755</u>	<u>\$205,468</u>	<u>\$ 234,784</u>	<u>\$ 357,241</u>	<u>\$ 5,227,063</u>	<u>\$ 6,698,479</u>
EXPENDITURES:							
Purchased Services	\$ 167,035	\$ 274,021	\$ 30,405	\$ 128,685	\$ 321,403	\$ 297,145	\$ 1,218,694
General Administration	107,022	2,577	5,565	10,006	5,965	16,797	147,932
Supplies and Equipment	5,289	7,333	53	128,762	12,096	116,636	270,169
Capital Outlay	1,650	12,004	160	3,611	1,434	3,533	22,392
Miscellaneous	13,537	3,481	1,471	10,393	9,546	15,555	53,983
I-Mat	7,569	-	-	-	-	-	7,569
NOC	27,547	-	-	-	-	-	27,547
SDA	41,558	-	-	-	-	-	41,558
SPED	24,707	-	-	-	-	-	24,707
TAG	18,480	-	-	-	-	-	18,480
I-Mat Spring Buy	-	-	63,610	-	-	-	63,610
I-Mat Special Project	-	-	22,092	-	-	-	22,092
Media on Demand	-	-	84,000	-	-	-	84,000
Coop Annual Buy	-	-	-	-	-	4,623,045	4,623,045
Coop Special Buy	-	-	-	-	-	87,505	87,505
Total Disbursements/Expenditures	<u>\$ 414,394</u>	<u>\$ 299,416</u>	<u>\$ 207,356</u>	<u>\$ 281,457</u>	<u>\$ 350,444</u>	<u>\$ 5,160,216</u>	<u>\$ 6,713,283</u>



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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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, 2012, which collectively comprise Educational Service Unit Coordinating Council's basic financial statements and have issued our report thereon dated June 7, 2013. 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 Educational Service Unit Coordinating Council's 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

June 7, 2013

Don Dunlap, CPA
Assistant Deputy Auditor