

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

**SEPTEMBER 1, 2014, THROUGH AUGUST 31, 2015**

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**Issued on April 28, 2016**

# 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 the ESUCC consists of one administrator from each ESU. The ESUCC came into existence, per Neb. Rev. Stat. § 79-1245 (Reissue 2014), on July 1, 2008. The statutory description and duties of the ESUCC can be found in Neb. Rev. Stat. §§ 79-1245 through 79-1249 (Reissue 2014). In particular, § 79-1246(1) states the following:

*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. The council'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, the ESUCC, in its first year of existence, determined that all statewide projects previously offered in partnership by various ESUs would be placed under the umbrella of the ESUCC. Any ESU hosting a statewide project became known as the "fiscal agent" for that project, now under the ESUCC. The ESUCC then established agreements with each fiscal agent to continue to provide the various projects and also established a master services agreement with all of the ESUs, enabling them to choose the statewide projects in which they wished to participate.

During the fiscal year ended August 31, 2010, the ESUCC began a transition away from the fiscal agent organization. That transition took the form of the ESUCC contracting with Educational Service Unit No. 17 (ESU 17) to provide all staff for the 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 the ESUCC. Thus, all ESUCC project employees and the ESUCC Executive Director became ESU 17 employees. Through an interlocal agreement, the 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 it operated during the fiscal year ended August 31, 2015:

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

The 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. The ESUCC manages ESUPDO functions as part of the overall general administrative costs and activities of the ESUCC. The 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.

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### BACKGROUND

(Continued)

- **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 numerous initiatives, such as learning management systems and one-to-one laptop initiatives, as well as classroom technologies, including electronic 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):** The NOC supports the extensive communications network within and among the ESUs and school districts. The NOC provides network security and protocols for its 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 researching a Learning Object Repository (LOR) system 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 the ESUPDO as the need for special education professional development has progressed in the age of standards and assessment, along with the need to establish 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 Results Driven Accountability (RDA).
- **BlendEd Initiative (Technology Direction)**  
In May 2013, the position of Technology Director was formed to coordinate this work across the ESUCC project areas. Projects involved in this effort are the Distance Education, I-Mat, including Learning Object Repository, and MyE Learning. Work is continuing across these projects in the areas of federated identity management and an enhanced evaluative system. Blended education has been promoted by educational researchers as a one of the most promising recent innovations in education because it calls for making strategic choices about when face-to-face (synchronous) instruction is needed and when and how online (asynchronous) instruction can be best used to provide elements of student control over time, place, path, and pace and provide more equity, efficiency, and flexibility.

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### BACKGROUND

(Continued)

- **Distance Education**

Originating with the Distance Education Council formed legislatively through LB 1208 (2006), distance education is now a responsibility of the ESUCC. Section 79-1248 addresses the ESUCC's powers and duties, which may be used as part of the effort to build, improve, and maintain the State's distance education network, as follows:

*The powers and duties of the Educational Service Unit Coordinating Council include, but are not limited to:*

- (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 . . . [ESUCC] 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;*
- (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.*

- **Instructional Materials (I-Mat)**

I-Mat also has a long history of providing services statewide for school districts through Nebraska's network of ESUs. For approximately 30 years, the ESUs have worked together to purchase rights to media materials and made those materials available through local ESUs in a variety of formats. This undertaking exists as a project of the ESUCC and, beginning in 2010-11, the fiscal management was moved under the ESUCC central accounting system. ESUs contribute to the project for the "spring buy" and "special projects" each year. Now that I-Mat is one of the ESUCC projects, the master services agreement between the ESUCC and the ESUs identifies the level of participation of each ESU. As technology moves forward, so does the I-Mat project. Currently, videos are available in physical formats, including DVD and digital resources. Additionally, the project works to match media to specific standards and is making media searchable for the most appropriate classroom use. I-Mat, like other ESUCC projects, continues to evolve with conversations about moving to fully digital online media and expansion of other library and media resources.

- **My E-Learning (MEL or MyE)**

MyE is a statewide project to make available an online learning management system (LMS) to school districts, teachers, and students. Similar to the other projects, MyE was brought under the umbrella of the ESUCC and, beginning in 2010-11, came to exist as a

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### **BACKGROUND**

(Concluded)

project directly managed under the ESUCC. ESU 10 in Kearney previously served as the fiscal agent for the project. 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. Currently, MyE supports the ANGEL and Blackboard learning management systems and will conclude June 2016. The service is provided through annual user contracts and fees. Recent statistics indicate that there are approximately 19,000 user accounts in use by approximately 34 contracts (districts or ESUs) across the State. The transition to management by the ESUCC has developed a shift in strategic planning and implementation of the MyE project. The MyE project is also a foundational piece of the conversations surrounding virtual education in the State.

- **Nebraska ESU Cooperative Purchasing (Coop)**

Coop provides cooperating purchasing services to ESU member schools throughout the State of Nebraska. The service is offered jointly by the ESUCC and Nebraska's 17 ESUs. The ESUCC now serves as the governing body for Coop.

- **Special Education (SPED) Projects**

The purpose of the SPED Projects 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 ESUCCs' technology role includes purchasing, distributing, and scanning surveys. ESUCC 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

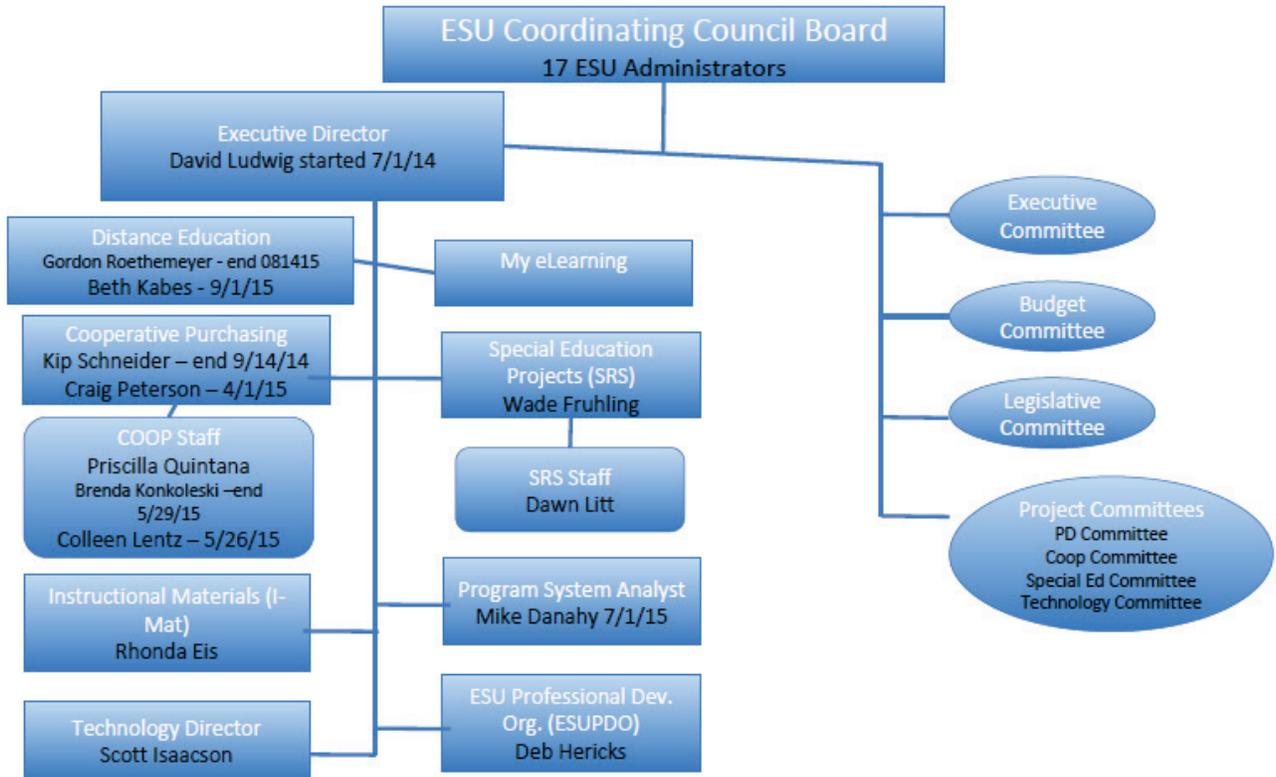
### **MISSION STATEMENT**

The mission of the 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

As of 8/1/15



EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**EXIT CONFERENCE**

An exit conference was held April 4, 2016, with the Educational Service Unit Coordinating Council (ESUCC) to discuss the results of our examination. Those in attendance for the ESUCC were:

<b>NAME</b>	<b>TITLE</b>
David Ludwig	Executive Director
Dan Schnoes	Board Treasurer and ESU 3 Administrator (1)
Priscilla Quintana	Business Manager (1)
Deb Hericks	Executive Assistant (1)

(1) Via Teleconference



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Educational Service Unit Coordinating Council  
LaVista, Nebraska

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, and General Fund of the Educational Service Unit Coordinating Council, as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the Educational Service Unit Coordinating Council's basic financial statements, as listed in the Table of Contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Educational Service Unit Coordinating Council's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, and General Fund of the Educational Service Unit Coordinating Council, as of August 31, 2015, and the respective changes in financial position thereof for the year then ended in conformity with the cash basis of accounting described in Note 1.

### ***Basis of Accounting and Emphasis of Matter***

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to these matters.

### ***Other Matters***

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements, which collectively comprise the Educational Service Unit Coordinating Council's basic financial statements. The Combining Schedule of Cash Basis Receipts and Disbursements – General Fund and the Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Combining Schedule of Cash Basis Receipts and Disbursements – General Fund and the Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 of Cash Basis Receipts and Disbursements – General Fund and the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Management’s Discussion and Analysis and Budgetary Comparison Schedule on pages 11 through 16 and 30 herein have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2016, on our consideration of the Educational Service Unit Coordinating Council’s internal control over financial reporting and on 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, 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* in considering the Educational Service Unit Coordinating Council’s internal control over financial reporting and compliance.

April 25, 2016



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 the ESUCC's financial performance, as reflected in the financial report for the fiscal year ended August 31, 2015. Please read it in conjunction with the ESUCC's basic financial statements, which follow.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the 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 the ESUCC's basic financial statements: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other information (Budgetary Comparison Schedule, Combining Schedule of Cash Basis Receipts and Disbursements – General Fund, and Schedule of Expenditures of Federal Awards) 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 the ESUCC's operations in a manner similar to the private sector, providing both a short-term and a long-term view of the ESUCC's financial position. The ESUCC prepared its government-wide statements on the cash basis of accounting. Under the cash basis, receipts are recognized when collected rather than when earned, and disbursements are recognized when paid rather than when incurred. Accordingly, the 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 Position and the Statement of Activities.

The *Statement of Net Position* on page 17 presents all of the ESUCC's assets on the cash basis, as described above.

The *Statement of Activities* on page 18 presents information showing how the ESUCC's net position changed during the reported year. Changes reported are on the cash basis, as described above. The statement of activities demonstrates the degree to which the direct disbursements of a given function or segment are offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or segment. Program receipts 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 are reported, instead, as general receipts.

## 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 outflows of ESUCC operations.

The 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 19 and 20, provide detailed information about the 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 21.

#### **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 Comparison Schedule and notes, Combining Schedule of Cash Basis Receipts and Disbursements – General Fund and the Schedule of Expenditures of Federal Awards and notes. This information can be found beginning on page 30.

#### **FINANCIAL AND OPERATING HIGHLIGHTS**

The ESUCC's Net Position for the fiscal year ended August 31, 2015, compared to the fiscal year ended August 31, 2014, increased by \$390,497. This increase is primarily due to the fact that the ESUCC's fiscal year ends in the middle of the Coop Annual Buy timeframe; therefore, its end of the year balance is directly affected by the timing of receipts of vendor administrative fees. The table on the following page provides a more detailed picture of the changes in net position.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Continued)

FINANCIAL ANALYSIS OF ESUCC AS A WHOLE

**Net Position**

The ESUCC's assets totaled \$1,119,382 at August 31, 2015, as compared to \$728,885 at August 31, 2014. Due to the preparation of the financial statements on a cash basis for fiscal years ended August 31, 2015, and August 31, 2014, there were no liabilities as of August 31, 2015, and as of August 31, 2014.

Unrestricted net position is all other net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt." The ESUCC's unrestricted net position totaled \$1,119,382, as of August 31, 2015.

	<b>Net Position</b>	
	<b>As of August 31</b>	
	<b>Cash Basis</b>	<b>Cash Basis</b>
	<b>2015</b>	<b>2014</b>
ASSETS:		
Cash and Cash Equivalents	<u>\$ 1,119,382</u>	<u>\$ 728,885</u>
<b>Total Assets</b>	<u>1,119,382</u>	<u>728,885</u>
NET POSITION:		
Unrestricted	<u>1,119,382</u>	<u>728,885</u>
<b>Total Net Position:</b>	<u>\$ 1,119,382</u>	<u>\$ 728,885</u>

As of August 31, 2015, and as of August 31, 2014, the ESUCC's assets consisted of cash and cash equivalents.

The ESUCC did not have any liabilities as of August 31, 2015, and as of August 31, 2014.

The ESUCC's net position was \$1,119,382 and \$728,885, as of August 31, 2015, and 2014, respectively. The ESUCC's net position may vary based on receipts and disbursements in Cooperative Purchasing as well as other ESUCC projects.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Continued)

**Changes in Net Position**

The condensed financial information below was derived from the government-wide Statement of Activities and reflects how the ESUCC's net position changed during the year. Following the table is management's analysis of the changes in net position for the fiscal year ended August 31, 2015.

**Changes in Net Position**

	<b>Fiscal Year Ended August 31, 2015 Cash Basis</b>	<b>Fiscal Year Ended August 31, 2014 Cash Basis</b>
Receipts:		
Program Receipts		
Charges for Services	\$ 1,975,752	\$ 2,502,100
Operating Grants and Contributions	694,834	118,081
General Receipts:		
State Appropriations	565,593	565,593
Penalties and Fees	0	37
Miscellaneous	4,924	264
<b>Total Receipts</b>	<u>3,241,103</u>	<u>3,186,075</u>
Disbursements:		
ESU Professional Development	1,088,116	878,201
Distance Education Council	294,831	354,264
My E-Learning	234,997	306,263
Special Education	420,073	455,513
Instructional Materials	337,830	220,469
Nebraska ESU Cooperative	474,759	3,009,926
<b>Total Disbursements</b>	<u>2,850,606</u>	<u>5,224,636</u>
Change in Net Position	390,497	(2,038,561)
<b>Net Position - Beginning</b>	<u>728,885</u>	<u>2,767,446</u>
<b>Net Position - Ending</b>	<u>\$ 1,119,382</u>	<u>\$ 728,885</u>

**Receipts**

The largest single source of receipts for the ESUCC is charges for services. Charges for services are primarily receipts generated by the Nebraska ESU Cooperative Purchasing Unit for services provided to ESUs and school districts and program receipts for the various projects. Charges for services for the fiscal year ended August 31, 2015, were \$1,975,752 and for the fiscal year ended August 31, 2014, were \$2,502,100. As mentioned previously, fluctuations in the timing of the ESUCC's Coop vendor administrative fee receipts are expected given the ESUCC's fiscal year ends in the middle of the Coop annual buy timeframe.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

The second largest source of receipts is generated by operating grants and contributions. Operating grants and contributions receipts for the fiscal year ended August 31, 2015, were \$694,834 and for the fiscal year ended August 31, 2014, were \$118,081. The change is attributable to the availability of grant sources, such as NMPDS and Career Connections, supporting ESUCC projects.

**Disbursements**

The largest single purpose of disbursements for the ESUCC was for ESU Professional Development Organization (ESUPDO), which provides training for ESU employees statewide. Disbursements for these services for the fiscal year ended August 31, 2015, were \$1,088,116 and for the fiscal year ended August 31, 2014, were \$878,201.

The second largest purpose of disbursements for the ESUCC was for goods and services disbursed by the Nebraska ESU Cooperative Purchasing Unit, which were then provided to ESUs and school districts. Disbursements for these services for the fiscal year ended August 31, 2015, were \$474,759 and for the fiscal year ended August 31, 2014, were \$3,009,926. The change between periods reflects the change in the Cooperative Purchasing annual buy for the 2014-2015 school year. Prior to the 2014-2015 school year, the ESUs and school districts would purchase administrative instructional supplies, equipment, and personal property from vendors. The vendor would bill the ESUCC, which would then bill the ESUs for reimbursement. Beginning with the annual buy for the 2015-2016 school year, the school districts purchase needed items directly from the vendors, and the ESUCC no longer operates and administers the billing for the project.

The remaining disbursements for the ESUCC relate primarily to the various other programs managed by the ESUCC. Disbursements for various programs for the fiscal year ended August 31, 2015, were \$1,287,731 and for the fiscal year ended August 31, 2014, were \$1,336,509.

**ANALYSIS OF ESUCC'S GENERAL FUND VARIATIONS**

The table below provides a comparison of budgeted receipts and disbursements to actual receipts and disbursements.

	<u>Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Beginning Balance	\$ 865,546	\$ 728,885	\$ (136,661)
Total Receipts	5,192,048	3,241,103	(1,950,945)
Total Disbursements	<u>5,528,413</u>	<u>2,850,606</u>	<u>2,677,807</u>
Net Increase (Decrease)	<u>(336,365)</u>	<u>390,497</u>	<u>726,862</u>
Ending Balance	<u>\$ 529,181</u>	<u>\$ 1,119,382</u>	<u>\$ 590,201</u>

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### MANAGEMENT'S DISCUSSION AND ANALYSIS

(Concluded)

The largest variance between budgeted and actual receipts was Local Receipts, which were budgeted to be \$3,889,955 but were actually \$1,975,752. 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.

The largest variances between budgeted and actual disbursements were due to the Coop Program Purchases, which had budgeted \$1,700,000 but incurred actual costs of \$100,851. Again, this is due to the potential for the ESU Coop's large fluctuations.

#### **FACTORS THAT WILL AFFECT THE FUTURE**

Several factors influence the future of the 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 the 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 continue to combine efforts in instructional materials, My E-Learning, and distance education under a "BlendEd" initiative. Similarly, professional development efforts will include new statewide projects and services. Future projects and services of the ESUCC will be maintained through expanded partnerships and possibly through statewide grants or contracts facilitated by the ESUCC.

#### **CONTACTING ESUCC'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens and taxpayers a general overview of the ESUCC's finances and to demonstrate the ESUCC's accountability for the money with which it is entrusted. If you have questions about this report or need additional financial information, contact David M. Ludwig, Educational Service Unit Coordinating Council Executive Director, 6949 South 110<sup>th</sup> Street, LaVista, Nebraska, 68128. The telephone number is (402) 597-4915, and the email address is [dludwig@esucc.org](mailto:dludwig@esucc.org).

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**STATEMENT OF NET POSITION - CASH BASIS**

August 31, 2015

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 1,119,382
Total Assets	<u>1,119,382</u>
<b>NET POSITION</b>	
Unrestricted	1,119,382
Total Net Position	<u><u>\$ 1,119,382</u></u>

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

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**STATEMENT OF ACTIVITIES - CASH BASIS**

For the Fiscal Year Ended August 31, 2015

	<u>Disbursements</u>	<u>Program Receipts</u>		Net (Disbursements), Receipts, and Changes in Net Assets
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Total Governmental Activities</u>
<b>FUNCTIONS/PROGRAMS:</b>				
Primary Government				
ESU Professional Development	\$ 1,088,116	\$ 227,557	\$ 672,930	\$ (187,629)
Distance Education Council	294,831	24,194	-	(270,637)
My E-Learning	234,997	228,064	-	(6,933)
Special Education	420,073	396,406	21,904	(1,763)
Instructional Materials:				
General Administration	63,904	317,362	-	253,458
I-Mat Program Purchases	273,926	-	-	(273,926)
Nebraska ESU Cooperative Purchasing:				
General Administration	373,908	782,169	-	408,261
Coop Program Purchases	100,851	-	-	(100,851)
Total Governmental Activities	<u>\$ 2,850,606</u>	<u>\$ 1,975,752</u>	<u>\$ 694,834</u>	<u>(180,020)</u>
General Receipts:				
State Appropriations				565,593
Penalties and Fees				-
Miscellaneous				4,924
Total General Receipts				<u>570,517</u>
Change in Net Assets				390,497
Net Position - Beginning				<u>728,885</u>
Net Position - Ending				<u>\$ 1,119,382</u>

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

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCE  
GOVERNMENTAL FUND**

August 31, 2015

	<u>General Fund</u>
ASSETS:	
Cash and Cash Equivalents	<u>\$ 1,119,382</u>
Total Assets	<u><u>\$ 1,119,382</u></u>
FUND BALANCE:	
Committed	250,000
Unassigned	<u>869,382</u>
Total Fund Balance	1,119,382
Total Fund Balance	<u><u>\$ 1,119,382</u></u>

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

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BASIS FUND BALANCE  
GOVERNMENTAL FUND**

For the Fiscal Year Ended August 31, 2015

	General Fund
<b>RECEIPTS:</b>	
Charges for Services	
Local	\$ 1,975,752
Intergovernmental	
State	565,593
Federal	694,834
Miscellaneous	4,924
Total Receipts	<u>3,241,103</u>
<b>DISBURSEMENTS:</b>	
Purchased Services (Note 6)	1,216,737
General Administration	291,432
Supplies	9,839
Capital Outlay	33,119
Computer Software and Other Equipment	135,850
Travel	59,776
Instructional Materials (I-Mat)	3,825
Network Operations Committee (NOC)	26,147
Staff Development Affiliate (SDA)	105,757
Special Education Projects (SPED)	15,521
Technology Assistance Group (TAG)	5,100
NE Mathematics Professional Development Series (NMPDS)	357,726
Career Connection (CC)	215,000
I-Mat Program Purchases	273,926
Coop Program Purchases	100,851
Total Disbursements	<u>2,850,606</u>
Excess of Receipts Over (Under) Disbursements	390,497
Fund Balance - Beginning	<u>728,885</u>
Fund Balance - Ending	<u>\$ 1,119,382</u>

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

# EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

## NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended August 31, 2015

### 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 the ESUCC consists of an Administrator Representative from each of the 17 ESUs and an Executive Director. The ESUCC was created by LB 603 (2007) and officially came into existence, according to statute, on July 1, 2008. Neb. Rev. Stat. § 79-1246(1) (Reissue 2014) outlines the ESUCC's general responsibilities and duties, in relevant part, 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. The Council'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.*

Prior to the creation of the ESUCC by the Nebraska Legislature, the 17 ESUs worked in partnership to provide statewide activities. Based on the above statutory authority, the ESUCC decided that all statewide activities offered in partnership by the ESUs would be placed under the umbrella of the ESUCC. Although identified separately in the "ESUCC Admin and Professional Development Organization" column of the Combining Schedule, the ESUCC reports the general administrative costs of the ESUCC overall, along with the ESUPDO project costs. The ESUCC contracts with ESU 17 to provide all staff for the ESUCC. This is accomplished annually by ESU 17 developing employment contracts with all ESUCC project employees, including the Executive Director of the ESUCC. Thus, all ESUCC project employees and the ESUCC Executive Director are ESU 17 employees. Through an interlocal agreement, the ESUCC reimburses 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 training for ESU employees statewide. Professional development is among the core services identified by State statute for ESUs.
- **Distance Education:** Distance Education originated with the Distance Education Council, which was formed by legislation in 2006 and has since evolved into a program under the ESUCC. Neb. Rev. Stat. § 79-1248 (Reissue 2014) includes, among the powers and duties of the ESUCC, various responsibilities pertaining to the operation of the State's distance education network.

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

- **Nebraska ESU Cooperative Purchasing (Coop):** Coop provides cooperating purchasing services to Educational Service Unit Member schools throughout the State of Nebraska.
- **Instructional Materials (I-Mat):** I-Mat is a statewide project that purchases rights to media materials and makes them available through local ESUs in a variety of formats.
- **My E-Learning (MEL or MyE):** MyE is a statewide project to make available an online learning management system (LMS) to school districts, teachers, and students.
- **Special Education (SPED) Projects:** The purpose of the SPED Projects 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.
- **BlendEd Initiative (Technology Direction):** In May 2013, the position of Technology Director was formed to coordinate this work across the ESUCC project areas. Projects involved in this effort are the Distance Education, I-Mat, including Learning Object Repository, and My E-Learning. Blended education calls for making strategic choices about when face-to-face (synchronous) instruction is needed and when and how online (asynchronous) instruction can be best used to provide elements of student control over time, place, path, and pace and provide more equity, efficiency, and flexibility.

#### ***B. Reporting Entity***

The ESUCC is a governmental entity established under and governed by the laws of the State of Nebraska. In evaluating how to define the ESUCC for financial reporting purposes, all potential component units have been considered. The basic – but not the only – criterion 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, and 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 the ESUCC has oversight responsibility. The ESUCC does not have any component units and has only one fund – the General Fund. The ESUCC is not considered a component unit of any other governmental entity.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO THE 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 the 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. The ESUCC has only one fund – the General Fund – and has no component units. Governmental activities, which normally are supported by taxes and intergovernmental receipts, are reported separately.

The Statement of Activities demonstrates the degree to which the direct disbursements of a given function or segment are offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or segment. Program receipts 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 are reported instead as general receipts.

***D. Fund Types***

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

***E. Basis of Accounting***

The ESUCC prepares its financial statements, both its governmental-wide and fund statements, on the cash basis of accounting. Under the cash basis of accounting, receipts are recognized when collected rather than when earned, and disbursements are recognized when paid rather than when incurred. Consequently, these financial statements are not intended to present financial information in accordance with generally accepted accounting principles.

***F. Cash and Cash Equivalents***

In addition to the ESUCC's bank account, this classification includes all short-term investments, such as certificates of deposit, and investments in the Nebraska Public Agency Investment Trust (NPAIT), having original maturities of less than two years. NPAIT deposits and investments include certificate of deposits, demand deposit accounts, repurchase agreements, and government agency securities. These investments are valued at amortized cost, which approximates fair value due to the short-term nature of the investments.

**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

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

***G. Basis of Presentation***

The 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 position into three components: (a) invested in capital assets, net of related debt; (b) restricted; and (c) unrestricted. The ESUCC reported only unrestricted net position.

***H. Net Position Classification***

*Government-Wide Statements.* Net Position is displayed as unrestricted net position. Unrestricted net position is 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 committed or unassigned. Commitments of fund balances are established to identify the existence of assets that are intended to be used for specific purposes that are internally imposed by the government through formal action of the Board, and the constraints do not lapse at year-end. The ESUCC had committed fund balance in the amount of \$250,000. Unassigned fund balance is the residual classification for the General Fund.

***I. Capital Assets***

Capital assets are recorded as disbursements at the time of purchase. This differs from generally accepted accounting principles, which require capital assets to be capitalized and depreciated over the life of the asset.

***J. Estimates***

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

***K. Compensated Absences***

The ESUCC contracts with ESU 17, through an interlocal agreement, to provide staffing for the ESUCC. The ESUCC has entered into negotiated agreements with contracted personnel. In those agreements, the ESUCC has agreed to provide benefits for personal and sick leave. In accordance with the cash basis of accounting, these benefits are recorded as a disbursement when paid.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

**2. Deposits and Investments**

Listed below is a summary of the deposit and investment portfolio that comprises the Cash and Cash Equivalents on the ESUCC's August 31, 2015, basic financial statements.

**Deposits** – Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. At August 31, 2015, the ESUCC held bank deposits and also held funds in certificates of deposits, demand deposits, and money market accounts with 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. The 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 the NPAIT is to provide its owner members with a conservative and effective investment alternative tailored to the needs of its members. The NPAIT currently consists of and operates one portfolio and a fixed-term account. The 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. The NPAIT is not registered with the SEC as an investment company. For a copy of the most recent audit report for the NPAIT, contact David Ludwig, Executive Director, Educational Service Unit Coordinating Council, 6949 South 110<sup>th</sup> Street, LaVista, Nebraska, 68128. The telephone number is (402) 597-4915, and the email address is [dludwig@esuucc.org](mailto:dludwig@esuucc.org).

The ESUCC's bank balance and carrying amount of deposits at August 31, 2015, are set out below:

	<b>Bank Balance</b>	<b>Carrying Amount</b>
Bank Deposits	\$ 50,694	\$ (204,265)
NPAIT Deposits	460,138	460,138
<b>Total</b>	<b>\$ 510,832</b>	<b>\$ 255,873</b>

**Bank Deposits:** The ESUCC does not have a policy for custodial credit risk associated with deposits.

The ESUCC is required by State statute to collateralize bank deposits in excess of federally insured amounts. The bank deposits at August 31, 2015, were covered by the Federal Depository Insurance Corporation (FDIC).

**NPAIT Deposits:** The NPAIT's deposit policy for custodial credit risk required compliance with the provisions of State law.

State law requires collateralization of deposits with Federal depository insurance or with U.S. Treasury and U.S. Agency securities having an aggregate value at least equal to the amount of the deposits. At June 30, 2015, all of the NPAIT's deposits were insured and collateralized by securities held by the pledging financial institution in other than the NPAIT's name.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

**Investments** – The NPAIT may legally invest in direct obligations of, as well as 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. At June 30, 2015, all of the NPAIT's investments in U.S. agencies and repurchase agreements mature in a period of less than two years.

At August 31, 2015, the ESUCC had \$863,238 in NPAIT investments. These investments consisted of government agency securities and repurchase agreements, which were collateralized by U.S. government securities.

The ESUCC is exposed to the risks noted below in relation to its investments in the NPAIT. The ESUCC does not have a policy for these risks.

*Interest Rate Risk* – As a means of limiting its members' exposure to fair value losses arising from rising interest rates, all of the 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. According to the latest audit report on the NPAIT, as of June 30, 2015, the NPAIT's investments in government agency securities were rated as AA+.

*Custodial Credit Risk* – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the NPAIT will not be able to recover the value of its investment or collateral securities that are in the possession of the outside party.

The NPAIT has no specific policy as to credit risk. All of the underlying securities for the NPAIT investments in repurchase agreements at June 30, 2015, the latest audit report date for the NPAIT, are held by the counterparties in the NPAIT's name.

*Concentration of Credit Risk* – The NPAIT places no limit on the amount that may be invested in any one issuer.

Reconciliation of deposits and investments for the ESUCC to Cash and Cash Equivalents on the Statement of Net Position, as of August 31, 2015, is as follows:

**Carrying Value:**

Bank and NPAIT Deposits	\$	255,873
NPAIT Investments		863,238
<b>Total</b>	<b>\$</b>	<b>1,119,111</b>

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

3. **Contingencies and Commitments**

**Risk Management** – The 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, the ESUCC chose to purchase the following commercial insurance policies to cover these risks:

	Limit	Deductible
Personal Property Coverage (per location)	\$ 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	\$ -
Transportation Coverage	\$ 300,000	\$ 1,000

No insurance claims resulting from these risks were filed during the fiscal year by the ESUCC. Settled claims resulting from these risks have not exceeded the above coverage in the past three years.

**Litigation** – A lawsuit was brought against ESUCC on April 6, 2016 requesting \$460,000 for an alleged breach of contract. It is not possible at this present time to estimate ultimate outcome or liability, if any, of the ESUCC for this proceeding. It is ESUCC's opinion that the ultimate liability for this proceeding is not expected to have a material adverse effect on their financial position.

4. **School Retirement**

**Plan Description**

The ESUCC contracts with ESU 17 to provide all staff for the ESUCC. Thus, all of the ESUCC project employees and the ESUCC Executive Director are ESU 17 employees. Through an interlocal agreement, the ESUCC agreed to reimburse ESU 17 for all salaries and benefits for these employees. Benefits provided by the 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 the 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). NPERS provides retirement and disability benefits to plan members and beneficiaries. The School Employees Retirement Act establishes benefit provisions. NPERS issues a publicly available financial report that includes financial statements and required supplementary information for NPERS. That report may be obtained by writing NPERS, 1526 K Street, Suite 400, P.O. Box 94816, Lincoln, NE, 68509-4816, or by calling 1-800-245-5712.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

4. **School Retirement** (Concluded)

**Funding Policy**

Plan members were required to contribute 9.78% of their annual covered salary from September 1, 2014, to August 31, 2015. The ESUCC is required to contribute 101% of the employee contribution. The contribution requirements of the plan members and the ESUCC are established by the Nebraska statutes. For the fiscal year ended August 31, 2015, the ESUCC employees contributed \$77,074, and the ESUCC contributed \$77,845, which equaled the required contribution. For the fiscal years ended August 31, 2014, and August 31, 2013, the ESUCC employees contributed \$81,492 and \$73,338, respectively, and the ESUCC contributed \$82,307 and \$74,075, respectively, which equaled the required contribution.

5. **Lease Commitments**

The ESUCC leases office facilities under operating leases. Operating lease payments for the fiscal year ended August 31, 2015, totaled \$42,198. The future minimum annual lease payments are as follows:

<u>Year</u>	<u>Governmental Activities</u>
2016	\$ 32,998
Total	\$ 32,998

6. **Reclassification**

The ESUCC records in its general ledger employee salaries and benefits; however, the ESUCC staff are ESU 17 employees, as the ESUCC contracts, through an interlocal agreement, with ESU 17 to provide staffing for the ESUCC, making all employees of the ESUCC contract employees. To better reflect the nature of these disbursements, \$965,455 of salaries and benefits was classified as Purchased Services on the Statement of Cash Receipts, Disbursements, and Changes in Cash Basis Fund Balance.

7. **Accounts Receivable**

At August 31, 2015, the ESUCC had \$219,585 in accounts receivable. In accordance with the cash basis of accounting, these receivables are not recorded on the financial statements. They are recorded as receipts on the financial statements when the ESUCC receives the funds.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**NOTES TO THE FINANCIAL STATEMENTS**

(Concluded)

**8. Unemployment Compensation Insurance**

The ESUCC has adopted the reimbursable option of the State's Unemployment Compensation Insurance Program. Under this option, a claimant would receive unemployment compensation from the State. The ESUCC is liable to reimburse the State the actual amount of the claim(s).

**9. Related Parties**

The governing body for the ESUCC consists of the Administrator from each of the 17 Educational Service Units (ESUs) across the State. The ESUCC coordinates statewide activities and provides services for the 17 ESUs. In turn, the ESUCC bills each of the ESUs for those services.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**OTHER INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**

For the Fiscal Year Ended August 31, 2015

	Budget (Original/Final)	Actual	Positive (Negative) Variance with Final Budget
<b>RECEIPTS:</b>			
Charges for Services			
Local	\$ 3,889,955	\$ 1,975,752	\$ (1,914,203)
Intergovernmental			
State	565,593	565,593	-
Federal	736,500	694,834	(41,666)
Miscellaneous	-	4,924	4,924
Total Receipts	<u>5,192,048</u>	<u>3,241,103</u>	<u>(1,950,945)</u>
<b>DISBURSEMENTS:</b>			
Purchased Services	1,749,860	1,216,737	533,123
General Administration	626,750	291,432	335,318
Supplies	6,350	9,839	(3,489)
Capital Outlay	23,721	33,119	(9,398)
Computer Software and Other Equipment	345,760	135,850	209,910
Travel	79,484	59,776	19,708
Instructional Materials (I-Mat)	5,750	3,825	1,925
Network Operations Committee (NOC)	27,600	26,147	1,453
Staff Development Affiliate (SDA)	94,988	105,757	(10,769)
Special Education Projects (SPED)	12,500	15,521	(3,021)
Technology Assistance Group (TAG)	9,900	5,100	4,800
NE Mathematics Professional Development Series (NMPDS)	500,000	357,726	142,274
Career Connection (CC)	-	215,000	(215,000)
I-Mat Program Purchases	345,750	273,926	71,824
Coop Program Purchases	1,700,000	100,851	1,599,149
Total Disbursements	<u>5,528,413</u>	<u>2,850,606</u>	<u>2,677,807</u>
Excess Receipts Over (Under)			
Disbursements	(336,365)	390,497	726,862
Fund Balance - Beginning	865,546	728,885	(136,661)
Fund Balance - Ending	<u>\$ 529,181</u>	<u>\$ 1,119,382</u>	<u>\$ 590,201</u>

See Notes to Other Information.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**NOTES TO THE BUDGETARY COMPARISON SCHEDULE**

For the Fiscal Year Ended August 31, 2015

**BUDGETARY COMPARISON SCHEDULE**

*Basis of Budgeting* – The ESUCC prepares its budget on the cash basis, which is consistent with the financial statement presentation.

*Budget Process and Property Taxes* – The 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 disbursements may not legally exceed total appropriations. Appropriations lapse at year end, and any revisions thereto require Board approval.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**COMBINING SCHEDULE OF CASH BASIS RECEIPTS AND DISBURSEMENTS  
GENERAL FUND**

For the Fiscal Year Ended August 31, 2015

	ESUCC Admin and Professional Development Organization	Distance Education Council	Instructional Materials	My E- Learning	Special Education	Nebraska ESU Cooperative Purchasing	Total General Fund
<b>RECEIPTS:</b>							
Charges for Services							
Local	\$ 227,557	\$ 24,194	\$ 317,362	\$ 228,064	\$ 396,406	\$ 782,169	\$ 1,975,752
Intergovernmental							
State	275,228	290,365	-	-	-	-	565,593
Federal	672,930	-	-	-	21,904	-	694,834
Miscellaneous	2,318	128	128	-	288	2,062	4,924
Total Revenues	<u>\$ 1,178,033</u>	<u>\$ 314,687</u>	<u>\$ 317,490</u>	<u>\$ 228,064</u>	<u>\$ 418,598</u>	<u>\$ 784,231</u>	<u>\$ 3,241,103</u>
<b>DISBURSEMENTS:</b>							
Purchased Services	\$ 195,163	\$ 251,745	\$ 52,432	\$ 108,606	\$ 382,634	\$ 226,157	\$ 1,216,737
General Administration	120,989	10,440	7,422	8,078	21,808	122,695	291,432
Supplies	6,134	689	307	-	421	2,288	9,839
Capital Outlay	4,500	5,374	1,875	7,197	7,297	6,876	33,119
Computer Software and Other Equipment	2,389	19,043	93	110,963	439	2,923	135,850
Travel	29,865	7,540	1,775	153	7,474	12,969	59,776
Instructional Materials (I-Mat)	3,825	-	-	-	-	-	3,825
Network Operations Committee (NOC)	26,147	-	-	-	-	-	26,147
Staff Development Affiliate (SDA)	105,757	-	-	-	-	-	105,757
Special Education Projects (SPED)	15,521	-	-	-	-	-	15,521
Technology Assistance Group (TAG)	5,100	-	-	-	-	-	5,100
NE Mathematics Professional Development Series (NMPDS)	357,726	-	-	-	-	-	357,726
Career Connection (CC)	215,000	-	-	-	-	-	215,000
I-Mat Program Purchases	-	-	273,926	-	-	-	273,926
Coop Program Purchases	-	-	-	-	-	100,851	100,851
Total Disbursements/Expenditures	<u>\$ 1,088,116</u>	<u>\$ 294,831</u>	<u>\$ 337,830</u>	<u>\$ 234,997</u>	<u>\$ 420,073</u>	<u>\$ 474,759</u>	<u>\$ 2,850,606</u>

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Fiscal Year Ended August 31, 2015

<b>Federal Grantor</b>			
<b>Pass-Through Grantor</b>			
<b>Program Title</b>	<b>Pass-Through Entity's Identifying Number</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Education:</b>			
<b>Passed-Through Nebraska Department of Education:</b>			
Special Education Cluster:			
Special Education_Grants to States	H027A130149	84.027	\$ 21,325
Career and Technical Education -- Basic Grants to States	V048A140027 V048A130027	84.048	215,000
*Mathematics and Science Partnerships	S366B130028 S366B140028	84.366	<u>357,726</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 594,051</u></u>

\*Represents Major Program

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended August 31, 2015

**1. General**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the activity of all Federal awards programs of the Educational Service Unit Coordinating Council for the year ended August 31, 2015. The Educational Service Unit Coordinating Council's reporting entity is defined in note 1.B. to the Educational Service Unit Coordinating Council's financial statements. The Educational Service Unit Coordinating Council did not pass through any Federal funds to subrecipients.

**2. Basis of Presentation**

The accompanying Schedule presents total expenditures for each Federal awards program in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Educational Service Unit Coordinating Council, it is not intended to, and does not, present the net position/fund balance, and changes in net position/fund balance of the Educational Service Unit Coordinating Council. Federal program titles are reported as presented in the Catalog of Federal Domestic Assistance (CFDA).

**Major Program** – In accordance with OMB Circular A-133, the major program was determined using a risk-based approach.

**3. Basis of Accounting**

The accompanying Schedule was prepared on the cash basis of accounting. Such disbursements are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of disbursements are not allowable or are limited as to reimbursement.

**Matching Costs** – The Schedule does not include matching expenditures from general revenues of the Educational Service Unit Coordinating Council.



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL  
**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***

Independent Auditor's Report

Board of Directors  
Educational Service Unit Coordinating Council  
LaVista, Nebraska

We have audited, 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, the financial statements of the governmental activities, and General Fund of the Educational Service Unit Coordinating Council, as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the Educational Service Unit Coordinating Council's basic financial statements, and have issued our report thereon dated April 25, 2016. The report notes the financial statements were prepared on the cash basis of accounting.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Educational Service Unit Coordinating Council's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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. Accordingly, we do not express an opinion on the effectiveness of the Educational Service Unit Coordinating Council's internal control.

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 combination of deficiencies, in internal control, such that there is a reasonable

possibility that a material misstatement of the Educational Service Unit Coordinating Council's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **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, and grant agreements, 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*.

### **Additional items**

We noted certain additional items that we reported to management of the Educational Service Unit Coordinating Council as identified as # 2015-001 (Lack of Segregation of Duties ), # 2015-002 (Contractual Employees), # 2015-003 (Capital Assets), and # 2015-004 (ESUCC Contracts) in the accompanying Schedule of Findings and Questioned Costs.

### **The Educational Service Unit Coordinating Council's Response to Findings**

The Educational Service Unit Coordinating Council's responses to the findings identified in our audit are described in the Schedule of Findings and Questioned Costs. The Educational Service Unit Coordinating Council's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them. Where no response is indicated, the Educational Service Unit Coordinating Council declined to respond.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, not to provide an opinion on the effectiveness of the Educational Service Unit Coordinating Council's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Educational Service Unit Coordinating Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

April 25, 2016



Don Dunlap, CPA  
Assistant Deputy Auditor



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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State Auditor

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EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133**

Independent Auditor's Report

Board of Directors  
Educational Service Unit Coordinating Council  
LaVista, Nebraska

**Report on Compliance for Each Major Federal Program**

We have audited Educational Service Unit Coordinating Council's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on Educational Service Unit Coordinating Council's major Federal program for the year ended August 31, 2015. Educational Service Unit Coordinating Council's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the Educational Service Unit Coordinating Council's major Federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the

types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Educational Service Unit Coordinating Council's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### **Opinion on Major Federal Program**

In our opinion, the Educational Service Unit Coordinating Council complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended August 31, 2015.

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item # 2015-5. Our opinion on each major Federal program is not modified with respect to these matters.

The Educational Service Unit Coordinating Council's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Educational Service Unit Coordinating Council's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of the Educational Service Unit Coordinating Council is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Educational Service Unit Coordinating Council's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Educational Service Unit Coordinating Council's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected,

on a timely basis. A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

April 25, 2016



Don Dunlap, CPA  
Assistant Deputy Auditor

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended August 31, 2015

SECTION I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

**Unmodified**

Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_ Yes   X   No

Significant deficiency(ies) identified?

\_\_\_\_\_ Yes   X   No

Noncompliance material to financial statements noted?

\_\_\_\_\_ Yes   X   No

Federal Awards

Internal control over major Federal program:

Material weakness(es) identified?

\_\_\_\_\_ Yes   X   No

Significant deficiency(ies) identified?

\_\_\_\_\_ Yes   X   No

Type of auditor's report issued on compliance for major Federal program:

**Unmodified**

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

  X   Yes \_\_\_\_\_ No

Identification of major Federal program: **Mathematics and Science Partnerships**

CFDA Number: **84.366**

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

\_\_\_\_\_ Yes   X   No

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

(Continued)

SECTION II. FINANCIAL STATEMENT FINDINGS

**Finding # 2015-001: Lack of Segregation of Duties**

A good internal control plan involves an adequate segregation of duties to ensure no one person is in a position both to perpetuate and to conceal errors or irregularities.

During our review of the ESUCC's disbursement and receipt processes and our testing of selected transactions, we noted the following:

There is a lack of segregation of duties over the disbursement 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 the general ledger. However, we also noted compensating controls in place during the fiscal year, including review and approval of disbursements by the Executive Director, dual signatures on checks by the Board President and Board Treasurer, and approval of disbursements by the Board.

There is also a lack of segregation of duties over the receipts process. One person has the ability to receive checks and record initial control, perform the deposit entry, and reconcile the deposit document to the general ledger. We noted compensating controls in place during the fiscal year, including review of the deposit slip by the person who recorded initial control before taking the deposit to the bank; initials of both the individuals preparing and reviewing the deposit on the deposit slip; and review and approval of deposits, bank statements, and reconciliation reports by the Board.

A similar finding was noted in our prior audit.

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

We again recommend the ESUCC review its 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 beginning to end. If an adequate segregation of duties cannot be obtained, we recommend the ESUCC continue to monitor to ensure compensating controls are in place and effective.

*ESUCC Response: We will continue to monitor and ensure compensating controls are in place and effective. We will also continue to ensure that all transactions are reviewed and approved by multiple personnel. Beginning January 2016, additional procedures were implemented regarding payment procedures. Please refer to Internal Control and Payment Procedures in the Procedure Manual. We will continue to review at monthly budget meetings.*

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

(Continued)

SECTION II. FINANCIAL STATEMENT FINDINGS (Continued)

**Finding # 2015-002: Contractual Employees**

During the fiscal year ended August 31, 2015, the ESUCC had a total of 13 employees, which included the Executive Director, working on ESUCC projects. These 13 employees were officially ESU 17 employees. This was accomplished through an interlocal agreement between the ESUCC and ESU 17, which stipulated the employees were under the direct supervision of the ESUCC, and the ESUCC was ultimately responsible for the payroll costs of the employees.

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

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

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

During our audit, we noted that two employees, the ESU 17 Administrator and the ESU 17 Business Manager, had access to the Harris Fund Accounting Program used to process payroll. However, the ESU 17 Administrator has not been cross-trained to use the system to process payroll. With regards to the Harris Fund Accounting Program, we noted the system does not require passwords to be changed or certain password parameters to strengthen passwords. ESU 17 also does not have policies and procedures that address system passwords.

A similar finding was noted in our prior audit.

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

We again recommend the ESUCC develop a proper segregation of duties over the payroll process. We also recommend other employees be cross-trained to use the system to process payroll and policies and procedures be developed for password security.

*ESUCC Response: ESU 17 will have a new administrator beginning July 1, 2016. The administrator has knowledge and experience with the Harris Fund Accounting System. ESUCC will communicate with ESU 17 regarding procedural changes for cross training and password security. Procedures will be reviewed during monthly budget meetings at least twice a year.*

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

(Continued)

SECTION II. FINANCIAL STATEMENT FINDINGS (Continued)

**Finding # 2015-002: Contractual Employees (Continued)**

**B. Pay Splits between ESUCC Projects are Inadequately Supported**

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

During audit for the fiscal year ended August 31, 2013, we noted the following:

*In December 2013, the ESUCC started splitting four employee's time between projects. According to staff, the split times were based on a general understanding of the executive director's discussion with staff of the time they worked on the projects. No formal time study was used by the ESUCC to determine the time splits, and the ESUCC did not have any documentation of how these time splits were determined.*

During our current audit, we noted the ESUCC conducted a time study in the summer of 2015. However, it was not clear how the results correlated with the pay splits the ESUCC used, and the ESUCC did not make any changes to its budget following the time study. The ESUCC did not have adequate documentation of how the time splits were determined.

A similar finding was noted in our prior audit.

When time worked is not tracked by project, there is an increased risk that disbursements 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 again recommend the 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.

*ESUCC Response: ESUCC will continue to monitor staff splits to best match budget requirements/needs. Please refer to Staff Time/Pay Splits Procedure in the Procedure Manual (New 2016).*

**C. A Terminated Employee was Overpaid**

A good internal control plan requires procedures to ensure employees are paid correctly based on the number of days of worked.

During our testing of terminated ESUCC employees, we noted one terminated employee's final paycheck included a gross overpayment of \$244.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

(Continued)

SECTION II. FINANCIAL STATEMENT FINDINGS (Continued)

**Finding # 2015-002: Contractual Employees** (Concluded)

Contracts for ESUCC employees stipulate the number of days they are required to work during a fiscal year. If the employee is terminated during the fiscal year, the ESUCC performs a calculation to determine if the employee had been over or under paid based on the number of days the employee worked. In the case of the employee tested, the ESUCC based the employee's final pay on its calculation that the employee had worked 188 days during the fiscal year, when in actuality the employee had only worked 187 days. As the employee earned \$244 per day worked, paying the employee for one additional day resulted in an overpayment of \$244.

We recommend the ESUCC implement procedures to ensure days worked are accurately tracked and that terminated employees are paid properly based on their days of service.

*ESUCC Response: ESUCC and ESU 17 will continue to monitor employee days worked on a regular basis to ensure salaries are being paid accordingly and when termination applies days paid are accurate.*

**Finding # 2015-003: Capital Assets**

The ESUCC's informal capital asset policy #8-6003 (Certificate of Destruction) states the following:

*All requests for destruction of property need to be recorded on a "certificate of destruction". On this form, these categories are itemized. All equipment in the possession of any ESUCC Project needs to be authorized prior to destroying/scrapping/cannibalizing the property.*

A good internal control plan would require policies and procedures to be implemented and followed to ensure capital assets are being recorded properly and that an adequate segregation of duties exists over the capital asset inventory process. Such a plan should include a periodic (at least annual) inventory and documented review of the fixed asset listing, including all additions and retirements.

During our prior audits, we have reported that the ESUCC has no formal system in place to track capital assets. 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. Additionally, there was a lack of segregation of duties noted, as one person can perform all the functions for capital asset inventory.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

(Continued)

SECTION II. FINANCIAL STATEMENT FINDINGS (Continued)

**Finding # 2015-003: Capital Assets** (Concluded)

During our current audit, we noted the ESUCC developed a formal system to track and monitor capital assets, through the use of a Google Document. Four ESUCC employees have access to update or change assets on this listing, while all other staff have view-only access to the list. However, we noted no periodic documented review of the fixed asset listing, including all additions and retirements, is performed. Additionally, the ESUCC did not complete a formal inventory during the fiscal year. Finally, the ESUCC did not complete a Certificate of Destruction, as required by its own informal policies, for one of five asset disposals we tested.

A similar finding was noted in our prior audit.

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 again recommend the ESUCC Board continue to implement a strong internal control plan, which would include policies and procedures for capital assets, and review its staffing and assignments to determine if an adequate segregation of duties can be obtained. If an adequate segregation of duties cannot be obtained, we recommend the ESUCC put compensating controls in place to monitor capital asset inventory, including additions and deletions of items in the system and the capital asset listing. We further recommend that a periodic (at least annual) inventory be completed. Finally, we recommend that a Certificate of Destruction be completed, as required by informal policy, for all asset disposals.

*ESUCC Response: Updated inventory status will be added to monthly budget meetings and scheduled staff meetings for review and documentation. Please refer to Inventory Procedure in the Procedure Manual (new 2016).*

**Finding # 2015-004: ESUCC Contracts**

During our review of 14 ESUCC operational contracts, we noted multiple findings in both the processing of operational contracts and the policies and procedures of these contracts. The findings are outlined below.

**A. Lack of Formal Bidding Procedures**

A good internal control plan and good business practice would include a requirement that the ESUCC create policies and procedures that provide guidelines on which contracts are required to be bid out and which require formal or informal inquiries.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

(Continued)

SECTION II. FINANCIAL STATEMENT FINDINGS (Continued)

**Finding # 2015-004: ESUCC Contracts** (Continued)

For one vendor payment tested, we noted that no formal competitive bidding had been conducted for the services provided.

The ESUCC entered into a contract with Unicon, Inc. to develop an online portal. According to ESUCC staff, the contract was bid informally, and four vendors submitted bids. The total worth of the contract was \$88,000.

A similar finding was noted in our prior audit.

When large dollar contracts are not formally bid out, there is a greater risk the ESUCC may not be giving all potential bidders an opportunity to submit a bid proposal, and the ESUCC may not be receiving the lowest possible price for its services and products.

We recommend that the ESUCC develop specific policies and procedures to be used to judge when contracts are required to be bid out and whether this bid process is to be formal or informal.

*ESUCC Response: ESUCC will create a procedure to document the bid process.*

**B. Lack of Adequate Supporting Documentation**

A good internal control plan would include a requirement that all evaluations be completed and consistent criteria be applied when evaluating vendors.

For one vendor payment tested, we noted there was not adequate written documentation available to support that the best possible bidder was selected.

A vendor was to host all digital media for the BlendED/IMat project for schools throughout the State. The ESUCC signed a three-year agreement with Infobase Learning, the vendor, for the Learn360 license for statewide coverage for Nebraska Pre-Kindergarten to grade 12 schools. Payment was made to Infobase Learning in the amount of \$105,000 in the fiscal year ended August 31, 2015. To select the vendor, a selection committee comprised of staff from the ESUCC, ESUs, school personnel, etc., narrowed the field to prospective bidders who made presentations to the selection committee. The selection committee evaluated the vendors; however, not all evaluators completed all sections for all vendors, and it appears that inconsistent criteria were applied in the evaluation of vendors.

A similar finding was noted in our prior audit.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

(Continued)

SECTION II. FINANCIAL STATEMENT FINDINGS (Concluded)

**Finding # 2015-004: ESUCC Contracts** (Concluded)

When this documentation is not prepared, there is a greater risk the ESUCC may not be receiving the lowest possible price for its services and products.

We recommend that, when the ESUCC selection committee evaluates vendors, written documentation be maintained to support its selection.

*ESUCC Response: ESUCC will ensure that proper documentation is maintained and approved to support bid selection processes.*

**C. Legal Review of All Contracts**

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

During our testing of contracts between the ESUCC and vendors, the ESUCC did not provide documentation to support that eight contracts had been subject to legal review prior to being signed.

A similar finding was noted in our prior audit.

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

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

*ESUCC Response: ESUCC will ensure that documentation of legal review is obtained and noted in the contract management system.*

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**Finding # 2015-005**

**Program:** CFDA 84.366 – Mathematics and Science Partnerships – Allowable Cost Principles

**Grant Number & Year:** All open, including ##S366B1300280/S366B1400280, FFY 2015

**Federal Grantor Agency:** U.S. Department of Education

**Criteria:** OMB Circular A-87, Attachment B, §§ 8(h)(4) & (5), states, in relevant part:

*(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:*

- (a) More than one Federal award,*
- (b) A Federal award and a non Federal award,*
- (c) An indirect cost activity and a direct cost activity,*
- (d) Two or more indirect activities which are allocated using different allocation bases, or*
- (e) An unallowable activity and a direct or indirect cost activity.*

*(5) Personnel activity reports or equivalent documentation must meet the following standards:*

- (a) They must reflect an after the fact distribution of the actual activity of each employee,*
- (b) They must account for the total activity for which each employee is compensated,*
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and*
- (d) They must be signed by the employee.*
- (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards . . . .*

A good internal control plan requires procedures to ensure the ESUCC's payroll records are in compliance with Federal regulations.

**Condition:** The ESUCC did not have proper documentation on file to support payroll charged to the Nebraska Mathematics Professional Development Series (NMPDS) grant.

**Questioned Costs:** \$22,055

**Context:** During our audit period, the ESUCC received Federal grants, including NMPDS funds, from the Nebraska Department of Education. One ESUCC staff member charged time both to the NMPDS grant and to ESUCC general funds during the fiscal year ended August 31, 2015. The staff member's timesheets did not track time charged to the Federal grant, and ESUCC did not have other adequate documentation to support the charges. ESUCC charged a total of \$22,055 in payroll to the grant during the fiscal year ended August 31, 2015.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

(Concluded)

SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Concluded)

**Finding # 2015-005** (Concluded)

**Cause:** Unknown.

**Effect:** Without proper documentation on file to support payroll charged to Federal grants, there is an increased risk for loss or misuse of grant funds.

**Recommendation:** We recommend the ESUCC implement procedures to ensure proper documentation for all staff paid with Federal grants is on file in accordance with Federal regulations (OMB Circular A-87 for Federal awards issued prior to 12-26-14 and OMB Super Circular for Federal awards issued on or after 12-26-14).

**ESUCC Response:** ESUCC staff will maintain a time and effort log for any Federal grant work. Time and effort logs will be documented with date, activities, locations, hours, and salary details. All time and effort logs and documentation will be reviewed and approved.

**Management Response:** Executive Secretary will create time and effort logs for FY 2016 to have appropriate documentation needed to satisfy Federal grant requirements.

**Corrective Action Plan:** Use time and effort logs to document date, activities, locations, hours, and salary details for all work related to Federal Grant.

**Contact:** David Ludwig, [dludwig@esucc.org](mailto:dludwig@esucc.org) or 402-597-4915.

**Anticipated Completion Date:** Up to current fiscal year/day will be completed by May 15th and with continued documentation throughout remaining fiscal year.

SECTION IV. SCHEDULE OF PRIOR AUDIT FINDINGS

No prior single audit findings existed.