TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION
MARION COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2003

Auditor of State
Betty Montgomery

TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION
MARION COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

Tri-Rivers Educational Computer Association
Marion County
2222 Marion Mt. Gilead Road
Marion, Ohio 43302

To the Board of Directors:

We have audited the accompanying financial statement of the Tri-Rivers Educational Computer Association, Marion County, Ohio, (the Association) as of and for the year ended June 30, 2003. This financial statement is the responsibility of the Association's management. Our responsibility is to express an opinion on this financial statement based on our audit.

Except as discussed in the second following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described Note 1, the Association prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The governing boards of the Association and the TRECA Digital Academy (the Academy) are comprised of the same individuals. Additionally, the Association serves as fiscal agent and management of the Academy. Management of the Association allocated certain disbursements, including rent, credit card purchases, computer leases, and salaries between the Association and the Academy. These allocations were not based on written agreements, allocation plans, or records supporting that amounts were related to expenses incurred by the respective entities. On February 24, 2004, the respective governing boards ratified the actual allocations, though no allocation support was provided. Due to the lack of supporting documentation, we were unable to satisfy ourselves concerning the Association's reported disbursements which are based on management's actual allocations. The effects, if any, of such commingling on cash disbursements and fund cash balances is not reasonably determinable.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves concerning reported disbursements as described in the previous paragraph, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Tri-Rivers Educational Computer Association, Marion County, Ohio, as of June 30, 2003, and its combined cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2004, on our consideration of the Associations's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management, the Board of Directors, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

April 16, 2004

TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION
MARION COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2003

	Governmental Fund Types		
	General	**Special Revenue**	**Totals (Memorandum Only)**
Operating Cash Receipts:			
Fees	$4,494,222	$0	$4,494,222
Intergovernmental	639,128	603,190	1,242,318
Earnings on Investments	7,784	0	7,784
Miscellaneous	53,813	1,310	55,123
Total Cash Receipts	5,194,947	604,500	5,799,447
Cash Disbursements:			
Salaries	2,443,176	66,280	2,509,456
Employee Benefits	919,010	0	919,010
Purchased Services	1,209,965	563,573	1,773,538
Supplies and Materials	234,557	407	234,964
Debt Service	280,371	0	280,371
Capital Outlay	85,244	0	85,244
Miscellaneous	26,211	396	26,607
Total Cash Disbursements	5,198,534	630,656	5,829,190
Total Cash Receipts Under Cash Disbursements	(3,587)	(26,156)	(29,743)
Other Financing Receipts and (Disbursements):			
Proceeds from Line of Credit	50,000	0	50,000
Advances-In	0	7,070	7,070
Advances-Out	(7,070)	0	(7,070)
Total Other Financing Receipts/(Disbursements)	42,930	7,070	50,000
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	39,343	(19,086)	20,257
Fund Cash Balances, July 1, 2002	92,926	20,600	113,526
Fund Cash Balances, June 30, 2003	**$132,269**	**$1,514**	**$133,783**
Reserves for Encumbrances, June 30, 2003	$29,670	$0	$29,670

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

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NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Tri-Rivers Educational Computer Association, (the Association) is a Regional Council of Governments pursuant to Chapter 167 of the Ohio Rev. Code. The Association operates under a Board of Directors consisting of seven members, one elected annually from each of Marion, Morrow, Knox, Delaware, and Wyandot Counties; one representative from the city school districts; and the Superintendent of the Tri-Rivers Joint Vocational School District.

The Association provides computer systems for the needs of the member Boards of Education as authorized by state statute guidelines. The Association serves forty-six schools in Marion, Morrow, Knox, Delaware, Wyandot, Muskingum, Clark, Cuyahoga, Franklin, Hamilton, Lucas, Union, Mahoning, Summit, and Trumbull Counties.

Component units are legally separate organizations for which the Association is financially accountable. The Association is financially accountable for an organization if the Association appoints a voting majority of the organization's governing board and (1) the Association is able to significantly influence the programs or services performed or provided by the organization; or (2) the Association is legally entitled to or can otherwise access the organization's resources; the Association is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Association is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Association in that the Association approves the budget or issues debt. The TRECA Digital Academy (the Academy) is a component unit of the Association as a result of the entities having the same governing board. A separately issued report for the Academy will be made available upon request.

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

Investments are included in fund cash balances. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively. During fiscal year 2003, the Association had no investments.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting

The Association uses fund accounting to segregate cash that is restricted as to use. The Association classifies its funds into the following types:

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Association had the following significant Special Revenue Fund:

E-Rate Fund - This fund receives money for the purpose of paying for telecommunication services.

E. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as capital outlay disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

F. Unpaid Vacation and Sick Leave

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

G. Fees

The Association charges its forty-six members fees for data processing services. The Association sets the fee annually. The fee is based on the number of hours or processing time required for each member.

2. RETIREMENT SYSTEM

The Association's employees belong to the School Employees Retirement System (SERS) of Ohio. SERS is a cost-sharing, multiple-employer defined benefit plan. This plan provides retirement benefits, including post-retirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2003, members of SERS contributed 9% of their gross salaries. The Association contributed an amount equal to 14% of participant's gross salaries. The Association has paid all contributions required through June 30, 2003.

3. EQUITY IN POOLED CASH

The Association maintains a cash pool used by all funds. The Association has elected to follow the Ohio Revised Code guidelines that prescribe allowable deposits and investments. The carrying amount of cash at June 30 was as follows:

	2003
Demand deposits	$ 133,783

Deposits: Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

4. DEBT

Debt outstanding at June 30, 2003 was as follows:

	Principal	Interest Rate
Bank One Commercial Line of Credit	$51,260	6.25%

The line of credit was obtained to cover operating expenditures. All of the Association's business assets serve as collateral for this line of credit.

5. RISK MANAGEMENT

The Association has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Errors and omissions.

The Association also provides health insurance and dental and vision coverage to full-time employees through the Tri-Rivers Joint Vocational School insurance plan.

6. CONTINGENT LIABILITIES

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.

7. RELATED PARTY TRANSACTIONS

The TRECA Digital Academy (the Academy) is a component unit of the Association. As part of the Association's contractual agreement with the Academy, dated July 15, 2002, for fiscal year 2003, the Academy was required to pay the Association $660,000 for various services and support. At June 30, 2003, $165,000 of this amount was outstanding. Also $291,115 related to salaries and benefits reimbursements were owed by the Academy to the Association.

In addition to the $660,000 fee established between the Association and the Academy, during fiscal year 2003, the Academy also made the following payments related to the Association:

- $20,450 related to a lease entered into by the Association for additional office space;
- $550,265 related to various leases entered into by the Association for the acquisition of computers and related equipment;
- $23,880 for Academy purchases made on the credit card account of the Association;
- $2,260,666 and $853,191 of payroll and benefits, respectively, for the Association employees who served the Academy.

In the Comprehensive Services Agreement entered into between the Association and the Academy on September 10, 2001, the Academy agreed to pay the Association three percent of the state foundation plan payments received by the Academy, irrespective to when such payments were actually received by the Academy. In exchange for this fee, the Association agreed to provide the Academy with the services of instructional personnel, supervisory personnel (including technical and professional development positions), administrative personnel (including the positions of Executive Director and Treasurer), and technical personnel of sufficient number, training, and experience to effectively implement the Academy plan of operation as set forth in the Sponsor Contract filed with the Ohio Department of Education. The terms of this agreement were effective for succeeding school years unless otherwise agreed by the parties. Although a new and separate agreement between the Association and the Academy was adopted on July 15, 2002, for fiscal year 2003, management maintains the position that certain terms of this agreement were still effective for fiscal year 2003, but that required payments were modified by the July 15, 2002 agreement. Accordingly, no portion of the three percent fee was paid by the Academy for fiscal year 2003.

8. FINANCIAL DIFFICULTIES

The Association has incurred past due amounts owed to vendors and customers. At June 30, 2003, the Association owed $582,489 in overdue bills relating to telecommunication line charges and $115,068 in overdue bills relating to legal services provided by the Association's attorney, although total general and special revenue fund balances were only $132,269, and $1,514, respectively.

Certain grants for member school districts are received by the Association and subsequently disbursed to the member school districts. During the fiscal year, $77,000 of ONEnet monies were received by the Association and held for a ten month period. At June 30, 2003, $70,000 of that grant money had not yet been disbursed to the respective member districts.

8. FINANCIAL DIFFICULTIES (Continued)

During fiscal year 2003, the Association entered into a lease agreement with Bank One for the purchase of computer equipment. The Association was assessed late fees for seven of the eight payments made which totaled $5,995. In a separate lease entered into during fiscal year 2003 with a computer equipment vendor, the Association paid five of six payments late. These payments were past due by up to two and one-half months.

The Board approved a resolution on April 21, 2003, granting credits to member school districts in an amount totaling $536,823. These credits were issued pursuant to an agreement that refunds or credit memos would be given to the Association's member districts for amounts equal to the state funding lost by those districts whose students enrolled in the Association-sponsored digital academy (a separate entity established under Ohio's charter school legislation). This represents a decrease in revenues expected to be received during fiscal year 2004.

The Association has obtained a $100,000 line of credit which is referenced in Note 4. The line of credit has been obtained as a measure to meet the Association's operating expenditures when due. At June 30, 2003, $51,260 was outstanding on this line of credit. The Association's management also has the option to increase fees charged to member school districts, although no such action has been taken.

9. SUBSEQUENT EVENTS

Line of Credit

As of March 31, 2004, the Association paid the $51,260 line of credit outstanding at June 30, 2003, and drew an additional $50,000. Payments of $4,474 on the additional draw were made leaving an outstanding balance of $45,526 at March 31, 2004.

Contractual Agreement

On February 24, 2004, the Association and the Academy entered into a 2004 Comprehensive Services Agreement. Pursuant to this agreement, the parties established, in part, the following terms:

- The Association shall provide the Academy with instructional, supervisory/administrative, fiscal, and technical services sufficient to substantially implement, in cooperation with the Academy, the Academy's obligations pursuant to the Community School Contract (but not including those functions, such as governance, which the Academy is exclusively capable of performing).

- All personnel providing services in fulfillment of the Association's responsibilities shall be employees or contractors of the Association and the Association shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to its employees.

- The technical services provided by the Association to the Academy shall include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel necessary to implement the Community School Contract as required. All equipment shall remain the property of the Association, including but not limited to computer hardware and software equipment.

9. SUBSEQUENT EVENTS (Continued)

- In exchange for the services and support (including equipment) provided by the Association, the Academy shall pay to the Association the following fees:

  - Annual Fee – Beginning with the 2004-2005 school year, the Academy shall at the commencement of each school year (or at other times as agreed by the parties), pay to the Association for curriculum and program development, teacher training, and marketing services associated with the Academy, an annual fee in an amount agreed by the parties, that amount which was established, pursuant to an addendum to the agreement, at $50,000 for fiscal year 2004;

  - Ongoing Fees – On an ongoing basis, the Academy shall pay to the Association 99% of the base formula funds, and 100% of the additional funds (including but not limited to funds for special education and related services), received by the Academy from the Ohio Department of Education pursuant to section 3314.08 of the Ohio Revised Code. These percentages may be adjusted at any time by agreement of the parties

  - Other Payments – If and as agreed by the parties, the Academy may additionally pay to the Association funds received by the Academy from grants or other sources for services provided by the Association that are consistent with the purposes of such funds.

Past-Due Charges
As of March 31, 2004, the Association had paid the past due amounts related to the telecommunications billings and attorney services. However, as of this date, the Association had an overall fund balance of only $23,630 for all funds.

Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Tri-Rivers Educational Computer Association
Marion County
2222 Marion Mt. Gilead Road
Marion, Ohio 43302

To the Board of Directors:

We have audited the financial statement of Tri-Rivers Educational Computer Association, Marion County, Ohio, (the Association) as of and for the year ended June 30, 2003, and have issued our report thereon dated April 16, 2004, which was qualified because management of the Association allocated certain expenses, including rent, credit card purchases, computer leases, and salaries between the Association and the TRECA Digital Academy (the Academy), without supporting documentation to demonstrate that each entity paid only for is respective obligations. Except as discussed in the preceding sentence, 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.

Compliance

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards.* However, we noted a certain immaterial instance of noncompliance that we have reported to management of the Association in a separate letter dated April 16, 2004.

Internal Control Over Financial Reporting

In planning and performing the audit, we considered the Association's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Association's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-001 through 2003-005.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe each of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the Association in a separate letter dated April 16, 2004.

This report is intended for the information and use of management and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

April 16, 2004

SCHEDULE OF FINDINGS
JUNE 30, 2003

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

Finding Number	2003-001

Monthly Bank Reconciliations
Monthly cash reconciliations should be performed by the Association Treasurer to determine if all receipts and disbursements have been properly posted. Reconciling items should be identified at the time of the reconciliation. Documentation supporting or explaining all reconciling items should also be included with the reconciliation. Once completed, the reconciliation should be reviewed for completeness and accuracy by the Association Board.

When cash reconciliations are not timely performed, management cannot be assured that ledgers reflect the proper financial activity of the Association. Also, lack of legislative monitoring may lead to errors, irregularities, or misappropriation of Association assets.

The Association did not timely reconcile its accounting ledgers to the bank balances throughout the year. The Association prepared six months of bank reconciliations, from January 2003 through June 2003, at one time, in July 2003.

We recommend the Association Treasurer perform monthly bank to book reconciliations in timely manner that properly account for all transactions during the respective month. We also recommend the Association Board carefully review these reconciliations each month.

Finding Number	2003-002

Credit Cards
During fiscal year 2003, credit card purchases totaling $83,766 were incurred by the eight employees who hold credit cards on an account in the name of the Association. These credit cards were used not only to make purchases for the Association, but for the TRECA Digital Academy (the Academy) as well. The Academy is a legally separate entity for whom the Association acts as fiscal agent. Moreover, there was no policy governing the use of credit cards. The following examples, while not deemed illegal, give an indication of expenditures that can occur when proper policies and procedures are not in place.

- The Association's Personnel Policy Manual (Section 6.1(C)) expressly prohibits reimbursement for alcohol purchases. There was a credit card payment made for the purchase of alcohol, evidenced by fifty-five cents of liquor tax on the summary of a restaurant bill. The dollar amount of the alcohol purchase was not able to be determined because the original detailed receipt was not maintained.

- An Association employee used an Association credit card to purchase three packages of cigarettes on two separate occasions. The Association later required the employee to reimburse the Association for these purchases.

- The Association's employees made credit card gasoline purchases in the amount of $6,948 during the fiscal year without sufficient supporting explanation and/or documentation.

- The Association expended $658 for shirts and related logo embroidering without sufficient explanation and/or documentation of the purpose of such expenditure.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-002 (Continued)

Credit Cards (Continued)

- The Association expended $210 for valet parking for three employees attending a two-day conference in Columbus, Ohio. There was not documentation indicating the purpose of the valet parking; however, the Association later explained the expenditure was for secure parking rather than public parking for vans loaded with computer equipment.

- Out-of-state travel purchases incurred on the credit card, including air fare, hotels, rental cars, parking and meals, totaled $27,701. This amount does not include additional out-of-state travel reimbursements to employees who do not hold credit cards.

- Throughout the year, there were charges of $7,038 for meals unrelated to out-of-state travel. Of this amount, $4,109 related to meals in Marion, Ohio, the office location of the Association. There were also additional reimbursements paid to employees related to other in-state meal purchases. There is no policy in place allowing for meals to be provided other than out-of-state travel meals. Furthermore, receipts maintained for such meal purchases were primarily receipts only showing the total of the entire meal purchase; detailed receipts of the individual items purchased were not available.

There was an instance noted in which one employee used the credit card assigned to another employee. Ken Papay used the Association credit card assigned to John Shank to purchase postage stamps.

Of the total credit card purchases made, a total of $2,996 in credit card expenditures was made on days on which the payroll records reflect that the employee(s) who made the purchase in question were on vacation leave from work. The Association later explained the payroll records were incorrect and that the employees worked on these days instead of taking vacation leave.

Throughout the fiscal year, the credit card balance ranged between $3,348 and $17,145. At no time during the year was the entire balance on the monthly credit card statement paid in full. As a result, finance charges of $1,065 were incurred. Furthermore, there were five instances during the year in which no payment was made on the credit card balance or the payment was made late, thereby resulting in $115 of late fees.

Following credit card purchases, the Association's practice requires employees submit supporting documentation (e.g. receipt or invoice) to the Treasurer to maintain with the payment of the monthly credit card bill. However, neither the Association nor the Academy were able to provide any supporting documentation for $10,065 of the $83,766 of credit card purchases. Furthermore, receipts for the Superintendent's credit card purchases were not submitted to the Treasurer to be maintained with the credit card statements. Upon request, the receipts were later provided by the Superintendent.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-002 (Continued)

Credit Cards (Continued)
We recommend the Board adopt a policy regarding employee use of credit cards. This policy should indicate which employees are authorized to use the credit cards, specifically what types of purchases are allowable, what types of purchases are prohibited, and any maximum use amount in total and/or by purchase type. This policy should also require original supporting detailed receipts/invoices for every purchase made and that the original receipts be submitted to and maintained by the Treasurer. The policy should further establish a system of supervisor review and approval of credit card purchases and a system of monitoring to ensure the Board policy is being followed. We further recommend the Board review each monthly credit card statement prior to payment to help ensure purchases have been made only for authorized and proper public purposes. Finally, if credit card use will be permitted for in-state travel costs (including such items as lodging, meals, or motor fuel), the Board should establish a formal policy governing such costs, including what travel costs are permitted, what limits apply, and what supporting documents and approvals are required. Failure to establish and adhere to such a policy may result in possible findings for recovery in future periods.

Total payments made on the credit cards equaled $78,183. Of the total credit card payments made, $54,303 was paid by the Association and $23,880 was paid by the Academy.

Finding Number	2003-003

Commingling of Financial Activity
The Association serves as fiscal agent and management of the Academy, and the governing boards of both entities are comprised of the same individuals. Also, pursuant to Governmental Accounting Standards Board Statement No. 14, the Academy is considered a component unit of the Association for purposes of external financial reporting. The Academy and the Association, however, are legally separate entities requiring processing of respective financial transactions in separate accounting systems.

The governing boards of the Association and the Academy entered into a Comprehensive Service Agreement, dated September 10, 2001, initially covering fiscal year 2002 with provision for future application. Under the agreement the Association is to provide certain services to the Academy for a fee as set forth in the agreement. A twelve month Letter of Agreement was entered into between the Association and the Academy, signed July 15, 2002 by Mike Carder and Linda Phillips on behalf of the Academy and the Association, respectively. These individuals serve as the Association Superintendent and Treasurer, respectively, and serving in those capacities also serve as management of the Academy. The Letter of Agreement provides that the Association will provide certain services to the Academy for a fee as set forth in the agreement.

Other than the stated fees provided for in the agreements, neither the Comprehensive Service Agreement nor the Letter of Agreement explicitly provide that the Academy will reimburse the Association for the Association's actual costs of providing services under the agreements. Neither agreement provides guidelines or methodologies for allocating any joint costs. Finally, though the management of the Association and the Academy contend that certain provisions of both agreements were in effect for fiscal year 2003, it is not clear how certain service provisions and the fees provided for by the agreements are to be reconciled, or to what extent the Letter of Agreement effectively alters the Comprehensive Service Agreement approved by the governing boards.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-003 (Continued)

Commingling of Financial Activity (Continued)
The Association did not charge the Academy for the full service fee provided for in the Letter of Agreement. However, during the fiscal year, certain expenses, including rent payments, credit card purchases, computer lease payments, and employee salaries, were commingled and allocated between the entities such that it is unclear whether each entity properly paid for, and only for, its respective share of the expenses. These allocations were not based on allocation plans or records supporting that amounts were related to expenses incurred by the respective entities. In some cases, the allocations are related to services that are provided for under the agreements. Total allocations were in excess of the $660,000 fee provided for in the Letter of Agreement. On February 24, 2004, the respective governing boards ratified the actual allocations, although no allocation support was provided. A summary of the more significant allocations follows:

- In October 2002, the Association entered into a lease agreement for office space to be used primarily to house the Academy. Of the ten monthly lease payments made, eight payments were made by the Association totaling $81,800, and two payments were made by the Academy totaling $20,450. Neither the Association nor the Academy was able to provide any documentation, such as space utilization records, supporting this allocation.

- A credit card account is maintained in the name of the Association. Eight individuals who work for the Association (some of whom provide services to the Academy under the agreements) have been assigned credit cards on this account. Total credit card purchases were $83,766 and total credit card payments made were $78,183. Of the total payments made, $54,303 was paid by the Association and $23,880 was paid by the Academy. The Academy’s Treasurer, who also serves as Treasurer of the Association, determined the allocation of the payments between the Association and the Academy for each of the monthly credit card statements; however, the Treasurer was unable to provide any documentation supporting this allocation, or any documentation indicating which individual credit card purchases were made by/for which entity.

- Since fiscal year 2002, the Association has entered into two capital lease agreements with Apple Financial Services and one capital lease agreement with Bank One Leasing Corporation for the acquisition of computers and related equipment. These computers were acquired to be used by students who attend the Academy and by students who attend other digital academies that contract with the Association to provide instruction and computer equipment. The Association and the Academy each made various payments related to these leases. Since all three leases were entered into by the Association, title to the assets and the corresponding liability rests with the Association. Though there is no written agreement, the parties assert they have verbally agreed to terms by which the Academy makes payments on the leases for the portion of computers used by the Academy’s students. However, based on the Academy’s average number of students during the fiscal year and the average computer cost obtained from the three lease agreements, the Academy could have paid $350,385. Actual payments made by the Academy totaled $550,265, resulting in a difference of $199,880. Actual payments made by the Association totaled $226,586.

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

Finding Number	2003-003 (Continued)

Commingling of Financial Activity (Continued)

- All employees, including teachers and other support personnel, who provided service to the Academy, were hired by the Association as Association employees and are paid on Association paychecks. Each pay period, the Treasurer made a posting adjustment to allocate back to the Academy the payroll expense of the employees providing services to the Academy. This allocation is complicated by the fact that certain of the teachers who provide instruction to the Academy's students also provide instruction to students of other established digital academies that contract with the Association for instruction services. As such, if the Association and the Academy had agreed to allocate payroll associated with instruction of the Academy's students, the payroll associated with instruction of students from other digital academies contracting with the Association should be paid by the Association. The Treasurer was not able to provide any documentation, such as time records, supporting the allocation of such payroll between the Association and the Academy. Total payroll and benefits paid by the Academy during fiscal year 2003 was $2,260,666, and $853,191, respectively. Total payroll and benefits paid by the Association during fiscal year 2003 was $2,509,456, and $919,010.

As the Association and the Academy are legally separate entities, it is imperative to maintain separate and distinct operations. Failure to do so compromises the financial accountability for these entities and may result in possible findings for recovery in future periods.

Payment terms provided for in agreements should be adhered to. All significant service or cost allocation agreements should be in writing and clearly articulate the services or benefits to be provided and the manner and amount of payment. Additionally, for any overlapping financial activity allocated between the entities, clear and concise documentation needs to be maintained to support such allocation. Any allocation of rental expense between the entities should be supported by space utilization records that clearly support the proportion of the expense paid by each entity. In regard to the use of credit cards, we recommend the Association and the Academy maintain separate credit card accounts to properly separate their financial activity. Any allocation of computer lease payments should be in direct proportion to the number of students using the computers. Salary allocations of teachers who provide service on behalf of the Association and the Academy should be supported by time and/or student participation records. Similarly, any other expense allocated between the Association and the Academy should be made only after careful evaluation and documentation of the proportionate benefits received by each party and whether such services or benefits have already been provided for under an existing agreement.

Finding Number	2003-004

Board Monitoring

The Treasurer prepares monthly budget versus actual financial reports to present to the Board for monitoring purposes. These reports, however, combine all Association funds in one column. The Association receives various grant awards, each having stipulations regarding how the grant may or must be spent. As a result, it is important for the Board to monitor the Association's financial activity at the fund level. The lack of detailed information at the fund level limits the usefulness of these reports and, thus, may compromise the Board's ability to properly monitor the financial activity of the Association.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-004 (Continued)

Board Monitoring (Continued)
Furthermore, these reports are not generated from the Association's accounting system. Re-entry of financial information into separate spreadsheet files is not only inefficient but also increases the likelihood of data entry errors and, thus, may limit the usefulness of the information.

Although the accounting system contained no budgeted receipts or expenditures, the monthly reports prepared by the Treasurer did contain budgeted amounts. There is no indication these budgeted amounts in the financial reports were Board approved. Furthermore, estimated revenues and expenditures were increased by approximately $425,000 and $489,000, respectively, throughout the fiscal year with no Board approval. The usefulness of such budgeted versus actual reports may be limited if the budget is not Board approved.

Monitoring comprises regular management activities established to oversee whether management's financial objectives are being achieved. Data from such reports may indirectly provide assurance as to the reliability of financial reporting information if it conforms with the users' expectations. Lack of effective legislative monitoring may lead to errors, irregularities, or misappropriation of the Association funds.

Although not required by Ohio law, for effective monitoring of financial information, the Board should consider approving any financial activity budgets prepared by management after carefully reviewing the budget and requesting any supporting documentation or explanations as may be necessary. The Board should also request the financial reports be systems generated and provided at the fund level. The Board should carefully review these reports each month for any unusual or unexpected financial activity or account balances. Appropriate follow-up should be made regarding any unusual balances or transactions.

Finding Number	2003-005

Financial Status
At June 30, 2003, the Association had cash balances of $132,269 and $1,514 in the general and special revenue funds, respectively. The Association, however, had significant past due amounts owed to vendors and customers as of June 30, 2003, and had been assessed late fees during fiscal year 2003 related to certain of these past due amounts. Furthermore, $51,260 of the general fund cash balance was a draw on the Association's line of credit; thus the Association owed this amount back to its financial institution at June 30, 2003.

Under an agreement with member school districts and digital academies, the Association pays telecommunication bills for providing T1 internet lines to its members and is then reimbursed by the member districts. During fiscal year 2003, reimbursements significantly exceeded actual payments of the telecommunications bills indicating the school districts paid the Association for the services, but the Association failed to pay the related bills to the telecommunications vendors. As of June 30, 2003, the Association owed $582,489 of overdue bills to one telecommunications vendor. This overdue balance included accounts that were up to one year past due. Similarly, as of June 30, 2003, the Association owed its attorney $115,068, the entire amount of which was between three and ten months overdue.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-005 (Continued)

Financial Status (Continued)
Over a ten month period during fiscal year 2002 and 2003, the Association held $77,000 of ONEnet grant monies without notifying or crediting member school district accounts. As a result of the Association not disbursing the grant to the member districts, certain of these districts experienced some difficulty in obtaining ONEnet money for fiscal year 2004.

Also during fiscal year 2003, the Association entered into a lease agreement with Bank One for the purchase of computer equipment. The Association was assessed late fees for seven of the eight payments made which totaled $5,995. In a separate lease entered into during fiscal year 2003 with a computer equipment vendor, the Association paid five of six payments late. These payments were past due by up to two and one-half months.

In a measure that further strains the cash-flows of the Association, the Board approved a resolution on April 21, 2003, granting credits to member school districts in an amount totaling $536,823. These credits were issued pursuant to an agreement that refunds or credit memos would be given to the Association's member districts for amounts equal to the state funding lost by those districts whose students enrolled in the Association sponsored digital academy (a separate entity established under Ohio's charter school legislation). While this doesn't represent cash that the Association will be required to refund, it does represent a significant drop in revenues to be expected during fiscal year 2004 which may create further financial hardship for the Association.

As of March 31, 2004, the Association had paid the past due amounts related to the telecommunications billings and legal services. However, as of this date, the Association had a negative general fund balance of ($966,084), and an overall fund balance of only $23,630 for all funds. Furthermore, at this time, the Association had an outstanding balance on its line of credit in the amount of $45,526. Paying off the past due amounts has led to significant cash shortages for the Association.

To ease cash flow difficulties, the Association has secured a $100,000 line of credit which can be drawn at the discretion of management. At March 31, 2004, $45,526 was outstanding with a remaining available balance of $54,474. The Association's management has also asserted that charges to member school districts may be increased at any time if deemed necessary to maintain current operations. As of March 31, 2004, no such increases have been approved by the Board of Directors.

The Association has failed to pay vendors providing critical services in a timely manner, which may jeopardize the Association's ability to obtain such services in the future. The Association has also failed to provide significant services to member school districts properly and timely, which may jeopardize the Association's ability to maintain a sound customer base. A contributing factor in the Association's inability to pay all vendor invoices relates to its inability to collect contract fees from certain customers. For fiscal year 2003 services, $304,850 of fees charged were not collected as of June 30, 2003, $165,000 (or approximately 54%) of which is owed by the Academy. The Association's records reflect additional outstanding amounts due for services provided in prior fiscal years.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-005 (Continued)

Financial Status (Continued)

The Association's management and Board of Directors have not effectively monitored the financial transactions and activity of the Association, which has contributed to the financial difficulties the Association is experiencing. This lack of monitoring and the accounting practices described above increase the risk of errors or irregularities occurring and going undetected. We recommend the Board of Directors carefully evaluate the overall financial condition of the Association and formulate a long-range financial plan to address the financial difficulties. We also recommend the Association's Treasurer provide systems-generated monthly reports to the Board of Directors to allow for proper monitoring. Such reports should include budgeted versus actual receipts and disbursements by account, customer receivable listings, monthly check registers, and monthly bank reconciliations along with bank statements and documentation supporting any reconciling items. Through the use of these reports, the Board of Directors should closely monitor the Association's financial activity on a regular basis (e.g. monthly) to ensure the Association's financial plan is being followed, bills are being paid, and there is adequate cash flow to maintain operations.

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TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION

MARION COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 22, 2004