

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

**SEPTEMBER 1, 2013, THROUGH AUGUST 31, 2014**

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**Issued on December 19, 2014**

# 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, in part:

*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 ESUCC's] duties include, but are not limited to:*

- (a) Preparation of strategic plans to assure the cost-efficient and equitable delivery of services across the state;*
- (b) Administration of statewide initiatives and provision of statewide services; and*
- (c) Coordination of distance education.*

Based on the above statutory authority, 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, 2014:

- **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 implementing a Learning Object Repository (LOR) system using Safari Montage 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 Response To Intervention (RTI).
- **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 powers and duties of the ESUCC, 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;*

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### BACKGROUND

(Continued)

- (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.*

- **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. Additionally, beginning in 2010-2011, the accounting system for Coop was modified to serve as the central accounting for all ESUCC projects.

- **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. Annually, the I-Mat membership gathers to select titles to propose for purchase at a statewide level. ESUs contribute to the project for the "spring buy" and "special projects" each year. 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 VHS, DVD, and CD. Additionally, media materials are being digitized and made available through the Learn360 "media on demand" service and the Safari Montage Learning Object Repository (LOR). This digital format is opening up media materials, once difficult to obtain, to schools across the state. Additionally, the project works to match media to specific standards and is making media searchable for the most appropriate classroom use. 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.

## BACKGROUND

(Continued)

- **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 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. MyE is staffed by a director and shares administrative staffing with the ESUCC. The project has been guided by an advisory board consisting of ESU and school district (user) representatives. Currently, MyE supports the ANGEL and Blackboard learning management systems. The service is provided through annual user contracts and fees. Recent statistics indicate that there are approximately 26,500 user accounts in use by approximately 63 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.

- **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.

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### BACKGROUND

(Concluded)

- **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.
- **BlendEd Initiative (Technology Direction)**

In the fall of 2012, the ESUCC submitted an overview of the BlendEd Initiative to the Nebraska Information Technology Commission (NITC) with the vision of creating an eLearning system, bringing together the work of the ESUCC project areas into a more seamless shared learning environment. In May 2013, the position of Technology Project Manager was formed to coordinate this work across the ESUCC project areas. Projects involved in this effort are the I-Mat Learning Object Repository, MyE Learning Management Systems, and the ESU Professional Development Organization and affiliates. New work is beginning 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

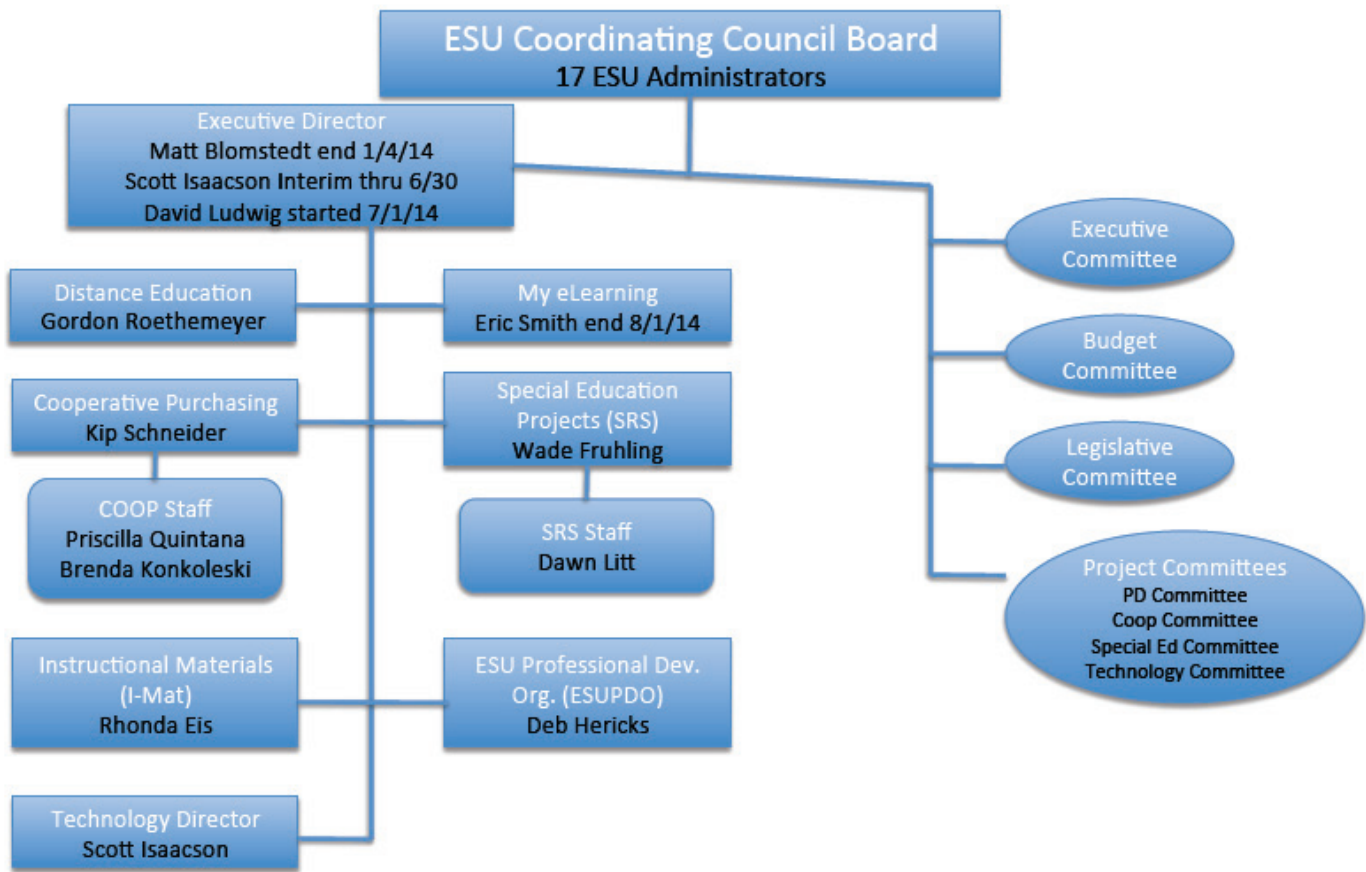
### **MISSION STATEMENT**

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 8/31/14



## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### EXIT CONFERENCE

An exit conference was held December 8, 2014, with the Educational Service Unit Coordinating Council (ESUCC) to discuss the results of our examination. Those in attendance for the ESUCC were:

NAME	TITLE
Jeff West	Board President (1)
Dennis Radford	Board Treasurer and ESU 17 Administrator
David Ludwig	Executive Director
Priscilla Quintana	Business Manager (1)
Deb Hericks	Assistant to Executive Director (1)
Jan Foster	ESU 17 Business Manager (1)

(1) Via Teleconference

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### SUMMARY OF COMMENTS

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

1. ***Contractual Employees:*** Several findings were noted in this area, as follows: a lack of segregation of duties overall; a lack of support for pay splits; and an overall lack of policies and procedures.
2. ***Disbursements:*** Our review noted an overall lack of segregation of duties. We noted several contract issues, including the following: contracts not on file; contracts not going through the competitive bidding process; no basis for selecting the vendor for contracts; and no documented legal review on contracts. Lastly, we noted these issues involving travel expense reimbursements: inadequate support for reimbursements; unreasonable lodging costs paid; and a lack of timely submission of reimbursement requests.
3. ***Receipts:*** There was a lack of segregation of duties over the receipt process.
4. ***Capital Assets:*** Policies and procedures were not in place to govern capital assets, and a lack of segregation of duties existed.

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

Draft copies of this report were furnished to the ESUCC to provide its management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this report. Where no response has been included, the ESUCC declined to respond. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next audit.

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### COMMENTS AND RECOMMENDATIONS

#### 1. **Contractual Employees**

During the fiscal year ended August 31, 2014, the ESUCC had a total of 12 employees, which included the Executive Director working on ESUCC projects. These 12 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. Those findings are outlined below.

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

The ESUCC and ESU 17 entered into an interlocal agreement that ESU 17 employees were to work on ESUCC projects, and, in return, the ESUCC would pay ESU 17 the cost of those employees' payroll. In reviewing the agreement between the ESUCC and ESU 17, covering the fiscal years ended August 31, 2013, and August 31, 2014, we noted that the ESUCC had dated its signature, but ESU 17's signature was not dated, and the agreement did not specify a time period. This was noted in the prior year audit. We did note, however, that the agreement for the fiscal years ending August 31, 2015, and August 31, 2016, corrected these issues.

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

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

The interlocal agreement in effect during the fiscal year ended August 31, 2014, was neither dated by the signer nor specified the time period for which it was valid. However, the agreement for the fiscal years ending August 31, 2015, and August 31, 2016, contains this information. Therefore, we have no further recommendation.

*ESUCC's Response: A review process regarding contract signatures, dated signatures, and time period will continue as demonstrated in the current fiscal year.*

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**1. Contractual Employees (Continued)**

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

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 that the system does not require passwords to be changed or certain password parameters to strengthen passwords. ESU 17 also lacks policies and procedures that address system passwords.

We also noted the ESUCC does not compare what it is billed to the actual payroll costs incurred by ESU 17 for ESUCC project employees. Such a comparison is necessary to ensure the ESUCC is paying ESU 17 the correct amount for payroll costs on an annual basis.

Further, we noted that there is no independent approval of the Executive Director's time calendars. The Executive Director receives all employee time calendars from the Executive Assistant and then approves them, including his own. Once they are approved, the Executive Assistant sends the time calendars to ESU 17 for processing.

We have noted the same issues in prior audits.

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

A lack of segregation of duties and a lack of controls over the payroll process 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. We further recommend the ESUCC compare what is billed to the actual payroll costs incurred by ESU 17 to ensure the ESUCC has paid the correct amount. Lastly, we recommend that someone else approve the Executive Director's time calendars.

*ESUCC's Response: In regard to segregation of duties, this was referred to ESU 17 for corrective action. The ESU 17 Administrator will approve the ESUCC Executive Director's time calendar.*

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**1. Contractual Employees (Continued)**

**C. Pay splits between ESUCC projects are inadequately supported.**

During our prior audit, we noted the following:

*In December 2013, the ESUCC started splitting four employees' 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 no changes regarding how pay splits were determined. The ESUCC did not conduct a formal time study to determine time splits and lacked adequate documentation of how the time splits were determined.

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

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's Response: ESUCC staff will conduct a formal time study each year for a one-week period.*

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

During our prior audit, we noted the following:

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

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### COMMENTS AND RECOMMENDATIONS

(Continued)

#### 1. **Contractual Employees** (Concluded)

*For granting leave to employees each year, the Executive Director uses informal guidelines for authorizing annual vacation leave, but no formal guidelines have been documented and approved by the ESUCC Board as part of its formal policies and procedures. This was also a prior year finding.*

*The only change completed, in an attempt to address this finding, is that vacation is now formally recognized and awarded in the employment contracts for the fiscal year ended August 31, 2013, as opposed to the fiscal year ended August 31, 2012, in which the Executive Director would informally tell the Business Manager at ESU 17 what to enter into the Harris Fund Accounting system for awarding and tracking leave.*

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

During our current audit, we noted the ESUCC did not formally adopt personnel policies and procedures to correct this finding during the fiscal year ended August 31, 2014. Policies were adopted by the Board and became effective on October 9, 2014.

A good internal control plan requires formal personnel policies and procedures to be in place.

Formal policies and procedures were not in place during the fiscal year ended August 31, 2014; however, policies were adopted by the Board on October 9, 2014. Therefore, we have no further recommendation.

*ESUCC's Response: The ESUCC Board Policies were adopted October 9, 2014 and will be scheduled for review in June of each year.*

#### 2. **Disbursements**

During our review of the ESUCC's disbursements process and our testing of selected transactions, we noted the following:

##### **A. A lack of segregation of duties exists in the disbursement process.**

There is a lack of segregation of duties over the disbursement process. This lack of segregation of duties has arisen due to one person having the ability to receive purchased items, approve the invoice for payment, prepare the payment voucher, and reconcile documents to the general ledger. This finding was also noted in prior years. We noted compensating controls in place during the fiscal year ended August 31, 2014, 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.

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### COMMENTS AND RECOMMENDATIONS

(Continued)

#### 2. **Disbursements** (Continued)

A good internal control plan requires an adequate segregation of duties over the disbursement process.

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 the disbursement process through effective compensating controls.

*ESUCC's Response: ESUCC will review a process that provides for one staff member responsible for receiving purchased items, one staff assigned to approve payment and prepare the payment voucher, and one staff assigned to reconcile documents to the general ledger.*

#### **B. We reviewed 10 ESUCC contracts and noted the following:**

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

The ESUCC entered into a contract for a crisis trainer. According to ESUCC staff, the contract was for a specialized trainer in the field of crises training, which constituted a sole source vendor to whom competitive bidding did not apply. For training and related expenses, the ESUCC paid the crisis trainer in excess of \$32,000 in the fiscal year ended August 31, 2014. However, there was a lack of documentation showing the basis for designating this vendor as being truly a sole source vendor.

A similar finding was noted during our prior audit.

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

When documentation in support of a sole source designation is not prepared, 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.

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. Disbursements (Continued)**

We again recommend that, when the ESUCC considers a vendor to be a sole source, documentation be prepared to support that decision. If a sole source vendor designation cannot be supported, the service or goods being purchased should go through the formal bidding process.

- For two vendor payments tested, we noted there was no written documentation available to support the lowest possible bidder was chosen.

ESM, a software vendor, was paid \$150,000 for an annual software subscription fee in the fiscal year ended August 31, 2014. To select the vendor, an ESUCC selection committee narrowed the field to three prospective bidders who made presentations to the selection committee. The selection committee evaluated the vendors verbally; therefore, no written documentation was available to support the lowest possible bidder was chosen.

A second 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 \$98,000 in the fiscal year ended August 31, 2014. 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, the ESUCC was unable to provide documentation to support the lowest possible bidder was chosen.

A similar finding was noted in our prior audit.

A good internal control plan would include a requirement that written documentation be available to support that the lowest possible bidder was chosen.

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

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

- For four vendor payments tested, the ESUCC did not have a contract on file.

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### COMMENTS AND RECOMMENDATIONS

(Continued)

#### 2. **Disbursements** (Continued)

The ESUCC paid Soliant Consulting, Inc, \$226,645 during the fiscal year ended August 31, 2014, for web consulting, production support, and maintenance services. However, the ESUCC did not have a contract with the vendor on file.

The ESUCC paid Renovo Software \$88,896 during the fiscal year ended August 31, 2014, for annual maintenance support and upgrades for software used for distance education. The contract provided by the ESUCC had an end date of June 30, 2010. No current contract was on file.

The ESUCC had a service contract with RMC Research Corporation for a fixed contract amount of \$37,918 for the period June 1, 2013, to November 30, 2014. The amount paid during the fiscal year ended August 31, 2014, was \$18,959. Additionally, the ESUCC had an agreement with Angel/Blackboard to provide services in the amount of \$138,600 for the period July 1, 2013, to June 30, 2014. However, when we requested a copy of these contracts, the ESUCC had to contact the vendor to obtain them. It was also noted that the contract with Angel/Blackboard contained no termination clause.

We had a similar finding in our prior audit.

A good internal control plan would require that the ESUCC enter into contractual agreements for all services and maintain such contracts on file. Additionally, a good internal control plan would require that a termination clause be included in all contracts. When contracts are on file, and their terms are specific and enforceable, the ESUCC's interests are protected during the periods covered by those agreements.

When there is no contractual arrangement for services, it is more difficult for the ESUCC to determine if billing statements are accurate and complete. When contracts are not kept on file, the ESUCC is at risk of making payments outside the terms of those agreements. When a termination clause is not included in every contract, the ESUCC is at risk of incurring legal liability for exiting the contract prematurely.

We recommend the ESUCC enter into contracts for all services obtained. In addition to containing a termination clause, those contracts should be maintained on file.

- During our testing of contracts between the ESUCC and vendors, the ESUCC did not provide documentation to support that five contracts had been subject to legal review prior to being signed. This was a prior year audit finding.

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

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### COMMENTS AND RECOMMENDATIONS

(Continued)

#### 2. **Disbursements** (Continued)

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 disputes, and even litigation, with vendors.

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

- One payment tested was made to the ESUCC's legal counsel, Harding & Schultz. The contract between the ESUCC and Harding & Schultz included neither specific terms for the effective dates of the agreement nor a termination clause. The invoice submitted to the ESUCC for January 2014 legal services did not identify the number of hours worked on each activity; therefore, it could not be determined whether the amount paid agreed to the terms of the contract.

A good internal control plan would require terms of contracts to be specific and enforceable and a termination clause to be included in all contracts. Additionally, a good internal plan would require the ESUCC to ensure adequate documentation be provided to determine if billing statements are accurate and complete and in accordance with the terms of the contract.

When terms of contracts for services are not specific and enforceable, it is more difficult for the ESUCC to determine if billing statements are accurate and complete. When a termination clause is not included in all contracts, the ESUCC is at risk of incurring legal liability for exiting the contract prematurely.

We recommend the ESUCC ensure all contracts entered into contain terms that are specific and enforceable and also contain a termination clause. We also recommend the ESUCC ensure billing statements contain adequate documentation to support that they are accurate, complete, and in accordance with contract terms.

*ESUCC's Response: A formal process for a yearly review of contracts to include documentation for bidding, legal review and a termination clause will be implemented. A spreadsheet for purpose of review will be developed and implemented.*

#### **C. We reviewed 10 travel-related disbursement documents and noted the following (many of the findings noted during our current audit were also noted during our prior audit):**

- During our audit, we noted that the ESUCC had not yet developed formal policies and procedures related to the payment of travel expenses and reimbursements during the fiscal year ended August 31, 2014. This was also noted in our prior audit. The ESUCC did develop policies, but they were not adopted by the Board until October 9, 2014.

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. Disbursements (Continued)**

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

Formal policies and procedures were not in place during the fiscal year ended August 31, 2014; however, policies were adopted by the Board on October 9, 2014. Therefore, we have no further recommendation

- For 4 of 10 travel disbursements, expense reimbursement requests were not submitted in a timely manner. One reimbursement was for \$8,442 and was for 27 trips from August 2013 to June 2014. That reimbursement was paid on August 27, 2014. The second was for \$1,442 and was for 11 trips in September, October, and November 2013. That reimbursement was paid on December 12, 2013. The third reimbursement was for \$3,563 and was for 14 trips from January through May 2013. That reimbursement was paid on September 13, 2013. The fourth reimbursement was for \$1,014 and was for 15 trips from March through July 2014. It was paid on July 24, 2014.

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

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

We recommend the ESUCC develop formal, consistent policies for the timely submission, such as monthly, of reimbursement requests.

- For two of six reimbursements for mileage, there were no mileage logs specifying dates, purpose of travel, starting points, and destinations. One reimbursement consisted of several trips made by an ESUCC employee in September, October, and November 2013. The other was for several trips made by an ESUCC employee from January through May 2013. In both cases, the Auditor of Public Accounts (APA) recalculated mileage based on destinations listed on other forms of documentation (invoices, minutes, receipts, etc.) and the employees' office or home as the starting location.

Also, for one of six reimbursements for mileage, the mileage was not reasonable based on the most direct route of travel. The reasonableness of mileage was determined by calculating mileage in excess of 10% of Google Maps mileage. For one trip, ESUCC reimbursed mileage for the sponsor of a student who won a contest to attend a ceremony

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. Disbursements (Continued)**

in Lincoln, NE. The sponsor was reimbursed for 563 miles, round trip, from Dunning, NE, to Lincoln, NE. Per Google Maps, Dunning, NE, to Lincoln, NE, is 434 miles round trip. The reimbursed mileage exceeded Google Maps mileage by 129 miles. The amount reimbursed for mileage was \$73 more than what it would have been if the most direct route had been used.

A good internal control plan would require adequate supporting documentation of mileage incurred for work travel purposes. This would include having travel logs that contain start and stop times, travel location, and purpose of travel. In addition, a reasonable policy for travel reimbursement would be to reimburse for mileage based on the most direct route of travel.

When there is a lack of adequate documentation for mileage incurred, or when mileage reimbursements are not made for the most direct route of travel, there is greater risk for fraud or abuse of travel disbursements.

We recommend the ESUCC ensure policies and procedures provide requirements for documenting mileage in a travel log that would be submitted with the reimbursement request and other supporting documentation verifying the location of the work event. In addition, we recommend the ESUCC establish policies and procedures to reimburse mileage for the most direct route of travel.

- For two of five travel disbursements with lodging reimbursements tested, lodging costs were not considered reasonable based on U.S. General Services Administration (GSA) per diem rates. On the first disbursement for lodging, the ESUCC paid for an employee to stay in Doylestown, Pennsylvania, while meeting with a vendor. The ESUCC paid \$179 per night, for two nights. The GSA per diem rate was \$77 per night, so the ESUCC paid \$204 more than the GSA per diem rate for the two nights.

On the second disbursement, the ESUCC paid for lodging for individuals attending a Math Standards and Practices training seminar in Kearney, NE. Lodging rates at the hotel were either \$90 or \$100, depending on the date of stay. The GSA per diem rate for Nebraska was \$83 per night. If the GSA per diem rate had been paid, the ESUCC would have paid \$2,739. However, the ESUCC paid \$3,255, for an overpayment of \$516. It was also noted that taxes on in-state lodging and late fees were included in the payment. Of that \$516 overpayment, \$13 was due to taxes being paid for in-state lodging, \$34 was due to late fees on the hotel billing, and the remaining \$469 was due to the ESUCC paying rates higher than the GSA per diem rate.

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### COMMENTS AND RECOMMENDATIONS

(Continued)

#### 2. **Disbursements** (Concluded)

A good internal control plan and good business practices would require disbursements for lodging to fall within the GSA per diem rates. Good business practices would also require that taxes not be paid on in-state lodging because the ESUCC is exempt from State taxes. Additionally, invoices should be paid in a timely manner to avoid incurring late fees.

When disbursements for lodging do not fall within the GSA per diem rates, there is increased risk for abuse of travel disbursements. When taxes are paid on in-state lodging, there is increased risk that the ESUCC will overpay for lodging. When invoices are not paid in a timely manner, there is increased risk that the ESUCC will incur late fees.

We recommend that GSA per diem rates be followed for lodging disbursements. We also recommend that the ESUCC not pay taxes on in-state lodging. Additionally, we recommend that the ESUCC implement policies and procedures to ensure that invoices are paid in a timely manner.

*ESUCC's Response: Beginning with the 2014-15 year, the home base location for each ESUCC employee was established, as this process will continue each year. Random review of mileage using Google Maps will be conducted and ESUCC Personnel will continue to be informed through staff meetings regarding submission of mileage reimbursement in a timely manner.*

#### 3. **Receipts**

In our review of the receipt process, we noted the following:

A lack of segregation of duties exists for the ESUCC receipt process. One person has the ability to receive checks and record initial control. Another person has the ability to perform the deposit entry and reconcile the deposit document to the general ledger. This finding was also noted in our prior five audits. We noted compensating controls in place during the fiscal year ended August 31, 2014, 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 good internal control plan would include an adequate segregation of duties to ensure no one person is in a position both to perpetuate and to conceal errors or irregularities.

A lack of segregation of duties increases the risk of error or fraud and misuse of funds.

**COMMENTS AND RECOMMENDATIONS**

(Concluded)

**3. Receipts (Concluded)**

We recommend the ESUCC review its staffing assignments to determine if an adequate segregation of duties can be obtained, so no one individual is able to perform the entire receipt process. If an adequate segregation of duties cannot be obtained, we recommend the ESUCC continue to monitor the receipt process through effective compensating controls.

*ESUCC's Response: ESUCC will review a process that provides for one staff member responsible for receiving checks and recording initial control and one person responsible for deposit entry and reconciling the deposit document in the general ledger.*

**4. Capital Assets**

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.

A good internal control plan would require that a system be in place to track capital assets in order to decrease the risk that assets of the ESUCC will be lost or stolen, policies and procedures are followed to ensure capital assets are being recorded properly, and an adequate segregation of duties exists over the capital asset inventory process.

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.

*ESUCC's Response: A database created within ESU 17 will be implemented as a formal system to track and monitor capital assets within ESUCC.*



## 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, 2014, 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, 2014, 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. Prior to August 31, 2014, the financial statements were prepared on the modified cash basis of accounting. 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 – General Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining schedule – General Fund 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 – General Fund 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 25 through 30 and 44 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 December 19, 2014, 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.

December 19, 2014



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, 2014. 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 (e.g., combining schedules and budgetary information) in addition to the basic financial statements. These components are described below.

##### **Government-Wide Financial Statements**

These statements are intended to provide a broad view of 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 31 presents all of the ESUCC's assets on the cash basis, as described above, with the difference between the two reported as "net position."

The *Statement of Activities* on page 32 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 33 and 34, 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 offer 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 35.

#### **Other Information**

Following the basic financial statements and the accompanying notes thereto is additional information that further explains and supports the information in such financial statements. The other information consists of the budgetary schedule and notes and combining schedule. This information can be found beginning on page 44.

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

The ESUCC's Net Position for the fiscal year ended August 31, 2014, compared to the fiscal year ended August 31, 2013, decreased by \$910,551. This decrease is generally due to the change in the annual buy project of the Nebraska ESU Cooperative Purchasing Unit 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 2014-2015 school year, the school districts are directly purchasing items needed from the vendors and the ESUCC is no longer operating and administering the billing for the project. Another reason for the decrease was the decision to change the presentation of the financial statements from the modified cash basis of accounting, as used in the fiscal year ended August 31, 2013, to the cash basis of accounting for the fiscal year ended August 31, 2014. 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 \$728,885 at August 31, 2014, as compared to \$4,122,926 at August 31, 2013. Due to the preparation of the financial statements on a cash basis for the fiscal year ended August 31, 2014, there were no liabilities as of August 31, 2014. Net position amounted to \$728,885, as of August 31, 2014. As of August 31, 2013, liabilities were \$2,483,490 and net position was \$1,639,436.

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 \$728,885, as of August 31, 2014.

	<b>Net Position</b> <b>As of August 31</b>	
	<b>Cash Basis</b> <b>2014</b>	<b>Modified</b> <b>Cash Basis</b> <b>2013</b>
ASSETS:		
Cash and Cash Equivalents	\$ 728,885	\$ 2,767,446
Accounts Receivable	-	1,353,078
Prepaid Items	-	2,402
<b>Total Assets</b>	<u>728,885</u>	<u>4,122,926</u>
LIABILITIES	<u>-</u>	<u>2,483,490</u>
NET POSITION:		
Unrestricted	728,885	1,639,436
<b>Total Net Position:</b>	<u>\$ 728,885</u>	<u>\$ 1,639,436</u>

As of August 31, 2014, the ESUCC's assets consisted of cash and cash equivalents. This compares to 67%, as of August 31, 2013. The majority of the remaining assets consisted of accounts receivable at the Nebraska ESU Cooperative Purchasing Unit in the amount of \$1,353,078, as of August 31, 2013. The difference between the two years is generally a result of the change in the annual buy project of Cooperative Purchasing for the 2014-2015 school year.

The ESUCC did not have any liabilities as of August 31, 2014. The ESUCC's liabilities as of August 31, 2013, consisted primarily of liabilities at the Nebraska ESU Cooperative Purchasing Unit in the amount of \$2,483,490. The difference in liabilities from year to year is based on the change of the annual buy project for the 2014-2015 school year.

The ESUCC's net position was \$728,885 and \$1,639,436, as of August 31, 2014 and 2013, 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, 2014.

### Changes in Net Position

	<b>Fiscal Year Ended August 31, 2014 Cash Basis</b>	<b>Fiscal Year Ended August 31, 2013 Modified Cash Basis</b>
Receipts:		
Program Receipts		
Charges for Services	\$ 2,502,100	\$ 6,336,063
Operating Grants and Contributions	118,081	83,482
General Receipts:		
State Appropriations	565,593	565,593
Penalties and Fees	37	102,204
Miscellaneous	264	365
<b>Total Receipts</b>	<b>3,186,075</b>	<b>7,087,707</b>
Disbursements:		
ESU Professional Development	878,201	474,323
Distance Education Council	354,264	287,109
My E-Learning	306,263	279,418
Special Education	455,513	422,073
Instructional Materials	220,469	321,760
Nebraska ESU Cooperative	3,009,926	5,612,260
<b>Total Disbursements</b>	<b>5,224,636</b>	<b>7,396,943</b>
Change in Net Position	(2,038,561)	(309,236)
<b>Net Position - Beginning</b>	<b>2,767,446</b>	<b>1,948,672</b>
<b>Net Position - Ending</b>	<b>\$ 728,885</b>	<b>\$ 1,639,436</b>

### 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, 2014, were \$2,502,100, and for the fiscal year ended August 31, 2013, they were \$6,336,063. The change between the two periods reflects the change in the annual buy project of the Cooperative Purchasing for the 2014-2015 school year.

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

The second largest source of receipts is generated by general receipts. The general receipts were comprised primarily of State appropriations for 2% of core services funding, but they also included capital grants. General receipts for the fiscal year ended August 31, 2014, were \$565,894 and for the fiscal year ended August 31, 2013, were \$668,162. Some or all of the change between periods is the availability of general receipts from State appropriations as well as grant sources supporting ESUCC projects.

#### Disbursements

The largest single 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, 2014, were \$3,009,926 and for the fiscal year ended August 31, 2013, were \$5,612,260. The change between periods reflects the change in the Cooperative Purchasing annual buy for the 2014-2015 school year.

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, 2014, were \$2,214,710 and for the fiscal year ended August 31, 2013, were \$1,784,683. Increases in disbursements for other programs managed by the ESUCC are basic inflationary increases in program costs, including, but not limited to, salary and benefit increases and general inflationary costs of maintaining existing programs and services.

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

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

	<b>Budget</b>	<b>Actual</b>	<b>Positive (Negative) Variance</b>
Beginning Balance	\$ 1,728,132	\$ 2,767,446	\$ 1,039,314
Total Receipts	12,091,793	3,186,075	(8,905,718)
Total Disbursements	12,275,250	5,224,636	7,050,614
Net Increase (Decrease)	(183,457)	(2,038,561)	(1,855,104)
Ending Balance	\$ 1,544,675	\$ 728,885	\$ (815,790)

The largest variance between budgeted and actual receipts was Local Receipts, which were budgeted to be \$10,864,550 but were actually \$2,502,100. 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 budget was also adopted prior to the decision to change to direct shipping for the 2014-2015 school year Cooperative Purchasing annual buy.

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### MANAGEMENT'S DISCUSSION AND ANALYSIS

(Concluded)

The largest variances between budgeted and actual disbursements were due to the Coop Program Purchases, which had budgeted \$8,150,000 but incurred actual costs of \$2,421,706. Again, this is due to the potential for the ESU Coop's large fluctuations and the timing differences of when the budget was adopted and the decision to change to direct shipping for the 2014-2015 school year Cooperative Purchasing annual buy, as described above.

#### 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 manage most efficiently and effectively the changing environment in educational technology. Future fiscal years will 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, 2014

	<u>Governmental Activities</u>
ASSETS	
Cash and Cash Equivalents	<u>\$          728,885</u>
Total Assets	<u><u>728,885</u></u>
NET POSITION	
Unrestricted	<u>728,885</u>
Total Net Position	<u><u>\$          728,885</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, 2014

		Program Receipts		Net (Disbursements), Receipts, and Changes in Net Assets
			Operating	Total
	Disbursements	Charges for Services	Grants and Contributions	Governmental Activities
<b>FUNCTIONS/PROGRAMS:</b>				
Primary Government				
ESU Professional Development	\$ 878,201	\$ 260,418	\$ 113,102	\$ (504,681)
Distance Education Council	354,264	2,974	-	(351,290)
My E-Learning	306,263	162,214	-	(144,049)
Special Education	455,513	388,212	4,979	(62,322)
Instructional Materials:				
General Administration	54,633	226,659	-	172,026
I-Mat Program Purchases	165,836		-	(165,836)
Nebraska ESU Cooperative Purchasing:				
General Administration	588,220	1,461,623	-	873,403
Coop Program Purchases	2,421,706	-	-	(2,421,706)
Total Governmental Activities	<u>\$ 5,224,636</u>	<u>\$ 2,502,100</u>	<u>\$ 118,081</u>	<u>(2,604,455)</u>
General Receipts:				
				565,593
State Appropriations				37
Penalties and Fees				264
Miscellaneous				
Total General Receipts				<u>565,894</u>
Change in Net Assets				(2,038,561)
Net Position - Beginning (Restated - Note 1)				<u>2,767,446</u>
Net Position - Ending				<u>\$ 728,885</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, 2014

	<u>General Fund</u>
ASSETS:	
Cash and Cash Equivalents	<u>\$ 728,885</u>
 Total Assets	 <u><u>\$ 728,885</u></u>
 FUND BALANCE:	
Committed	250,000
Unassigned	<u>478,885</u>
 Total Fund Balance	 <u><u>\$ 728,885</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, 2014

	General Fund
RECEIPTS:	
Local	\$ 2,502,100
State	565,593
Federal	118,081
Penalties and Fees	37
Miscellaneous	264
Total Receipts	<u>3,186,075</u>
DISBURSEMENTS:	
Purchased Services (Note 6)	1,434,800
General Administration	265,762
Supplies	5,447
Capital Outlay	39,659
Computer Software and Other Equipment	375,075
Travel	50,783
I-Mat	5,567
NOC	14,801
SDA	210,641
SPED	14,955
TAG	3,403
NMPDS	216,201
I-Mat Program Purchases	165,836
Coop Program Purchases	2,421,706
Total Disbursements	<u>5,224,636</u>
Excess of Receipts Over (Under) Disbursements	(2,038,561)
Fund Balance - Beginning (Restated - Note 1)	<u>2,767,446</u>
Fund Balance - Ending	<u><u>\$ 728,885</u></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, 2014

### 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, 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 statewide 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. The State's distance education director is housed at ESU 10. 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. The Coop director is in Lincoln, and operations are housed at ESU 17 (Ainsworth).
- **Instructional Materials (I-Mat):** I-Mat is a statewide project that purchases rights to media materials and makes them available through local ESUs in a variety of formats. The staff member for I-Mat is housed at ESU 5 (Beatrice).
- **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. MyE staff are housed at ESU 3 (Omaha).
- **Special Education (SPED) Projects:** There are three special education projects managed by the ESUCC in its Lincoln offices. 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 the fall of 2012, the ESUCC submitted an overview of the BlendEd Initiative to the Nebraska Information Technology Commission (NITC) with the vision of creating an eLearning system, bringing together the work of the ESUCC project areas into a more seamless shared learning environment. Projects involved in this effort are the I-Mat Learning Object Repository, MyE Learning Management Systems, and the ESU Professional Development Organization and affiliates.

#### ***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 – criteria for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, 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 is 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/Restatement*

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.

Prior to the fiscal year ended August 31, 2014, the ESUCC prepared its financial statements on the modified cash basis of accounting, where the cash basis of accounting was modified to record accounts receivables and accounts payables. The ending net position/fund balance at August 31, 2013, on the modified cash basis of accounting was \$1,639,436. The beginning net position/fund balance for the fiscal year ended August 31, 2014, was restated to the cash balance at August 31, 2013, of \$2,767,446 to reflect the change in basis of accounting to the cash basis.

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

##### ***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.

##### ***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.

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

##### ***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.

#### 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, 2014, 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, 2014, 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@esucc.org](mailto:dludwig@esucc.org).

# EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

### 2. Deposits and Investments (Continued)

The ESUCC's bank balance and carrying amount of deposits at August 31, 2014, are set out below:

	<b>Bank Balance</b>	<b>Carrying Amount</b>
Bank Deposits	\$ 51,560	\$ 9,282
NPAIT Deposits	295,898	295,898
<b>Total</b>	<b>\$ 347,458</b>	<b>\$ 305,180</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, 2014, 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, 2014, 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.

**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, 2014, 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, 2014, the ESUCC had \$423,349 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 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.

# EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

### 2. Deposits and Investments (Concluded)

*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, 2014, 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, 2014, 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, 2014, is as follows:

#### **Carrying Value:**

Bank and NPAIT Deposits	\$	305,180
NPAIT Investments		423,349
Prepaid Items		356
<b>Total</b>	<b>\$</b>	<b>728,885</b>

### 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.

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

#### 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.

##### **Funding Policy**

Plan members were required to contribute 9.78% of their annual covered salary from September 1, 2013, to August 31, 2014. 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, 2014, the ESUCC employees contributed \$81,492, and the ESUCC contributed \$82,307, which equaled the required contribution. For the fiscal years ended August 31, 2013, and August 31, 2012, the ESUCC employees contributed \$73,338 and \$61,814, respectively, and the ESUCC contributed \$74,075 and \$64,432, 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, 2014, totaled \$47,481. The future minimum annual lease payments are as follows:

<b>Year</b>	<b>Governmental Activities</b>
2015	\$ 42,198
2016	15,886
Total	<u>\$ 58,084</u>

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**NOTES TO THE FINANCIAL STATEMENTS**

(Concluded)

**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, \$1,060,179 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, 2014, the ESUCC had \$261,313 in accounts receivable. In accordance with the cash basis of accounting, receivables are recorded as a receipt when the ESUCC receives the funds.

**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 ESUs across the State. As the ESUCC coordinates statewide activities and provides services for the 17 ESUs, the ESUCC also 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 Year Ended August 31, 2014

	Budget (Original/Final)	Actual	Positive (Negative) Variance with Final Budget
RECEIPTS:			
Local	\$ 10,864,550	\$ 2,502,100	\$ (8,362,450)
State	565,593	565,593	-
Federal	630,000	118,081	(511,919)
Penalties and Fees	31,500	37	(31,463)
Miscellaneous	150	264	114
Total Receipts	<u>12,091,793</u>	<u>3,186,075</u>	<u>(8,905,718)</u>
DISBURSEMENTS:			
Purchased Services	1,426,300	1,434,800	(8,500)
General Administration	641,425	265,762	375,663
Supplies	13,750	5,447	8,303
Capital Outlay	72,250	39,659	32,591
Computer Software and Other Equipment	297,000	375,075	(78,075)
Travel	58,100	50,783	7,317
Miscellaneous	510,525	-	510,525
I-Mat	5,000	5,567	(567)
NOC	26,500	14,801	11,699
SDA	32,800	210,641	(177,841)
SPED	2,500	14,955	(12,455)
TAG	10,000	3,403	6,597
NMPDS	500,000	216,201	283,799
I-Mat Program Purchases	529,100	165,836	363,264
Coop Program Purchases	8,150,000	2,421,706	5,728,294
Total Disbursements	<u>12,275,250</u>	<u>5,224,636</u>	<u>7,050,614</u>
Excess Receipts Over (Under) Disbursements	(183,457)	(2,038,561)	(1,855,104)
Fund Balance - Beginning	1,728,132	2,767,446	1,039,314
Fund Balance - Ending	<u>\$ 1,544,675</u>	<u>\$ 728,885</u>	<u>\$ (815,790)</u>

See Notes to the Budgetary Comparison Schedule.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**NOTES TO THE BUDGETARY COMPARISON SCHEDULE**

For the Fiscal Year Ended August 31, 2014

**BUDGETARY COMPARISON SCHEDULES**

*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 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, 2014

	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>							
Local	\$ 260,418	\$ 2,974	\$ 226,659	\$ 162,214	\$ 388,212	\$ 1,461,623	\$ 2,502,100
State	275,228	290,365	-	-	-	-	\$ 565,593
Federal	113,102	-	-	-	4,979	-	\$ 118,081
Penalties and Fees	-	-	-	-	-	37	\$ 37
Miscellaneous	264	-	-	-	-	-	\$ 264
Total Revenues	<u>\$ 649,012</u>	<u>\$ 293,339</u>	<u>\$226,659</u>	<u>\$ 162,214</u>	<u>\$ 393,191</u>	<u>\$ 1,461,660</u>	<u>\$ 3,186,075</u>
<b>DISBURSEMENTS:</b>							
Purchased Services	\$ 213,261	\$ 325,977	\$ 42,462	\$ 147,092	\$ 426,609	\$ 279,399	\$ 1,434,800
General Administration	178,177	9,835	3,475	10,148	11,810	52,317	\$ 265,762
Supplies	725	99	-	-	3,343	1,280	\$ 5,447
Capital Outlay	4,753	6,673	6,676	6,591	7,270	7,696	\$ 39,659
Computer Software and Other Equipment	1,284	3,224	-	139,050	250	231,267	\$ 375,075
Travel	14,433	8,456	2,020	3,382	6,231	16,261	\$ 50,783
I-Mat	5,567	-	-	-	-	-	\$ 5,567
NOC	14,801	-	-	-	-	-	\$ 14,801
SDA	210,641	-	-	-	-	-	\$ 210,641
SPED	14,955	-	-	-	-	-	\$ 14,955
TAG	3,403	-	-	-	-	-	\$ 3,403
NMPDS	216,201	-	-	-	-	-	\$ 216,201
I-Mat Program Purchases	-	-	165,836	-	-	-	\$ 165,836
Coop Program Purchases	-	-	-	-	-	2,421,706	\$ 2,421,706
Total Disbursements/Expenditures	<u>\$ 878,201</u>	<u>\$ 354,264</u>	<u>\$ 220,469</u>	<u>\$ 306,263</u>	<u>\$ 455,513</u>	<u>\$ 3,009,926</u>	<u>\$ 5,224,636</u>



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Mike Foley  
State Auditor

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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, 2014, 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 December 19, 2014. 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 in the Comments Section of this report as Comment Number 1 (Contractual Employees), Comment Number 2 (Disbursements), Comment Number 3 (Receipts), and Comment Number 4 (Capital Assets).

### **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 Comments Section of the report. 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.



Don Dunlap, CPA  
Assistant Deputy Auditor

December 19, 2014