



**PREBLE COUNTY SCHOOLS REGIONAL
COUNCIL OF GOVERNMENTS
PREBLE COUNTY**

FINAL AUDIT

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

**PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS
PREBLE COUNTY
JUNE 30, 2018 AND 2017**

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OHIO AUDITOR OF STATE KEITH FABER



INDEPENDENT AUDITOR'S REPORT

Preble County Schools Regional Council of Governments
Preble County
597 Hillcrest Drive
Eaton, Ohio 45320

To the Council Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements, and related notes of the Preble County Schools Regional Council of Governments, Preble County, Ohio (the COG), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the accounting principles generally accepted in the United States of America. This responsibility includes the designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the COG's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the COG's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Basis for Adverse Opinion

As described in Note 2 of the financial statements, the COG prepared these financial statements using the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. However, Ohio Administrative Code Section 117-2-03(B) requires these statements to follow accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumably material.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Preble County Schools Regional Council of Governments as of June 30, 2018 and 2017, and the respective changes in financial position or cash flows thereof for the years then ended.

Emphasis of Matter

During 2018, the Council Governing Board voted to cease operations and distribute its remaining funds back to the member school districts. Also, as discussed in Note 7 to the financial statements, the COG ceased all operations on June 30, 2018. We did not modify our opinion regarding these matters.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2019, on our consideration of the COG's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine 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 COG's internal control over financial reporting and compliance.



Keith Faber
Auditor of State
Columbus, Ohio

April 11, 2019

PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCE - ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

<u>Operating Cash Receipts:</u>	
Health Benefit Premium Deposits	<u>\$138,190</u>
<u>Operating Cash Disbursements:</u>	
Medical Claims	1,562,381
Management Fees	24,032
Bank Fees	1,063
<i>Total Operating Cash Disbursements</i>	<u>1,587,476</u>
<i>Operating Income</i>	<u>(1,449,286)</u>
<u>Non-Operating Cash Receipts (Disbursements):</u>	
Interest	19,975
Refunds to Member Districts	<u>(1,011,261)</u>
<i>Total Non-Operating Cash Receipts (Disbursements)</i>	<u>(991,286)</u>
<i>Net Change in Fund Balance</i>	(2,440,572)
<i>Fund Cash Balance, July 1, 2017</i>	<u>2,458,657</u>
<i>Fund Cash Balance, June 30, 2018</i>	<u><u>\$18,085</u></u>

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

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PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 – DESCRIPTION OF THE ENTITY

The Preble County Schools Regional Council of Governments, Preble County, Ohio, (the “Council”) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio as defined by Chapter 167 of the Ohio Revised Code.

The Council is an insurance-purchasing public entity risk pool, as defined by paragraphs 10 and 13b of the Governmental Accounting Standards Board Statement No. 10. It was formed to carry out a cooperative program for the provision and administration of health care benefits for employees of each member school district and to promote cooperative programs, which may be approved in accordance with the Council by-laws.

The Council Governing Board is the legislative decision-making body of the Council and is comprised of the superintendent or executive officer from each member school district. As of June 30, 2018 there were 6 members of the Council Governing Board.

The Council Governing Board is the advisory body of the Council. It consists of the authorized representative of each member school district, which is the superintendent or his/her designee. Among other responsibilities, the Council Governing Board reviews the applications of potential new Council members, reviews health insurance policies, and selects carriers for insurance coverage. The Council Governing Board also reviews contracts for the purpose of selecting third-party administrators and makes recommendations related to member school district program costs and adjustments.

The joint insurance-purchasing agreement of the member school district can be terminated by two-thirds vote of the Council Governing Board. Upon such termination, the excess funds of employee benefit trusts, if any, remaining after payment of the obligations of such trust and the payment of the reasonable and necessary disbursements incurred in termination of such trust, shall be used toward the initial cost of whatever insurance provider or insurance vehicle replaces such trust for each member school district at the time of termination.

Any such disbursements for the benefit of a member school district shall be in proportion to the total contributions made by such member school district while a member of the Council to the total contributions made by all member school districts while members of the Council.

On May 19, 2017, the Council Governing Board approved ending the health insurance coverage for the member school districts effective September 30, 2017. On August 7, 2017, the Council Governing Board approved ending dental and vision insurance coverage for the member school districts effective December 31, 2017. The Council no longer provides any benefits to the member school districts and is currently in the process of terminating the Council.

The Council’s management believes these financial statements present all activities for which the Council is financially accountable.

PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF ACCOUNTING

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when they are earned. Disbursements are recognized when they are paid rather than when a liability is incurred.

These financial statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

B. CASH AND INVESTMENTS

The Council had investments in STAR Ohio (the State Treasurer's investment pool) during fiscal year 2018, but the account was closed and all cash is held in a deposit account as of June 30, 2018.

C. FUND ACCOUNTING

The Council maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of government entities in which legal or other restraints require the recording of specific receipts and disbursements. The Council uses an Enterprise Fund to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charge; or (b) where the governing board has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

NOTE 3 - FUNDING ARRANGEMENTS

The Council has agreed to an alternate funding arrangement for medical benefits. The program remains insured and is called Contingent Premium, which is a reduced pre-payment form of insurance with an annual settlement.

Funds received by the Council consist of medical premium rates for each of the member school districts' participating employees. Rates are contingent upon the level of claims utilization. The program operates as follows:

1. The member school district pays a monthly contingent premium rate to the insurance carrier for single and family units covered.

PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 3 - FUNDING ARRANGEMENTS (continued)

2. The Preble County Educational Service Center (the “Service Center”) serves as the fiscal agent for the Council. The Service Center deposits the difference between the Risk Premium rate and the Contingent Premium rate into the Council’s bank account each month.
3. Within six months of the end of the contract renewal (March of each year) an annual settlement will be made which will compare the contingent premium, risk premium, incurred claims, retention charges and all other data required for settlement in determination of the liability, if any, to the insurance carrier. The Council’s liability will be determined in the following manner:
 - A. If the incurred claims plus retention is less than the cumulative contingent premium, no payment shall be due from either party.
 - B. If the incurred claims plus retention is greater than the cumulative contingent premium, but less than the cumulative risk premium, the Council would pay the insurance carrier the difference between the incurred claims plus retention and the cumulative contingent premium.
 - C. If the incurred claims plus retention exceeds the cumulative risk premium, the Council shall pay the difference between the cumulative risk premium and the cumulative contingent premium, and the amount in excess of the risk premium shall become the liability of the insurance carrier.

The Council implemented a high deductible second medical core option effective September 1, 2006. Effective September 1, 2015, the Council implemented a third higher deductible low option plan. Each member school district was provided the opportunity to offer three options to their employees. The Council agreed that each member school district could offer a Health Reimbursement Arrangement (HRA) for their employees to offset the higher deductibles. Each member school district board controls the HRA; the member school district contributes all dollars contributed to the HRA account. The employees of each member school district have no vested interest in any remaining HRA account balances at the time of termination and/or retirement.

In June 2016, the Council set the funding rate at 92.2% of the full medical premium, 90%-110% contingent premium. The funding rate continued until September 30, 2017, when the Council no longer provided health insurance benefits. By funding at this level, the member school districts made contributions to the Council’s fund balance during fiscal year 2018 in the amount of \$36,710.

PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 3 - FUNDING ARRANGEMENTS (continued)

During fiscal year 2018, the Council ended all health insurance arrangements for the member school districts. On February 23, 2018, the Council Governing Board approved distributions of the Council's reserve funds back to the member school districts, as well as the amount of Health Reimbursement Account funds held for each member district. The total amount Refunds to Member Districts totaled \$1,011,261 for fiscal year 2018.

NOTE 4 - CASH AND INVESTMENTS

The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash at June 30, 2018 was \$18,085, all in a deposit account as the investment in STAR Ohio was closed during fiscal year 2018.

A. DEPOSITS

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

B. INVESTMENTS

Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

NOTE 5 - RISK MANAGEMENT

The Council contracts with:

1. Horan Associates, Inc., a consulting/brokerage firm to provide expertise in the area of health care benefits and funding arrangements with Anthem Blue Cross and Blue Shield;
2. Pohlman and Talmage, a local CPA firm to monitor the revenue and disbursements from all member school districts in the Council's reserve account;
3. Infinisource provides expertise in the area of federal Cobra legislation by providing Cobra notification to eligible participants; and
4. BusinessPlans, Inc. to manage the Health Reimbursement Arrangement (HRA) employee payments and district account balances.

PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 6 - RISK LIABILITY

Contingent premium is a pre-payment form of insurance with an annual settlement. The member school districts pay Anthem Blue Cross and Blue Shield 90% of the conventional fully insured rates with a maximum liability of 110% of the conventional fully insured rates. This alternate funding arrangement insured through Anthem Blue Cross and Blue Shield requires an annual settlement within six months of the contract renewal.

The settlement for the plan year September 1, 2016 through August 31, 2017 was paid on February 8, 2018 in the amount of \$1,317,135 and was the last settlement owed to Anthem Blue Cross and Blue Shield. For the plan year September 1, 2017 through September 30, 2017, the plan was a fully insured plan and therefore, no settlement was due.

Since the Council's inception in September 1992, the reserve account has exceeded the estimated liability established by Anthem Blue Cross and Blue Shield.

NOTE 7 – SUBSEQUENT EVENT

The COG ceased all operations on June 30, 2018 with a cash balance of \$18,085. Since that time the COG has incurred \$225 of bank fees and \$4,039 of audit costs leaving a cash balance of \$13,821 as of March 9, 2019. The remaining cash balance will be used to pay any remaining bank fees and audit costs incurred. Any cash balance after paying these fees will be returned to the member school districts.

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PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCE - ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

<u>Operating Cash Receipts:</u>	
Health Benefit Premium Deposits	<u>\$597,356</u>
<u>Operating Cash Disbursements:</u>	
Medical Claims	2,216,781
Management Fees	16,413
Bank Fees	1,048
<i>Total Operating Cash Disbursements</i>	<u>2,234,242</u>
<i>Operating Income</i>	(1,636,886)
<u>Non-Operating Cash Receipts:</u>	
Interest	<u>15,765</u>
<i>Net Change in Fund Balance</i>	(1,621,121)
<i>Fund Cash Balance, July 1, 2016</i>	<u>4,079,778</u>
<i>Fund Cash Balance, June 30, 2017</i>	<u><u>\$2,458,657</u></u>

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

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PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 1 – DESCRIPTION OF THE ENTITY

The Preble County Schools Regional Council of Governments, Preble County, Ohio, (the “Council”) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio as defined by Chapter 167 of the Ohio Revised Code.

The Council is an insurance-purchasing public entity risk pool, as defined by paragraphs 10 and 13b of the Governmental Accounting Standards Board Statement No. 10. It was formed to carry out a cooperative program for the provision and administration of health care benefits for employees of each member school district and to promote cooperative programs, which may be approved in accordance with the Council by-laws.

The Council Governing Board is the legislative decision-making body of the Council and is comprised of the superintendent or executive officer from each member school district. As of June 30, 2017 there were 6 members of the Council Governing Board.

The Council Governing Board is the advisory body of the Council. It consists of the authorized representative of each member school district, which is the superintendent or his/her designee. Among other responsibilities, the Council Governing Board reviews the applications of potential new Council members, reviews health insurance policies, and selects carriers for insurance coverage. The Council Governing Board also reviews contracts for the purpose of selecting third-party administrators and makes recommendations related to member school district program costs and adjustments.

The joint insurance-purchasing agreement of the member school district can be terminated by two-thirds vote of the Council Governing Board. Upon such termination, the excess funds of employee benefit trusts, if any, remaining after payment of the obligations of such trust and the payment of the reasonable and necessary disbursements incurred in termination of such trust, shall be used toward the initial cost of whatever insurance provider or insurance vehicle replaces such trust for each member school district at the time of termination.

Any such disbursements for the benefit of a member school district shall be in proportion to the total contributions made by such member school district while a member of the Council to the total contributions made by all member school districts while members of the Council.

The Council’s management believes these financial statements present all activities for which the Council is financially accountable.

PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF ACCOUNTING

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when they are earned. Disbursements are recognized when they are paid rather than when a liability is incurred.

These financial statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

B. CASH AND INVESTMENTS

The investment in STAR Ohio (the State Treasurer's investment pool) is valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2017.

C. FUND ACCOUNTING

The Council maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of government entities in which legal or other restraints require the recording of specific receipts and disbursements. The Council uses an Enterprise Fund to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charge; or (b) where the governing board has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

NOTE 3 - FUNDING ARRANGEMENTS

The Council has agreed to an alternate funding arrangement for medical benefits. The program remains insured and is called Contingent Premium, which is a reduced pre-payment form of insurance with an annual settlement.

Funds received by the Council consist of medical premium rates for each of the member school districts' participating employees. Rates are contingent upon the level of claims utilization. The program operates as follows:

1. The member school district pays a monthly contingent premium rate to the insurance carrier for single and family units covered.

PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 3 - FUNDING ARRANGEMENTS (continued)

2. The Preble County Educational Service Center (the “Service Center”) serves as the fiscal agent for the Council. The Service Center deposits the difference between the Risk Premium rate and the Contingent Premium rate into the Council’s bank account each month.
3. Within six months of the end of the contract renewal (March of each year) an annual settlement will be made which will compare the contingent premium, risk premium, incurred claims, retention charges and all other data required for settlement in determination of the liability, if any, to the insurance carrier. The Council’s liability will be determined in the following manner:
 - A. If the incurred claims plus retention is less than the cumulative contingent premium, no payment shall be due from either party.
 - B. If the incurred claims plus retention is greater than the cumulative contingent premium, but less than the cumulative risk premium, the Council would pay the insurance carrier the difference between the incurred claims plus retention and the cumulative contingent premium.
 - C. If the incurred claims plus retention exceeds the cumulative risk premium, the Council shall pay the difference between the cumulative risk premium and the cumulative contingent premium, and the amount in excess of the risk premium shall become the liability of the insurance carrier.

The Council implemented a high deductible second medical core option effective September 1, 2006. Effective September 1, 2015, the Council implemented a third higher deductible low option plan. Each member school district was provided the opportunity to offer three options to their employees. The Council agreed that each member school district could offer a Health Reimbursement Arrangement (HRA) for their employees to offset the higher deductibles. Each member school district board controls the HRA; the member school district contributes all dollars contributed to the HRA account. The employees of each member school district have no vested interest in any remaining HRA account balances at the time of termination and/or retirement.

In June 2016, the Council set the funding rate at 92.2% of the full medical premium, 90%-110% contingent premium. By funding at this level, the member school districts made contributions to the Council’s fund balance during fiscal year 2017 in the amount of \$251,109.

NOTE 4 - CASH AND INVESTMENTS

The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at June 30, 2017 was as follows:

PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - CASH AND INVESTMENTS (continued)

	<u>6/30/2017</u>
Deposits	\$63,290
Investments	
Star Ohio	<u>2,395,367</u>
Total Deposits and Investments	<u>\$2,458,657</u>

A. DEPOSITS

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

B. INVESTMENTS

Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

NOTE 5 - RISK MANAGEMENT

The Council contracts with:

1. Horan Associates, Inc., a consulting/brokerage firm to provide expertise in the area of health care benefits and funding arrangements with Anthem Blue Cross and Blue Shield;
2. Pohlman and Talmage, a local CPA firm to monitor the revenue and disbursements from all member school districts in the Council's reserve account;
3. Infinisource provides expertise in the area of federal Cobra legislation by providing Cobra notification to eligible participants; and
4. BusinessPlans, Inc. to manage the Health Reimbursement Arrangement (HRA) employee payments and district account balances.

PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS
NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 6 - RISK LIABILITY

Contingent premium is a pre-payment form of insurance with an annual settlement. The member school districts pay Anthem Blue Cross and Blue Shield 90% of the conventional fully insured rates with a maximum liability of 110% of the conventional fully insured rates. This alternate funding arrangement insured through Anthem Blue Cross and Blue Shield requires an annual settlement within six months of the contract renewal.

The amount of liability is pre-determined each contract year (September 1). The estimated medical liability for the contract year September 1, 2016 through August 31, 2017 is \$2,063,454 and due in the spring of 2018.

Since the Council's inception in September 1992, the reserve account has exceeded the estimated liability established by Anthem Blue Cross and Blue Shield.

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OHIO AUDITOR OF STATE KEITH FABER



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Preble County Schools Regional Council of Governments
Preble County
597 Hillcrest Drive
Eaton, Ohio 45320

To the Council Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Preble County Schools Regional Council of Governments, Preble County, (the COG) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, and have issued our report thereon dated April 11, 2019, wherein we issued an adverse opinion on the COG's financial statements because the COG did not follow accounting principles generally accepted in the United States of America as required by Ohio Administrative Code Section 117-2-03. In addition, the COG ceased all operations on June 30, 2018 and distributed its remaining funds back to the member school districts.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the COG's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the COG's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the COG's financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the COG's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2018-001.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the COG's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the COG's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber
Auditor of State
Columbus, Ohio

April 11, 2019

PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS
PREBLE COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2018 AND 2017

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

FINDING NUMBER 2018-001

Noncompliance

Ohio Rev. Code § 117.38 provides, in part, that each public office shall file a financial report for each fiscal year. The auditor of state may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Admin. Code § 117-2-03 further clarifies the requirements of Ohio Rev. Code § 117.38.

Ohio Admin. Code § 117-2-03(B) requires the Council of Governments (COG) to file its annual financial report which is prepared using generally accepted accounting principles (GAAP). However, the COG prepared its fiscal years 2018 and 2017 financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with general accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that, while presumed material, cannot be determined at this time.

Pursuant to Ohio Rev. Code § 117.38, the COG can be fined and various other administrative remedies may be taken against the COG for its failure to file the required financial report. Failure to report on a GAAP basis compromises the COG's ability to evaluate and monitor the overall financial condition of the COG. To help provide the users with more meaningful financial statements, the COG should prepare its annual financial report in accordance with generally accepted accounting principles.

Officials' Response

We did not receive a response from Officials to this finding.

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**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2018 and 2017**

Finding Number	Finding Summary	Status	Additional Information
2016-001	<p>The Preble County Schools Regional Council of Governments utilizes the service organization Wex Health Inc., (formerly Evolution 1), which is the administrative system used by My Cafeteria Plan who administers the Health Reimbursement Arrangement claims for the Council. The Council's Governing Board has not established procedures to determine if the service organization has implemented sufficient controls which are operating effectively to reduce the risk that claims have not been authorized or completely and accurately processed, there are inaccurate account holder balances, or the system is working improperly.</p>	Finding no Longer Valid	<p>The COG dissolved October 1, 2017, and the member school districts of the COG each have a separate agreement with Wex Health Inc. Therefore, there is not any way the COG can correct these procedures. Additionally, Wex Health Inc. did not have SOC 1 reports prepared for 2017-2018.</p>



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OHIO AUDITOR OF STATE KEITH FABER



PREBLE COUNTY SCHOOLS REGIONAL COUNCIL OF GOVERNMENTS

PREBLE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 9, 2019**