



**NORTHEAST OHIO SOURCING OFFICE  
CUYAHOGA COUNTY**

**REGULAR AUDIT**

**FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 & 2005**



**Mary Taylor, CPA**  
Auditor of State



**NORTHEAST OHIO SOURCING OFFICE  
CUYAHOGA COUNTY**

**TABLE OF CONTENTS**

<b>Title</b>	<b>Page</b>
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Statement of Net Assets – Cash Basis	7
Statement of Cash Receipts, Disbursements, and Changes in Fund Net Assets – Cash Basis	8
Notes to the Basic Financial Statements	9
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	17
Schedule of Findings	19

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Northeast Ohio Sourcing Office  
Cuyahoga County  
5422 East 96<sup>th</sup> Street, Suite 120  
Cleveland, Ohio 44125

To the Board:

We have audited the accompanying financial statements of the business-type activities of the Northeast Ohio Sourcing Office, Cuyahoga County, Ohio (NEOSO), as of and for the years ended December 31, 2005, December 31, 2006, or December 31, 2007, which collectively comprise NEOSO's basic financial statements as listed in the table of contents. These financial statements are the responsibility of NEOSO's management. Our responsibility is to express opinions 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the business-type activities of the Northeast Ohio Sourcing Office, Cuyahoga County, Ohio, as of December 31, 2005, December 31, 2006 and December 31, 2007, and the respective changes in cash financial position for the years then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2010, on our consideration of NEOSO'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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

March 25, 2010

**NORTHEAST OHIO SOURCING OFFICE  
CUYAHOGA COUNTY**  
Management's Discussion and Analysis  
For the Years Ended December 31, 2007, 2006 and 2005  
Unaudited

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This discussion and analysis of the financial performance of the Northeast Ohio Sourcing Office, Cuyahoga County, Ohio, (NEOSO) provides an overall review of NEOSO's financial activities for the years ended December 31, 2007, 2006 and 2005 within the limitations of NEOSO's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of NEOSO's financial performance.

**Highlights**

Key highlights are as follows:

Net assets of business type activities increased \$61,574 or 14.7% in 2006 and decreased \$80,718 or 16.8% in 2007.

NEOSO's operating receipts are grants and fee revenues. These receipts represent 100%, 92.5% and 94% of total cash received for 2005, 2006, and 2007 respectively.

**Using the Basic Financial Statements**

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to NEOSO's cash basis of accounting.

**Overview of the Financial Statements**

The financial report consists of three parts – management's discussion and analysis, the basic financial statements, and the notes to the financial statements. These statements are organized so the reader can understand the financial position of NEOSO. NEOSO uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net assets, and financial position. The statements of fund net assets represent the financial position of NEOSO. The statements of cash receipts, disbursements, and changes in fund net assets present increases (e.g., receipts) and decreases (e.g., disbursements) in net total assets. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

**Financial Analysis of NEOSO as a Whole**

NEOSO is not required to present government-wide financial statements as NEOSO is engaged in only business-type activities. Therefore, no condensed financial information derived from governmental-wide financial statements is included in the management's discussion and analysis.

The following tables represent a summary of NEOSO's financial information for 2007, 2006 and 2005 derived from the statements of fund net assets and the statements of cash receipts, disbursements, and changes in fund net assets.

**Basis of Accounting**

The basis of accounting is a set of guidelines that determine when financial events are recorded. NEOSO has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under NEOSO's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

**NORTHEAST OHIO SOURCING OFFICE  
CUYAHOGA COUNTY**  
Management's Discussion and Analysis  
For the Years Ended December 31, 2007, 2006 and 2005  
Unaudited  
(Continued)

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As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

**Reporting NEOSO's Most Significant Funds**

Fund financial statements provide detailed information about NEOSO's major fund. NEOSO's fund is classified as proprietary.

Proprietary Funds – When NEOSO receives revenues from contracted service providers for the services they provide to participating local governments, these services are reported in a proprietary fund. NEOSO's only fund is the enterprise fund.

**NEOSO**

Table 1 provides a summary of NEOSO's fund net assets for 2007, 2006 and 2005 on a cash basis:

(Table 1)

**Net Assets**

	Business-Type Activities		
	2007	2006	2005
<b>Assets</b>			
Equity if Pooled Cash and Cash Equivalents	\$399,600	\$480,318	\$418,744
Total Assets	399,600	480,318	418,744
<b>Net Assets</b>			
Restricted	399,600	480,318	418,744
Total Net Assets	\$399,600	\$480,318	\$418,744

As mentioned previously, net assets of business type activities increased \$61,574 or 14.7% in 2006 and decreased \$80,718 or 16.8% in 2007. The decrease in 2007 is mainly due to NEOSO receiving one time grants in 2006.



**NORTHEAST OHIO SOURCING OFFICE**  
**CUYAHOGA COUNTY**  
Management's Discussion and Analysis  
For the Years Ended December 31, 2007, 2006 and 2005  
Unaudited  
(Continued)

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Table 2 reflects the changes in fund net assets in 2007, 2006, and 2005:

(Table 2)  
**Changes in Net Assets**  
**Business Type Activities**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Receipts:</b>			
<b>Operating Receipts:</b>			
Grants	\$725,295	\$975,000	\$100,000
Reimbursements	1,358	6,337	0
Miscellaneous	19,855	24,750	0
<b>Total Operating Receipts</b>	<u>746,508</u>	<u>1,006,087</u>	<u>100,000</u>
<b>Operating Disbursements:</b>			
Payroll	329,427	148,004	0
Consulting	176,208	644,413	164,783
Outsourced Services	91,520	63,893	12,034
Research and Development	42,748	0	112,500
Software and Technology	9,170	12,899	29,726
Insurance	15,606	7,322	320
Legal Fees	25,231	152,022	60,000
Utilities	14,037	4,908	265
Fees	525	1,419	388
Employee Training	562	2,390	407
Office Expenses	63,919	45,738	833
Debt Service:			
Principle	100,000	250,000	0
Interest and Bank Fees	8,273	11,505	0
Repayment of Overdraft Protection	25,080	0	0
<b>Total Operating Disbursements:</b>	<u>902,306</u>	<u>1,344,513</u>	<u>381,256</u>
<b>Non-Operating Receipts:</b>			
Proceeds of Overdraft Protection	25,080	0	0
Proceeds of Recoverable Grant	0	0	400,000
Proceeds of Loan	50,000	400,000	300,000
<b>Total Non-Operating Receipts</b>	<u>75,080</u>	<u>400,000</u>	<u>700,000</u>
<b>Change in Net Assets</b>	<u>(80,718)</u>	<u>61,574</u>	<u>418,744</u>
<b>Net Assets, January 1,</b>	<u>480,318</u>	<u>418,744</u>	<u>0</u>
<b>Net Assets, December 31,</b>	<u>\$399,600</u>	<u>\$480,318</u>	<u>\$418,744</u>

**NORTHEAST OHIO SOURCING OFFICE  
CUYAHOGA COUNTY**

Management's Discussion and Analysis  
For the Years Ended December 31, 2007, 2006 and 2005  
Unaudited  
(Continued)

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The organization was formed in 2005 and received an initial grant from The Cleveland Foundation. NEOSO continued to receive grant funding from community foundations in 2006 and 2007, with two significant one-time grants from the Fund for Our Economic Future. NEOSO also generated revenue from administrative fees paid by suppliers and service providers offering products and services to NEOSO's members through NEOSO's group purchasing programs. NEOSO incurred start-up expenses in 2005 and 2006, including legal expenses related to the formation of the organization and development of legal documents and procurement procedures related to the development of group purchasing programs. There were no employees in 2005 – all activities were outsourced to third parties. In mid-2006, the organization hired employees and began incurring payroll costs, resulting in a decrease in the amount of consulting fees paid.

**Capital Assets and Debt Administration**

**Capital Assets**

NEOSO maintains a listing of equipment and other assets. Capital assets are not required to be presented in the financial statements.

**Debt**

In 2005, NEOSO received a \$400,000 recoverable grant from The Cleveland Foundation. This amount is held by National City Bank as collateral for a \$400,000 line of credit. \$300,000 was received in 2005 and \$100,000 in 2006. The term of the recoverable grant is five years and the grant comes due in 2010. NEOSO pays interest on the line of credit in the amount of 2.25%.

In 2006 and 2007, NEOSO received a short term variable rate loan from National City Bank in the amounts of \$300,000 and \$50,000. These loans were secured by grant agreements from the Fund for Our Economic Future with \$250,000 was repaid in 2006 and \$100,000 paid in 2007.

See Note 6 for the schedule of outstanding debt.

**Contacting NEOSO's Financial Management**

This financial report is designed to provide our readers with a general overview of NEOSO's finances and to reflect NEOSO's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Bruce Tague, Executive Director, Northeast Ohio Sourcing Office, 5422 East 96<sup>th</sup> Street, Suite 120, Cleveland, Ohio, 44125.

**NORTHEAST OHIO SOURCING OFFICE**  
**CUYAHOGA COUNTY**  
*Statement of Fund Net Assets - Cash Basis*  
*Proprietary Fund*  
*December 31, 2007, 2006 and 2005*

	Business-Type Activities		
	Enterprise Fund		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$399,600	\$480,318	\$418,744
<i>Total Assets</i>	<u>\$399,600</u>	<u>\$480,318</u>	<u>\$418,744</u>
<b>Net Assets</b>			
Restricted	<u>\$399,600</u>	<u>\$480,318</u>	<u>\$418,744</u>

See accompanying notes to the basic financial statements

**NORTHEAST OHIO SOURCING OFFICE**  
**CUYAHOGA COUNTY**  
*Statement of Cash Receipts,*  
*Disbursements and Changes in Fund Net Assets - Cash Basis*  
*Proprietary Fund*  
*December 31, 2007, 2006 and 2005*

	Business-Type Activities		
	Enterprise Fund		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Operating Receipts:</b>			
Grants	\$725,295	\$975,000	\$100,000
Reimbursements	1,358	6,337	0
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**NORTHEAST OHIO SOURCING OFFICE  
CUYAHOGA COUNTY**

Notes to the Basic Financial Statements  
December 31, 2007, 2006 and 2005

**1. REPORTING ENTITY**

Northeast Ohio Sourcing Office, Cuyahoga County, Ohio, (NEOSO) is a regional council of governments under authority of Chapter 167 of the Ohio Revised Code and a 501 (c)(3) not-for-profit organization. The regional council of government was established to create and manage group purchasing programs for local governments and other public sector entities. NEOSO specializes in identifying group purchasing opportunities that provide value to its members by managing the sourcing and contracting process.

The regional council is comprised of any municipality, county, public and private school district, public and private institution of higher education, special government district, and not-for-profit organization electing to join NEOSO and utilize our group purchasing programs at no charge to the participant.

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of NEOSO consists of all funds, departments, boards, and agencies that are not legally separate from NEOSO. For NEOSO, this includes general operations, and community education and recreation related activities of NEOSO.

Component units are legally separate organizations for which NEOSO is financially accountable. NEOSO is financially accountable for an organization if NEOSO appoints a voting majority of the organization's governing board and (1) NEOSO is able to significantly influence the programs or services performed or provided by the organization; or (2) NEOSO is legally entitled to or can otherwise access the organization's resources; NEOSO is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or NEOSO is obligated for the debt of the organization. NEOSO is also financially accountable for any organizations that are fiscally dependent on NEOSO in that NEOSO approves the budget, the issuance of debt, or the levying of taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of NEOSO, are accessible to NEOSO and are significant in amount to NEOSO. NEOSO does not have any component units.

NEOSO's management believes these financial statements present all activities for which NEOSO is financially accountable.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. NEOSO does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise fund. Following are the more significant of NEOSO's accounting policies.

**NORTHEAST OHIO SOURCING OFFICE  
CUYAHOGA COUNTY**

Notes to the Basic Financial Statements  
December 31, 2007, 2006 and 2005  
(Continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

A. Basis of Presentation and Measurement Focus

NEOSO's basic financial statements consist of a statement of fund net assets and a Statement of Cash Receipts, Disbursements, and Changes in Fund Net Assets. NEOSO uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net assets, and financial position.

B. Fund Accounting

NEOSO use funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. NEOSO's fund is classified as proprietary.

Proprietary Fund

NEOSO classifies its fund, which is financed from user revenues from contracted service providers for the services they provide to participating local governments, grants and contributions, as a proprietary fund. NEOSO's proprietary fund is classified as an enterprise fund.

Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. NEOSO's enterprise fund is used to account for the operation of the education and recreation programs of NEOSO.

C. Basis of Accounting

NEOSO's financial statements are prepared using the cash basis of accounting. Receipts are recorded in NEOSO's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Cash and Investments

To improve cash management, cash received by NEOSO is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through NEOSO records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During fiscal years 2007, 2006 and 2005, NEOSO had no investments.

**NORTHEAST OHIO SOURCING OFFICE  
CUYAHOGA COUNTY**

Notes to the Basic Financial Statements  
December 31, 2007, 2006 and 2005  
(Continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

E. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for the acquisition and construction of capital improvements. NEOSO has restricted assets related to the security agreement with National City Bank. The security agreement prohibits withdrawal of collateral without the consent of National City Bank.

F. Inventory and Prepaid Items

NEOSO reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

G. Capital Assets

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

H. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the NEOSO's cash basis of accounting.

I. Employer Contributions to Social Security

NEOSO recognizes the disbursement for employer contributions to Social Security when they are paid. Note 4, describes the employer contributions made to Social Security.

J. Long-Term Obligations

NEOSO's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid. See Note 6 for NEOSO's outstanding debt.

K. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. NEOSO did have restricted net assets during fiscal years 2007, 2006 and 2005.

**NORTHEAST OHIO SOURCING OFFICE  
CUYAHOGA COUNTY**

Notes to the Basic Financial Statements  
December 31, 2007, 2006 and 2005  
(Continued)

**3. DEPOSITS AND INVESTMENTS**

Monies held by NEOSO are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon NEOSO's treasury. Active monies must be maintained as cash in NEOSO's treasury, in commercial accounts, payable or available for withdrawal on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the NEOSO has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by NEOSO can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).



**NORTHEAST OHIO SOURCING OFFICE  
CUYAHOGA COUNTY**

Notes to the Basic Financial Statements  
December 31, 2007, 2006 and 2005  
(Continued)

**3. DEPOSITS AND INVESTMENTS (Continued)**

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of NEOSO, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

DEPOSITS

Custodial credit risk is the risk that in the event of bank failure, NEOSO will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end December 31, 2007, \$306,299 of NEOSO's bank balance of \$406,299 and at year end 2006, \$389,076 of NEOSO's bank balance of \$489,076 and at year end 2005, \$318,744 of NEOSO's bank balance of \$418,744 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in NEOSO's name. Although the securities were held by pledging institution's trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject NEOSO to a successful claim by the FDIC.

NEOSO has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with NEOSO or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**4. SOCIAL SECURITY SYSTEM**

NEOSO contributed to the Social Security System for the years ended 2007 and 2006. NEOSO had no wages on 2005. The contribution rate is 6.2 percent of wages for Social Security and 1.45 percent of wages for Medicare.

**5. RISK MANAGEMENT**

NEOSO is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2007, 2006 and 2005, NEOSO contracted for various types of insurance coverage as follows:

Company	Type of Coverage	Amount of Coverage
Acuity Insurance Company	Business Personal Property	\$60,000
	General Liability	3,000,000
	Commercial Umbrella	2,000,000
	Employee Benefits	2,000,000
	Employee Dishonesty	2,500

Settled claims have not exceeded coverage in any of the last three years and there was no significant reduction in coverage from the prior year.

**NORTHEAST OHIO SOURCING OFFICE  
CUYAHOGA COUNTY**

Notes to the Basic Financial Statements  
December 31, 2007, 2006 and 2005  
(Continued)

**5. RISK MANAGEMENT (Continued)**

NEOSO pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs. The System administers and pays all claims.

NEOSO's employee health care is provided by Medical Mutual of Ohio. NEOSO pays a monthly premium for single and married coverage.

**6. DEBT**

NEOSO's debt activity for the years ended December 31, 2007, 2006 and 2005 are as follows:

	<u>Interest Rate</u>	Balance December 31, <u>2004</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2005</u>
Recoverable Grant Loan	0%	\$0	\$400,000	\$0	\$400,000
National City Bank Line of Credit	2.25%	0	300,000	0	300,000
		<u>\$0</u>	<u>\$700,000</u>	<u>\$0</u>	<u>\$700,000</u>
	<u>Interest Rate</u>	Balance December 31, <u>2005</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2006</u>
National City Bank Loan	Variable	\$0	\$300,000	\$250,000	\$50,000
Recoverable Grant Loan	0%	400,000	0	0	400,000
National City Bank Line of Credit	2.25%	300,000	100,000	0	400,000
		<u>\$700,000</u>	<u>\$400,000</u>	<u>\$250,000</u>	<u>\$850,000</u>
	<u>Interest Rate</u>	Balance December 31, <u>2006</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2007</u>
National City Bank Loan	Variable	\$50,000	\$50,000	\$100,000	\$0
Recoverable Grant Loan	0%	400,000	0	0	400,000
National City Bank Line of Credit	2.25%	400,000	0	0	400,000
		<u>\$850,000</u>	<u>\$50,000</u>	<u>\$100,000</u>	<u>\$800,000</u>

**NORTHEAST OHIO SOURCING OFFICE  
CUYAHOGA COUNTY**

Notes to the Basic Financial Statements  
December 31, 2007, 2006 and 2005  
(Continued)

**6. DEBT (Continued)**

In 2005, NEOSO received a \$400,000 recoverable grant from The Cleveland Foundation. This amount is held by National City Bank as collateral for a \$400,000 line of credit. \$300,000 was received in 2005 and \$100,000 in 2006. The term of the recoverable grant is five years and the grant comes due in 2010. NEOSO pays interest on the line of credit in the amount of 2.25%.

In 2006 and 2007, NEOSO received a short term variable rate loan from National City Bank in the amounts of \$300,000 and \$50,000. These loans were secured by grant agreements from the Fund for Our Economic Future with \$250,000 was repaid in 2006 and \$100,000 paid in 2007.

**7. MANAGEMENT COMPENSATION**

NEOSO was established in October 2005 for the purpose of competitively bidding contracts on behalf of government organizations to enable all members to take advantage of competitive pricing. NEOSO contracted with Collaborent, the management consulting firm hired to run NEOSO. The President and other partners of Collaborent were also employees of NEOSO at points during the audit period, earning compensation and other reimbursable expenditures in the amount of \$283,611. In addition, during the audit period, NEOSO paid Collaborent \$917,880 in management fees.

**8. RELATED PARTY**

In 2005 and 2006, NEOSO received a \$400,000 line of credit with National City Bank. Timothy Fitzwater, Board Member, is the retired President and CEO of National City Bank.

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Northeast Ohio Sourcing Office  
Cuyahoga County  
5422 East 96<sup>th</sup> Street, Suite 120  
Cleveland, Ohio 44125

To the Board:

We have audited the financial statements of the business-type activities of the Northeast Ohio Sourcing Office, Cuyahoga County, (NEOSO) as of and for the years ended December 31, 2005, December 31, 2006 and December 31, 2007, which collectively comprise NEOSO's basic financial statements and have issued our report thereon dated March 25, 2010, wherein, we noted NEOSO uses a comprehensive accounting basis other than generally accepted accounting principles. 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 the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the NEOSO's control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of NEOSO's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of NEOSO's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects NEOSO's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that NEOSO's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider finding 2007-003 described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

### **Internal Control Over Financial Reporting (Continued)**

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that NEOSO's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiency described above is not a material weakness.

We also noted certain matters that we reported to NEOSO's management in a separate letter dated March 25, 2010.

### **Compliance and Other Matters**

As part of reasonably assuring whether NEOSO'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, providing an opinion 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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-001 and 2007-002.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to NEOSO's management in a separate letter dated March 25, 2010.

NEOSO's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit NEOSO's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management and the Board. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

March 25, 2010

NORTHEAST OHIO SOURCING OFFICE  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2005, 2006 AND 2007

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

FINDING NUMBER 2007-001

**Noncompliance Citation**

**Finding for Recovery Repaid Under Audit**

Ohio Revised Code Section 149.43(B) states, in part, that all public records shall be promptly prepared and made available for inspection to a person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division.

During the fiscal years, former NEOSO Executive Director David Akers made credit card payments totaling \$31,722. Of this amount, NEOSO was not able to provide supporting documentation for \$4,826 and furthermore, we were unable to verify that \$4,826 of this amount was used on behalf of NEOSO. Also, NEOSO had \$894 of other expenditures in which NEOSO was unable to provide supporting documentation.

Without appropriate support documentation it is not possible to determine if the expenditure included items that would not be considered a proper public purpose. The failure to maintain adequate support for these expenditures could result in a loss of accountability over NEOSO's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is liable for the amount of the expenditure. *Seward v. National Surety Corp.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Revised Code Section 9.39; *State, ex. Rel. Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Att'y Gen. No. 80-074.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies improperly expended is hereby issued against David Akers, former NEOSO Executive Director, in the amount of \$5,720 and in favor of NEOSO.

**This finding for recovery was repaid under audit by David Akers, former Executive Director, on April 7, 2010.**

**MANAGEMENT'S RESPONSE:**

NEOSO received payment in the amount of \$5,720.00, on April 7, 2010.

NORTHEAST OHIO SOURCING OFFICE  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2005, 2006 AND 2007  
(Continued)

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

FINDING NUMBER 2007-002

**Noncompliance Citation**

**Finding for Recovery Repaid Under Audit**

Ohio Revised Code Section 149.43(B) states, in part, that all public records shall be promptly prepared and made available for inspection to a person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division.

During the fiscal years, former NEOSO employee Jack Woods made credit card payments totaling \$11,717. Of this amount, NEOSO was not able to provide supporting documentation for \$1,954 and furthermore, we were unable to verify that \$1,954 of this amount was used on behalf of NEOSO.

Without appropriate support documentation it is not possible to determine if the expenditure included items that would not be considered a proper public purpose. The failure to maintain adequate support for these expenditures could result in a loss of accountability over NEOSO's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is liable for the amount of the expenditure. *Seward v. National Surety Corp.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Revised Code Section 9.39; *State, ex. Rel. Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Att'y Gen. No. 80-074.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies improperly expended is hereby issued against Jack Woods in the amount of \$1,954 and in favor of NEOSO.

**This finding for recovery was repaid under audit by Jack Woods, former NEOSO Employee, on April 7, 2010.**

**MANAGEMENT'S RESPONSE:**

NEOSO received payment in the amount of \$1,954.00, on April 7, 2010.



**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005, 2006 AND 2007  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2007-003**

**Significant Deficiency**

**Grant Reimbursements**

During a review of grant receipts, we noted NEOSO requested an advance from the Cleveland Foundation to fund its 2006 summer internship program. The request submitted to the Cleveland Foundation was for salaries and related employment taxes. Per review of the payroll records, we noted that all interns were treated as contracted employees and issued 1099 forms. In June 2006, NEOSO received \$6,337 from the Cleveland Foundation to fund its summer internship program. Based on the records provided by NEOSO, the total amount paid to the summer interns was \$4,672. In addition, we noted that no employment taxes were paid since the 1099 forms were issued. This resulted in an overpayment to NEOSO in the amount of \$1,655.

We recommend that NEOSO reimburse Cleveland Foundation for the excess amount received for its 2006 summer internship program.

**MANAGEMENT'S RESPONSE:**

Northeast Ohio Sourcing Office (NEOSO) has reviewed the finding provided to us by Ohio Auditor of State, Mary Taylor. NEOSO realizes that accounting errors can and do occur. NEOSO is thankful to the Auditor of State for finding this error. NEOSO will reimburse the Cleveland Foundation for the full amount of \$1,655 when the Official Audit has been completed and recorded.





**Mary Taylor, CPA**  
Auditor of State

**NORTHEAST OHIO SOURCING OFFICE**

**CUYAHOGA 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 11, 2010**