



Dave Yost • Auditor of State



**WEST CENTRAL OHIO NETWORK  
SHELBY COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

West Central Ohio Network  
Shelby County  
315 East Court Street  
Sidney, Ohio 45365

To the Executive Council:

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

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of West Central Ohio Network, Shelby County, (WestCON) as of and for the years ended December 31, 2015 and 2014.

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

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements 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 WestCON'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 WestCON's internal control. Accordingly, we express no 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 the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

### ***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note 1 of the financial statements, WestCON prepared these financial statements using 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 an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though WestCON does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* 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 WestCON as of December 31, 2015 and 2014, or changes in financial position thereof for the years then ended.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of West Central Ohio Network, Shelby County as of December 31, 2015 and 2014, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

***Emphasis of Matter***

As discussed in Note 7, West Central Ohio Network restated its beginning fund balances for 2014. We did not modify our opinion regarding this matter.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2017, on our consideration of WestCON'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 WestCON's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

May 11, 2017

**WEST CENTRAL OHIO NETWORK  
SHELBY COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCE (CASH BASIS)  
GOVERNMENTAL FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<b>General</b>
<b>Cash Receipts</b>	
Intergovernmental - Federal	\$209,593
Earnings on Investments	16,282
Administrative Fees	270,247
Charges for Services	254,221
Miscellaneous	9,233
<i>Total Cash Receipts</i>	<i>759,576</i>
 <b>Cash Disbursements</b>	
Administrative Expenses	844,072
<i>Total Cash Disbursements</i>	<i>844,072</i>
<i>Excess of Receipts Over (Under) Disbursements</i>	<i>(84,496)</i>
 <b>Other Financing Receipts (Disbursements)</b>	
Transfers Out	(233,361)
<i>Total Other Financing Receipts (Disbursements)</i>	<i>(233,361)</i>
<i>Net Change in Fund Cash Balances</i>	<i>(317,857)</i>
<i>Fund Cash Balances, January 1</i>	<i>1,703,232</i>
 <b>Fund Cash Balance, December 31</b>	
Assigned	200,093
Unassigned (Deficit)	1,185,282
<i>Fund Cash Balance, December 31</i>	<i>\$1,385,375</i>

*See accompanying notes to the financial statements.*

**WEST CENTRAL OHIO NETWORK  
SHELBY COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Fiduciary Fund Type
	Agency
<b>Operating Cash Receipts</b>	
Intergovernmental - Local - Board Allocation	\$3,247,435
Investment Income	44,727
Waiver Match Reconciliations	5,875,485
<i>Total Operating Cash Receipts</i>	9,167,647
<b>Operating Cash Disbursements</b>	
Service Contracts	1,750,833
Waiver Match	6,465,371
Other Expenses	28,998
Play and Language for Autistic Youngsters	37,050
Administrative Fees	752,122
Investigative Agent Fees	8,529
<i>Total Operating Cash Disbursements</i>	9,042,903
<i>Operating Income</i>	124,744
<b>Non-Operating Receipts (Disbursements)</b>	
Transfers In	233,361
<i>Total Non-Operating Receipts (Disbursements)</i>	233,361
<i>Net Change in Fund Cash Balances</i>	358,105
<i>Fund Cash Balances, January 1</i>	4,854,888
<i>Fund Cash Balances, December 31</i>	\$5,212,993

*See accompanying notes to the financial statements.*



**WEST CENTRAL OHIO NETWORK  
SHELBY COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCE (CASH BASIS)  
GOVERNMENTAL FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>General</b>
<b>Cash Receipts</b>	
Intergovernmental - Federal	\$146,914
Intergovernmental - Local	11,883
Earnings on Investments	165,269
Administrative Fees	76,921
Charges for Services	196,766
Miscellaneous	34,191
<i>Total Cash Receipts</i>	631,944
<b>Cash Disbursements</b>	
Administrative Expenses	920,862
<i>Total Cash Disbursements</i>	920,862
<i>Excess of Receipts Over (Under) Disbursements</i>	(288,918)
<b>Other Financing Receipts (Disbursements)</b>	
Transfers Out	(518,075)
<i>Total Other Financing Receipts (Disbursements)</i>	(518,075)
<i>Net Change in Fund Cash Balances</i>	(806,993)
<i>Fund Cash Balances, January 1</i>	2,510,225
<b>Fund Cash Balance, December 31</b>	
Assigned	200,093
Unassigned (Deficit)	1,503,139
<i>Fund Cash Balance, December 31</i>	\$1,703,232

*See accompanying notes to the financial statements.*

**WEST CENTRAL OHIO NETWORK  
SHELBY COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Fiduciary Fund Type
	Agency
<b>Operating Cash Receipts</b>	
Intergovernmental - Local - Board Allocation	\$7,489,528
Miscellaneous Revenue	40,432
Waiver Match Reconciliations	179,020
<i>Total Operating Cash Receipts</i>	7,708,980
<b>Operating Cash Disbursements</b>	
Service Contracts	1,298,068
Waiver Match	7,780,473
Play and Language for Autistic Youngsters	44,250
Administrative Fees	207,506
Investigative Agent Fees	46,482
<i>Total Operating Cash Disbursements</i>	9,376,779
<i>Operating Loss</i>	(1,667,799)
<b>Non-Operating Receipts (Disbursements)</b>	
Transfers In	518,075
<i>Total Non-Operating Receipts (Disbursements)</i>	518,075
<i>Net Change in Fund Cash Balances</i>	(1,149,724)
<i>Fund Cash Balances, January 1</i>	6,004,612
<i>Fund Cash Balances, December 31</i>	\$4,854,888

*See accompanying notes to the financial statements.*

**WEST CENTRAL OHIO NETWORK  
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

West Central Ohio Network, Shelby County, (WestCON) is a non-profit governmental agency known as a Regional Council of Governments. WestCON was created by seven county boards of developmental disabilities in September of 1990 to administer supported living services to the counties of Auglaize, Darke, Logan, Mercer, Miami, Shelby, and Union. Hardin County became a member in 2001 and Preble County became a member in 2005. WestCON is governed by an executive council of nine members that are the Superintendents of each local county board of developmental disabilities which is a WestCON member. At the organizational meeting of each year, which is held in January, the members elect officers of the executive council. The officers of the council are a President, Vice-President, Secretary, and Treasurer. There are no term limitations for WestCON council members. The executive council authorizes expenditures as well as serves as the contracting body and the chief administrators of public services for WestCON. The council appoints an Executive Director of WestCON that is responsible for organizing, administering, and operating WestCON in accordance with the council's established program.

Supported Living is an approach for assisting individuals with developmental disabilities to live in the community based on their needs and their preferences. Member County Board staff assess needs and develop plans for services that support eligible individuals who live in the community. WestCON provides technical assistance, performs duties on behalf of member County Boards, and pays for services through County Board authorizations. WestCON also pays match to the State of Ohio, on behalf of member County Boards, for Federal Medicaid Waiver Funds that support home and community based services provided to eligible individuals as paid by the State of Ohio.

WestCON management believes these financial statements present all activities for which WestCON is financially accountable.

**B. 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). This basis is similar to the cash receipts and disbursements accounting basis. WestCON recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred.

These 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.

**C. Deposits and Investments**

All cash received by WestCON is deposited into one of the checking accounts. Monies in the main checking account are used to purchase all investments. All investment earnings are originally receipted to the General Fund, but a portion is eventually transferred to the County Board Agency funds based on the allocation percentages agreed to by the Executive Council.

WestCON's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

**WEST CENTRAL OHIO NETWORK  
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014  
(Continued)**

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

**C. Deposits and Investments (Continued)**

WestCON values certificates of deposit, government and agency obligations, and municipal bonds at cost.

**D. Fund Accounting**

WestCON maintains its accounting records in accordance with the principles of "Fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity, which stands separate from the activities reported in other funds. WestCON classifies its funds into the following types:

**1. General Fund**

The general operating fund of WestCON is used to account for all financial resources except those required by law or contract to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio and the bylaws of WestCON.

**2. Fiduciary Funds**

Fiduciary funds include agency funds.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. WestCON disburses these funds as directed by other governments. WestCON's agency funds consisted of separate funds accounted for by WestCON on behalf of each of the nine County Boards of Developmental Disabilities. The member contributions were used to make State Medicaid match payments and other required payments on behalf of the County Boards as indicated by approved invoices forwarded to WestCON by the member County Boards.

**E. Budgetary Process**

WestCON is not required to follow budgetary procedures as prescribed by the Ohio Revised Code; however, WestCON uses internal budgets for planning purposes, which they adopt annually for expenditures.

**F. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which WestCON must observe constraints imposed upon the use of its governmental-fund resources.

**1. Nonspendable**

WestCON classifies assets as nonspendable when legally or contractually required to maintain the amounts intact.

**WEST CENTRAL OHIO NETWORK  
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014  
(Continued)**

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

**F. Fund Balance (Continued)**

**2. Restricted**

Fund balance is restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

**3. Committed**

The Executive Council can commit amounts via formal action (resolution). WestCON must adhere to these commitments unless the Executive Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**4. Assigned**

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as restrict or committed. Governmental funds other than the general fund report all fund balances as assigned unless they are restricted or committed. In the general fund, assigned amounts represent intended uses established by the Executive Council.

**5. Unassigned**

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

WestCON applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**G. Property, Plant, and Equipment**

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

**H. Unpaid Vacation and Sick Leave**

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

**WEST CENTRAL OHIO NETWORK  
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014  
(Continued)**

**2. COMPLIANCE**

At December 31, 2015 and December 31, 2014, WestCON held a material amount of investments that were not in accordance with Ohio Rev. Code Section 135.14(B) related to the allowable types of investments and Ohio Rev. Code Section 135.14(D) related to the allowable length of maturity of investments.

**3. EQUITY IN POOLED DEPOSITS AND INVESTMENTS**

WestCON maintains a deposit and investments pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits and investments at December 31 was as follows:

	<b>2015</b>	<b>2014</b>
Demand deposits	\$3,548,588	\$3,274,896
Certificates of deposit	735,000	980,000
Total deposits	4,283,588	4,254,896
Government & Agency Obligations	899,601	1,799,151
Municipal Bonds	1,415,179	504,073
Total investments	2,314,780	2,303,224
Total deposits and investments	\$6,598,368	\$6,558,120

At December 31, 2015 and 2014, WestCON held unpriced General Motors Corporation equity securities. Equity securities are not eligible investments under Ohio law, to which WestCON is aware. However, at the recommendation of investment representatives, WestCON is holding onto these securities in the event of a settlement.

**Deposits and Investments:** WestCON's deposits are insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

Investments are protected by the Securities Investor Protector Corporation (SIPC) against losses caused by the financial failure of the financial institution or broker-dealer. SIPC was created by the Securities Investor Protections Act of 1970 and is neither a government or a regulatory authority, but a nonprofit, membership corporation, funded by its member securities broker-dealers. Customers of a failed firm receive all securities registered in their names or in the process of being so registered. Customers receive, on a pro rata basis, all remaining customer cash and securities held by the firm.

After the above distribution, SIPC funds are available to satisfy the remaining claims of each customer, up to a maximum of \$500,000, including up to \$250,000 on claims for cash. Any remaining assets after payment of liquidation expenses may be available to satisfy any remaining portion of customer claims on a pro rata basis with other creditors.

**4. RETIREMENT SYSTEM**

WestCON employees belong to the Ohio Public Employees Retirement System (OPERS), a state operated, cost sharing, multiple employer plan. The plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are prescribed by the Ohio Revised Code. OPERS members contributed 10.0% of their gross pay while WestCON contributed an amount equal to 14.00% of covered payroll. WestCON paid all required contributions through 2015.

**WEST CENTRAL OHIO NETWORK  
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014  
(Continued)**

**5. RISK MANAGEMENT**

WestCON is exposed to various risks of loss related to torts, theft or damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters.

WestCON maintains general liability insurance in the amount of \$1,000,000 for each occurrence and \$3,000,000 in aggregate.

Workers' compensation benefits are provided through the State Bureau of Worker's Compensation. The premium is calculated based upon accident history and administrative costs.

WestCON provides health insurance for all full-time employees. WestCON provides health insurance benefits through a private carrier.

There has been no significant reduction in insurance coverage from the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three calendar years.

**6. CONTINGENT LIABILITIES**

Management believes there are no pending claims or lawsuits.

**7. RESTATEMENT OF FUND BALANCE**

WestCON restated beginning fund balances at January 1, 2014 to reflect the County Board Funds as Agency Funds (Fiduciary) rather than as Special Revenue Funds that had been presented in previous periods. The restated fund balances were as follows:

<b>Fund Type</b>	<b>December 31, 2013 Audit Report</b>	<b>Restatement Amount</b>	<b>Restated January 1, 2014</b>
Special Revenue Funds	\$6,004,612	(\$6,004,612)	\$0
Agency Funds	0	6,004,612	6,004,612

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

West Central Ohio Network  
Shelby County  
315 East Court Street  
Sidney, Ohio 45365

To the Executive Council:

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 cash balances, receipts, and disbursements by fund type of the West Central Ohio Network, Shelby County, (WestCON) as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements and have issued our report thereon dated May 11, 2017 wherein we noted WestCON followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, and WestCON restated its beginning fund balances for 2014.

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses and significant deficiencies.

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 a 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 WestCON's financial statements. We consider findings 2015-001 and 2015-002 described in the accompanying schedule of findings to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2015-004 through 2015-006 described in the accompanying schedule of findings to be significant deficiencies.

***Compliance and Other Matters***

As part of reasonably assuring whether WestCON'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 matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2015-003.

***WestCON's Responses to Findings***

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

***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 WestCON's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering WestCON's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

May 11, 2017

**WEST CENTRAL OHIO NETWORK  
SHELBY COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2015 and 2014**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2015-001**

**MATERIAL WEAKNESS – FINANCIAL STATEMENT MISSTATEMENTS**

WestCON prepared its annual financial statements in accordance with accounting practices the Auditor of State prescribes or permits. WestCON essentially serves as fiscal agent of certain funds for the individual nine County Boards of Developmental Disabilities as the County Boards instruct WestCON as to which invoices/contracts to pay with their funds. This is a fiduciary relationship in which the activity related to the County Boards should be reported as agency funds; however, for 2015 and 2014, WestCON reported all activity related to the County Boards incorrectly as special revenue funds. The accompanying financial statements were adjusted to correctly report all such activity within agency funds. The adjustment amounts related to the entire opening fund balance, revenue, expenditure, and closing fund balance for the agency fund for 2015 and 2014.

Additionally, **Governmental Accounting Standards Board (GASB) Statement No. 54**, Fund Balance Reporting and Governmental Fund Type Definitions, introduced five fund balance classifications and clarified the existing governmental fund type definitions. The fund balance classifications relate to constraints placed upon the use of resources reported in governmental funds. The five classifications are non-spendable, restricted, committed, assigned and unassigned. **GASB Codification 1800.177 and GASB 54, paragraph 17** states, in part, that unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. **GASB Codification 1800.173 and GASB 54, paragraph 13** state, in part, that amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. Intent should be expressed by (a) the governing body itself or (b) a body or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

For year-end 2015 and 2014, WestCON's "risk fund" amount of \$200,093 should have been classified as assigned fund balance in the general fund. The adjusted residual amount in the general fund of \$1,185,282 for year-end 2015 and \$1,503,139 for year-end 2014 should have been classified as unassigned fund balance. WestCON's 2015 and 2014 financial statements were not classified in accordance with GASB 54. The accompanying financial statements were adjusted to correct these errors.

Failure to properly report activity and balances in the financial statements could lead to materially misstated financial statements and unreliable financial information.

WestCON should use due care in preparation of the annual financial report. Furthermore, WestCON should review GASB 54 requirements, including Auditor of State Bulletin 2011-004, and apply these requirements to all financial statements and footnote disclosures.

**Officials' Response:** The WestCON Executive Council hired a full time Executive Director in 2016, and the noted recommendations have been put into place with the submission of the 2016 General Purpose Financial Statement.

## FINDING NUMBER 2015-002

### MATERIAL WEAKNESS – INVESTMENT INCOME DISTRIBUTION

WestCON earned investment income on a monthly basis during the audit period. A portion of the investment income was earned by the General Fund balance and the remainder was earned by the individual County Board funds' balances. During the audit period, investment income was posted entirely to the General Fund. It was WestCON's practice to then allocate the portion of investment income that was earned by the County Board funds two years after it was earned; therefore, investment income earned in 2012 was re-allocated to the County Board funds in 2014 and investment income earned in 2013 was re-allocated to the County Board funds in 2015. The following problems were identified with this practice:

- There was no written policy/procedure related to this process to verify that it was done consistently and accurately.
- WestCON moved the funds via a fund-to-fund transfer; however, the transaction was recorded incorrectly on the financial statements as investment income in the amount of \$739,746 for 2014 and intergovernmental - local - board allocation in the amount of \$597,755 for 2015 in the County Board funds. This fund-to-fund transfer should have been recorded as a transfer in/transfer out on the financial statements. This error was corrected in the accompanying financial statements.
- The above referenced transfers were not approved by the Board. Such movement of funds should be approved by the Board.
- Based on the method used to determine the transfer amount, WestCON transferred too much money from the General Fund to the County Board funds in the amount of \$364,394 and \$221,671 for 2015 and 2014, respectively. This error was corrected in the accompanying financial statements.
- Investment income was understated on the 2014 financial statements in the General Fund by \$8,829. This error was not corrected in the accompanying financial statements.
- The funds that earn the investment income did not receive their share of the earnings in a timely manner given that interest is allocated to County Board funds two years after it was earned.

Failure to obtain Board approval for transfer of funds may result in money being moved without the Board's knowledge and approval. Failure to account for fund-to-fund transfers correctly could lead to financial statement errors. Failure to calculate, allocate, and properly account for interest earnings in a timely manner could lead to financial statement and fund balance errors.

WestCON should establish procedures to verify that investment income is recorded timely and in the proper amount. Additionally, WestCON should allocate investment income to the funds that earned the investment income when it is received by WestCON. This will eliminate the need to transfer investment income to the funds that earned the investment income at a later date. WestCON should also establish a written policy/procedure related to the posting and allocation of investment earnings.

**Officials' Response:** During the 2016 reporting year, investment income was properly calculated and allocated into the fund in which it is received during the month the interest is earned. This practice has been carried forward into the 2017 reporting year. In early 2017, the WestCON Executive Council adopted a revised investment policy related to the posting and allocation of investment earnings.

**FINDING NUMBER 2015-003**

**NONCOMPLIANCE**

**Ohio Rev. Code Section 135.14(B)** states, in part, the treasurer or governing board may invest or deposit any part or all of the interim moneys. The following classifications of obligations shall be eligible for such investment or deposit:

- (1) United States treasury bills, notes, bonds, 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 obligations or securities 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, and government national mortgage association.
- (3) Interim deposits in the eligible institutions applying for interim moneys as provided in section 135.08 of the Revised Code.
- (4) Bonds and other obligations of this state, or the political subdivisions of this state.
- (5) No-load money market mutual funds consisting exclusively of obligations described in division (B)(1) or (2) of this section and repurchase agreements secured by such obligations.
- (6) The Ohio subdivision's fund as provided in section 135.45 of the Revised Code;
- (7) Up to forty per cent of interim moneys available for investment in either of the following:
  - (a) Commercial paper notes issued by an entity that is defined in division (D) of section 1705.01 of the Revised Code.
  - (b) Bankers acceptances of banks that are insured by the federal deposit insurance corporation and that mature not later than one hundred eighty days after purchase.

Further, **Ohio Rev. Code Section 135.14(D)** states that except as provided in division (E) of this section, any investment made pursuant to this section must mature within five years from the date of settlement, unless the investment is matched to a specific obligation or debt of the subdivision.

WestCON owned 6 investments at December 31, 2014 with a total cost of \$553,761, or 17% of total WestCON investments, which did not meet any eligible classifications noted above. These investments were related to United States territories or States other than Ohio. Cost was greater than market value in a cumulative amount of \$97,999 for these investments at December 31, 2014. Additionally, WestCON owned 8 investments with a total cost of \$1,803,224, or 55% of total WestCON investments, that had a maturity date greater than five years from December 31, 2014.

WestCON owned 7 investments at December 31, 2015 with a total cost of \$1,464,867, or 48% of total WestCON investments, which did not meet any eligible classifications noted above. These investments were related to United States territories or States other than Ohio. Cost was greater than market value in a cumulative amount of \$160,741 for these investments at December 31, 2015. Additionally, WestCON owned 7 investments with a total cost of \$903,674, or 30% of total WestCON investments, that had a maturity date greater than five years from December 31, 2015.

Additionally, WestCON's year-end investment account statement for 2014 and 2015 reported an investment in General Motors Corporation equity securities, which is also an illegal investment. However, these securities currently had no value. This is described in Note 2 to the financial statements. WestCON's original investment in these securities was \$70,000 and the loss on investment would have been written off in a previous audit period.

Failure to invest WestCON's funds only in investments allowable under Ohio Revised Code could result in risky investments in which WestCON could lose a portion of its principal investment. It could also lead to WestCON funds that are needed to meet its obligations being held up in long-term investments.

**FINDING NUMBER 2015-003  
(Continued)**

WestCON should implement policies and procedures to only invest funds in allowable investments under Ohio law. WestCON should also consider liquidating current illegal investments in an effort to mitigate any possible future losses.

**Officials' Response:** In early 2017, the WestCON Executive Council adopted a revised investment policy to only invest funds in allowable investments under Ohio law. This investment policy has been acknowledged by the company who handles the investments. WestCON is currently reviewing options to liquidate current illegal investments.

**FINDING NUMBER 2015-004**

**SIGNIFICANT DEFICIENCY – PAYROLL PROCESS AND CONTROLS**

We identified several significant issues and weaknesses related to WestCON's payroll controls and processes. These weaknesses are explained as follows:

- During 2015, WestCON began utilizing Automatic Data Processing, Inc., (ADP) to process payroll and payroll taxes. However, there were no formal policies or procedures created and approved by the Board or management related to this method of payroll/payroll taxes processing. Additionally, there were very limited informal procedures related to the payroll process during 2015.
- There was no review or approval by a supervisor or by the Executive Director of any 2014 employee time sheets. Additionally, there was no review or approval of time sheets by a supervisor or the Executive Director prior to payroll information being submitted to ADP for each pay period during 2015.
- All WestCON employees received a 3% raise in 2014 and 2015; however, there was no formal Board approval identifying this 3% raise for all employees within the official minutes record for either year.
- WestCON's **Employee Policy Manual - Section 301** states, in part, that employees choosing not to access health insurance may be eligible for an opt-out payment as approved by the Board. However, no specific documentation could be located within the official minutes record or any other documentation that would evidence any Board approval or clarification of those who would receive the funds and in what amount, for either year of the audit period. There were two WestCON employees that were paid an additional \$2,000 in 2014 and 2015 for declining enrollment in the health insurance plan.
- WestCON's **Employee Policy Manual - Section 602** states, in part, that non-exempt employees who work more than forty hours in a work week will be granted overtime or compensatory time for all hours in excess of forty in a work week. All overtime must have prior approval of the Executive Director. We identified employees that were paid overtime during the audit period; however, there was no documented support for the prior approval of overtime for the employees that received overtime pay during the audit period.
- WestCON's **Employee Policy Manual - Section 405** states, in part, that if an employee is required to work on one of the recognized holidays, that employee shall schedule an alternate day off during the same period. One employee tested during 2015 worked on a holiday, but did not schedule an alternate day off within the same pay period. This resulted in extra pay at the overtime rate for the employee for that pay period.

Failure to have adequate payroll policies and procedures in place and failure to follow existing policies and procedures could result in unsupported or improper payroll payments and/or errors and irregularities occurring and not being detected in a timely manner. This could also result in future findings for recovery.

**FINDING NUMBER 2015-004  
(Continued)**

WestCON should implement written policies and procedures related to payroll controls and processes to strengthen the weaknesses identified above. Procedures should also be implemented to verify that existing policies and procedures are followed. Additionally, the Board should take steps to verify that necessary Board actions related to payroll are approved and recorded within the official minutes record.

**Officials' Response:** In early 2017, a payroll policy was adopted by the WestCON Executive Council related to payroll controls.

**FINDING NUMBER 2015-005**

**SIGNIFICANT DEFICIENCY – BANK RECONCILIATIONS**

Cash is the asset most susceptible to theft and misappropriation. Monthly reconciliations between the bank and the accounting system provide a reasonable assurance that all receipts and expenditures have been posted to the accounting system. Additionally, monthly reconciliations provide a picture of total financial position at month-end.

WestCON prepared bank reconciliations that did not reconcile total bank and investment balances to the accounting system balance throughout 2014 and 2015. Reconciliations were performed only for the bank accounts that issued checks. Additionally, cash and investments reported on the financial statements did not reconcile to the true reconciled cash and investment balance at year-end 2015 and 2014 in the amounts of \$12,644 and \$173, respectively. The accompanying financial statements were not adjusted for these variances.

Also, the County Board Agency Fund financial statements included an "Emergency Fund" totaling \$215,185 at year-end 2014 and 2015 that was not tracked on WestCON's accounting system in any way.

Failure to properly reconcile total bank and investment balances to the accounting system balances on a monthly basis could lead to management decisions made on incorrect information and possible errors and irregularities occurring and not being detected in a timely manner.

WestCON should implement procedures to verify that monthly bank reconciliations that include total cash and investments are performed properly. If there are unreconciled variances or unsupported reconciling items, WestCON should immediately determine the cause of the variance so that any errors or irregularities can be corrected in a timely manner. Additionally, independent detailed reviews should be performed of monthly bank reconciliations as means of verifying their accuracy.

**Officials' Response:** Upon completion of this audit, total fund reconciliation will be performed on a monthly basis. Any variances will be corrected in a timely manner. Fund balance reports and book-to-bank reconciliation will be presented to and approved by the board with each monthly review of the financial reports.

**FINDING NUMBER 2015-006**

**SIGNIFICANT DEFICIENCY – BOARD REVIEW AND APPROVAL OF FINANCIAL INFORMATION**

To assist in the management of financial resources, a governing body should periodically review and approve financial information. In addition, to help ensure accountability over recorded activity and depository balances, the governing body should review and approve monthly bank-to-book reconciliations and bank statements.

**FINDING NUMBER 2015-006  
(Continued)**

During 2014, WestCON minutes documented that Board members received and approved investment reports and listings of administrative expenses on a monthly basis. The minutes further documented board member review of revenue and expenditure information, but no formal approval of this information was documented within the minutes. There was no evidence that the Board reviewed any bank reconciliations or budget versus actual reports during 2014.

During all of 2015, the minutes did not document Board review or approval of any financial information.

It is imperative for the Board to provide an oversight function related to financial activity. The failure of the Board to monitor the financial activity of WestCON could result in financial objectives not being achieved; violation of Ohio Rev. Code or grant requirements; or errors and/or irregularities occurring and not being detected in a timely manner.

WestCON should implement monitoring procedures that require the monthly review of financial reports such as budget versus actual revenue and expenditure reports and fund balance reports, along with review of monthly bank-to-book reconciliations accompanied with bank statements. Evidence of the review and approval of financial reports should be indicated by signatures or initials on the documents reviewed and/or approval in the minutes. All funds should be tracked and accounted for on WestCON's accounting system.

**Officials' Response:** Upon completion of this audit, total fund reconciliation will be performed on a monthly basis. Any variances will be corrected in a timely manner. Fund balance reports and book-to-bank reconciliation will be presented to and approved by the board with each monthly review of the financial reports.



**WEST CENTRAL OHIO NETWORK  
SHELBY COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2015 AND 2014**

Finding Number	Finding Summary	Status	Additional Information
2013-WES-01	Material Weakness – Accounting system inadequacies that led to financial statement errors and reconciliation issues.	Not corrected	<p>Repeated in a combination of findings 2015-001, 2015-002, 2015-005, and management letter issue.</p> <p>In 2015, West Central Ohio Network implemented a new accounting system which allowed the WestCON financial team to prepare financial statements directly from the system with little manual intervention. It also allowed WestCON to implement monthly bank reconciliation procedures. In 2016, upon hiring a new Executive Director, further financial reporting controls were put into place. Interest earned on investments are now being properly calculated and allocated into the fund in which it is received during the month the interest is earned. Additionally, the WestCON Executive Council adopted a policy which defines the WestCON treasury based on the GASB Statement No. 54. The GASB 54 requirements were applied to the 2016 General Purpose Financial Statements. Upon completion of this audit, WestCON will implement procedures to verify that monthly bank reconciliations of total cash and investments are performed properly. This monthly reconciliation process will be presented to and approved by the Executive Council with the monthly financial statements.</p>
2013-WES-02	Material Weakness - Duplicate Medicaid matching funds incorrectly remitted to the State.	Corrective Action Taken and Finding is Fully Corrected	N/A
2013-WES-03	Noncompliance – ORC 135.01 - .22; Illegal investments	Not Corrected	<p>Repeated as finding 2015-003.</p> <p>In early 2017, the WestCON Executive Council adopted a revised investment policy to only invest funds in allowable investments under Ohio law. This investment policy has been acknowledged by the company who handles the investments. WestCON is currently reviewing options to liquidate current illegal investments.</p>

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# Dave Yost • Auditor of State

**WEST CENTRAL OHIO NETWORK SUPPORT LIVING FOR MRDD**

**SHELBY 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  
JULY 11, 2017**