



## Johnson County Audit Services

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January 10, 2002

Honorable Members of the Board of County Commissioners:

The Annual Report recapping the activities and accomplishments of the Audit Services Division is submitted for your review. This report is submitted as part of the duties and responsibilities of the County Auditor, Resolution 80-94.

The County Auditor functions as an objective evaluator of the effectiveness of County operations and activities. The Auditor's office maintains organizational and operational independence from all other departments of the County and reports directly to the Governing Body. Resolution number 80-94 grants the County Auditor complete access to all books and records deemed necessary to complete Board approved projects.

Throughout Fiscal 2002, I will continue to release audit reports that present the Governing Body with new perspectives on existing managerial and administrative practices. The support and cooperation of the Governing Body during the past year were greatly appreciated.

I look forward to the challenges and opportunities of the coming year.

Martin J. Kolkin  
County Auditor

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**Johnson County Auditor's  
Annual Report  
Fiscal 2001**

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**Departmental Objective**

The Audit Services Division functions as an objective evaluator of the effectiveness of all Johnson County activities, operations, services and programs, ensuring compliance with the Board of County Commissioners' policies, federal regulations, and state statutes.

The County Auditor accomplishes his annual objectives primarily through the use of audits or detailed examinations. All audits do not necessarily culminate in the issuance of a formal report or warning letter. Potentially, preliminary audit results may suggest that further investigation is not merited. During Fiscal 2001, all audits culminated in a formal report; no examinations were terminated prior to the completion of audit fieldwork. As of year-end, one audit remains in progress.

**REPORTS ISSUED and SIGNIFICANT CONCLUSIONS**

**Self-Insured Health Care Fund Audit**

The purpose of this report was to provide an objective evaluation of the management and program administration of Johnson County's Health Care Fund.

**Significant Conclusions:**

1. The Healthcare Fund operated at net loss in excess of \$9 million over the fiscal periods 1998 – 2000. Written policies and procedures for the operation of the Health Care Fund did not exist;
2. No budget existed for the \$13 million Self-Insured Health Care fund;
3. The Operating Budget did not include nearly \$190,000 of annual interest revenue;
4. During Fiscal 1998, County financial representatives reallocated approximately \$2 million of funds of health care premiums without obtaining required written authorization from the Board of County Commissioners;
5. The reallocation transaction noted above failed to conform to generally accepted accounting principles;
6. Interest revenue of \$733,160, during fiscal 1998, was not distributed to the Health Care Fund. Instead, \$733,160 of interest revenue was incorrectly reported as interest income in the General Fund; and
7. Approximately \$460,000 of revenues attributable to Fiscal 2000 were inaccurately recorded on a cash, rather than an accrual basis.

**Indian Creek Middle Basin Interlocal Agreement Audit**

This report provided an objective evaluation of the accuracy of Indian Creek Middle Basin Interlocal Agreement fees billed to the City of Olathe.

**Significant Conclusions**

Johnson County representatives underbilled approximately \$4.1 million of charges for fees associated with the operation of the Indian Creek Middle Basin Interlocal Agreement.

**Progress Report on Cash Weaknesses Identified within the Treasurer's Department**

The purpose of this report was to provide recommendations to strengthen managerial controls over the Treasurer's bank accounts.

### Significant Conclusions

The County Auditor's review identified the following significant opportunities for increasing managerial controls and oversight:

1. The establishment of written policies and procedures that clearly delineate responsibilities for the Treasurer's monthly bank reconciliations;
2. The creation of a monthly report that reconciles the bank statement, the Treasurer's records, and the outstanding checks balances listed on the County's financial system; and
3. The correction of numerous errors including:
  - \$17.3 million of voided and cancelled checks incorrectly listed as outstanding on the bank reconciliation;
  - Approximately \$453,000 of checks attributable to other County accounts were incorrectly listed as outstanding on the County's accounts payable account; and
  - Manual checks in excess of \$178,000, which do not belong in the accounts payable account, needed to be removed from the outstanding check listing.

### **Progress Report on Cash Weaknesses Identified within the District Court**

This report provided an evaluation of the District Court's managerial control and oversight over cash recorded within the County's financial records.

### Significant Conclusions

Numerous opportunities for increasing management controls and achieving compliance with statutory requirements were identified, including:

1. The creation of a monthly report that reconciles the bank statement balances and the District Court's Records;
2. The preparation of an outstanding checks listing for all bank accounts;
3. Establishing policies, procedures and practices for resolving or voiding long-term outstanding checks; and
4. Establishing compliance with Kansas Statutes regarding the disposition of unclaimed property.

### **Register of Deeds Internal Control Audit**

This audit was undertaken in direct response to concerns expressed by the Register of Deeds regarding the adequacy of her department's internal controls.

### Significant Conclusions

The need for establishing and improving fundamental internal control policies and practices of the Register of Deeds were noted in the following areas:

1. Segregation of Duties  
Departmental representatives were permitted to authorize transactions, record the same transactions, as well as maintain the custody of assets. These functions are conventionally separated in order to reduce opportunities for employees to both perpetrate and conceal errors or irregularities in the normal course of their duties;
2. Physical Controls  
The Register of Deeds' physical controls failed to provide sufficient protection over the security of assets and access to the data files. These physical controls also did not provide periodic comparisons of subsidiary ledgers with the prevailing books of record; and

3. Information Processing

The Register of Deeds' department has used three different data information systems over the last several years, Phoenix (currently in use), ARMIS (in use from 1/2000 - 3/2001), and COTT (used prior to 1/2000). The County Auditor's review located serious control deficiencies within all three data information systems employed.

**Appraiser's Exempt Property Review**

Our review determined that the County Appraiser's files clearly document statutory compliance for acquiring and maintaining valid real property tax exemptions.

**Juvenile Intake and Assessment Audit**

This report provided 1) an overview of the authority, requirements, and local procedures for juvenile intake and assessment and 2) an evaluation of the County's financial administration of the Juvenile Intake and Assessment program.

**Significant Conclusions**

1. The County's Juvenile Intake and Assessment Center generally complied with the requirements and provisions of Kansas Statutes; and
2. The County's Juvenile Intake and Assessment program required greater oversight to ensure appropriate fiduciary treatment of all funds received from the State.

**WORK IN PROGRESS**

The release of a Johnson County Developmental Supports Procedure and Compliance Warning letter is anticipated in mid-January.

**PROFESSIONAL EDUCATION & DEVELOPMENT**

Professional education and development provide a cost-efficient technique for increasing departmental productivity and audit effectiveness. Additionally, Government Auditing Standards require that government auditors complete at least 40 hours of continuing education and training annually. Each member of the Audit Services Division, including the County Auditor, fulfilled this technical requirement during fiscal 2001.

The Audit Services Division also met professional education and licensure requirements of the American Institute of Certified Public Accountants, the Association of Government Accountants, the National Association of Certified Fraud Examiners, and the Association of Professionals in Business Management during fiscal 2001. The County Auditor and the Audit Manager completed certification requirements and became Certified Business Managers this year.

The County Auditor also maintains a presence in the national governmental auditing community through Johnson County Audit Services' memberships in the Mid-America Intergovernmental Audit Forum and the National Association of Local Government Auditors. The Johnson County Audit Services Division was again honored during fiscal 2001 by the publication of numerous audit abstracts in The Local Government Auditor's Newsletter, a national journal of the Association of Local Government Auditors.

**CONCLUSION**

The County Auditor's prevailing goal remains to provide the Board of County Commissioners with meaningful, objective, and timely reports for improving County operations and programs.