



Johnson County Audit Services

December 19, 2002

Honorable Members of the Board of County Commissioners:

The Johnson County Audit Services Department has completed a limited scope audit of the financial management of Community Corrections grants received from the State of Kansas. My examination was conducted in accordance with generally accepted auditing standards and the responsibilities of the County Auditor, Resolution 80-94.

The County Auditor undertook this audit in response to grants management concerns cited in a previous internal audit, *Juvenile Intake and Assessment*, dated October 25, 2001. The Community Corrections Grants audit was performed to provide the Board of County Commissioners and the County Manager with a current evaluation of the Community Corrections Department's financial management of State grants.

In my opinion, the financial management of the Community Corrections grant programs requires significant changes to ensure compliance with County policies, to provide full financial disclosure, and to present information in accordance with Governmental Accounting and Financial Reporting Standards.

The audit conclusions were discussed in detail with the County Manager, the Assistant County Manager, and the Director of Community Corrections. The County Manager's written response is included in the Appendix of this report.

I appreciate the courtesy, cooperation, and professionalism extended to the Audit Services Department during a financial review of numerous long-standing accounting and reporting practices of the Community Corrections Department and Johnson County.

Martin J. Kolkin
County Auditor

**Community Corrections Grants
Limited Scope Audit
Report Number 2002-03
Executive Summary**

The Johnson County Audit Services Department has completed a limited scope audit of the Community Corrections' financial management of State grants. The County Auditor recommends the following actions to ensure compliance with County policies, to provide full financial disclosure, and to present information in accordance with Governmental Accounting and Financial Reporting Standards:

- 1. The County maintained approximately \$1.1 million of revenues, unexpended Client Reimbursements, in a Project Account that existed outside of the Annual Capital and Operating Budget.**

The BOCC's policy is to adopt an annual capital and operating budget for all revenues and expenses, in accordance with Kansas Statutes Annotated 79-2929 et. seq.

The County Auditor recommends that the County Manager or his representatives provide the BOCC with a timeframe or implementation schedule for including Client Reimbursements within the annual operating budget (refer to pages 2 - 4).

The County Manager provided a firm commitment to include Client Reimbursements within the Annual Operating Budget and the budgetary process.

- 2. The County Auditor recommends that the County Manager or his representatives review the three remaining Community Corrections Department's Project Accounts to determine if these programs should be included in the annual budgetary process (refer to page 4).**

Community Corrections officials agreed to make any necessary changes to existing operating procedures to appropriately budget and report all Community Corrections' sources of revenue, including Client Reimbursements.

- 3. The County Auditor recommends that the County Manager or his representatives review all County Project Accounts to ensure that all Project Accounts are properly reflected in the County's financial system and the annual operating budget (refer to page 5).**

- 4. The County Auditor recommends that the County Manager or his representatives establish formal policies and procedures for the use of hundreds of thousands of dollars in annual reimbursement revenues received during the execution of State grants (refer to pages 5 - 6).**

Community Corrections officials stated that after a determination is made on how to treat Project Accounts, detailed policies and procedures would be established.

5. **The County Auditor recommends that Community Corrections representatives notify the corrections advisory board and the BOCC of:**

- 1) **The transfer of \$175,962 of unexpended Kansas Department of Corrections grant funds to the Client Reimbursements Project Account, during grant years 1999 – 2002 (refer to pages 7 - 8), and**
- 2) **The anticipated usage of \$31,384 in unexpended Juvenile Justice Authority grant funds, from grant year 1998, to be used for grant year 2003 operations (refer to pages 7 – 8).**

6. **The County Auditor recommends correcting an \$115,912 misposting of the fiscal 1995 overhead cost allocation. This \$115,915 misposting caused an annual mill levy expense to be paid out of a non-mill levy fund, the Client Reimbursements Project Account (refer to page 8).**

Community Corrections representatives stated that they are working to amend the fiscal year 2002 operating budget so that a correcting journal entry can be processed before the end of the current fiscal year.

7. **The County Auditor recommends obtaining County Manager authorization and BOCC approval for the Client Reimbursements Project Account's off-budget expenditures of \$237,927, primarily occurring after November 2000 (refer to pages 8 – 9).**

Community Corrections representatives agreed to prepare a memorandum for the County Manager's review that summarizes all expenditures charged to the Client Reimbursements Project Account from inception through the current period.

8. **The County Auditor recommends that the County Manager or his representatives obtain the appropriate authorization to use \$4,096 of unexpended grant funding, from prior years, for grant year 2003 operations.**

9. **The County Auditor recommends that the County Manager or his representatives contact KDOC officials and determine the necessary remedial action needed to correct approximately \$482,383 of under-reported reimbursement revenues for grant years 2001 and 2002 (refer to page 9).**

Community Corrections officials stated that they had notified the State of this omission and were instructed to submit amended final reports for grant years 2001 and 2002.

10. **The County Auditor's review noted that Community Corrections representatives had either resolved or obtained appropriate authorization to correct all management errors cited in the *Juvenile Intake and Assessment Audit*, dated October 25, 2001, except for \$7,133 unauthorized transfers (refer to page 10).**

The County Auditor recommends that the County Manager or his representatives obtain the appropriate authorization to apply the \$7,133 of unexpended grant funding to grant year 2003 operations.

Final Auditor Comments

Due to the dollar materiality and policy implications of the findings of this report, the County Auditor recommends a follow-up audit in fiscal 2003 or early fiscal 2004.

**Community Corrections Grants
Limited Scope Audit
Report Number 2002-03
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**Community Corrections Grants
Limited Scope Audit
Report Number 2002-03
Preliminary Section**

INTRODUCTION

In accordance with the approved audit workplan, the County Auditor completed a limited scope examination of the Community Corrections Department's management of State grants.

OBJECTIVES

This report provides the BOCC and the County Manager with an objective evaluation of:

- 1) The financial management of State grant programs administered by Johnson County's Community Corrections Department, and
- 2) The status of deficiencies cited in Johnson County Audit Services' *Juvenile Intake and Assessment Audit*, dated October 25, 2001.

BACKGROUND

This audit is the direct result of concerns cited in the Audit Services Department's *Juvenile Intake and Assessment Audit*, dated October 25, 2001, regarding the oversight of grant funds managed by the Community Corrections Department.

***Schedule of KDOC and JJA Grants
Grant Years 2000-2002***

<i>Grant Year</i>	<i>Kansas Department of Corrections</i>	<i>Juvenile Justice Authority</i>	<i>Total Grant Awards</i>
2000	\$ 2,598,232	\$ 1,658,080	\$ 4,256,312
2001	2,650,249	2,077,245	4,727,494
2002	2,740,059	2,046,005	4,786,064

Source: Community Corrections Grant Files, includes budgetary amendments and approved use of carry-over funds.

AUDIT SCOPE & METHODOLOGY

The County Auditor selected State grant years 2000 through 2002 and occasionally included a review of highly unusual transactions or journal entries dating back as far as February 1995. The audit was limited to audit procedures necessary to fulfill the objectives of this examination.

This examination included, but was not limited to the following:

- A review of Kansas Statutes Annotated, Kansas Administrative Regulations, accounting standards and principles, laws, and regulations;
- Discussions with the representatives from the Kansas Department of Corrections, County Community Corrections, the Office of Financial Management, Budget and Financial Planning, the Legal Department, and the County Managers Office; and
- Analytical examination of Johnson County budget data and financial information.

**Community Corrections Grants
Limited Scope Audit
Report Number 2002-03
Conclusions**

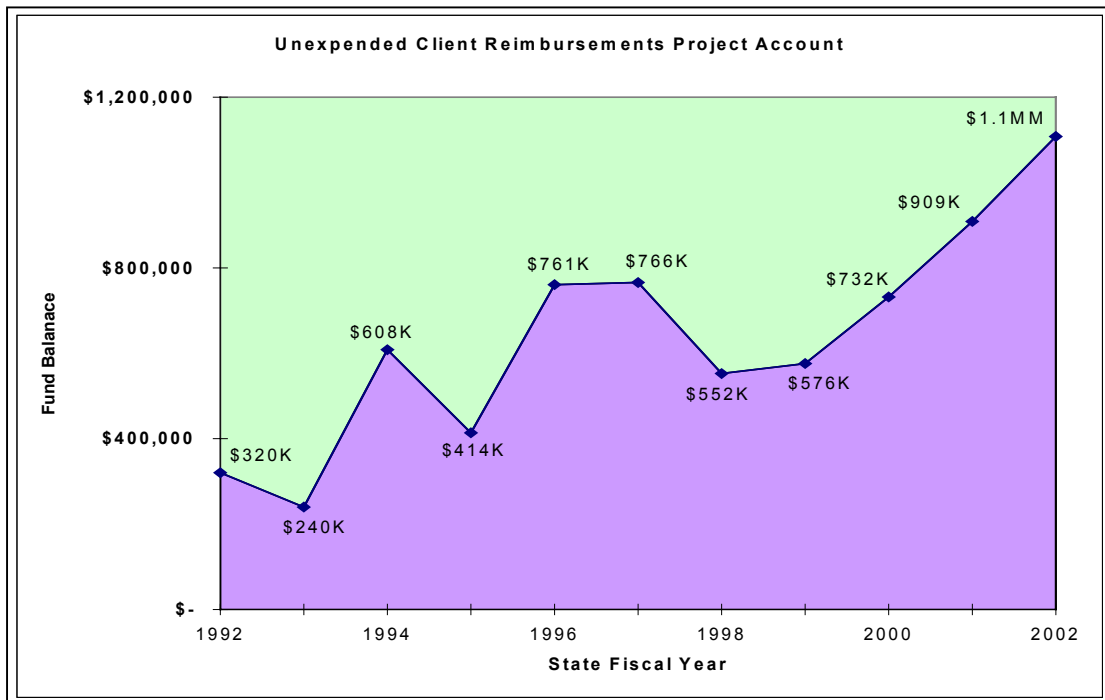
I. FINANCIAL ADMINISTRATION & REPORTING OF STATE GRANTS

The County Auditor determined that the financial management of Community Corrections grant programs requires significant changes to ensure compliance with County policies, to provide full financial disclosure, and to present information in accordance with Governmental Accounting and Financial Reporting Standards (“GASB”).

- A. The County maintained approximately \$1.1 million of net¹ unexpended Client Reimbursements in a “Project Account²” that existed outside of the Annual Capital and Operating Budget (“Budget”), for fiscal periods 1992 through September 2002.

The BOCC’s policy is to adopt an annual capital and operating budget for all revenues and expenses, in accordance with Kansas’s statutory requirements.

*Exhibit One
History of Unexpended Client Reimbursements
Inception to September 2002*



Source: County Financial System, Local Governmental Financial System

¹ Total revenues less total expenditures = net.

² Fund Accounting measures financial resources to be used for the acquisition or construction of major capital facilities uniquely, on a project basis instead of a period basis, categorized as Capital Improvement Projects, GASB Cod. Sec. 1300. However, fund accounting has no similar exceptions to the period basis of financial reporting for non-capital projects called “Project Accounts”.

The County Manager agreed, early in the audit process, that unexpended client reimbursement revenues needed to be reported within the Annual Capital and Operating Budget prepared by the County Manager and his Administrative staff, and adopted by the BOCC.

Client Reimbursements Defined

Client Reimbursements represent monies paid to the County, by grant program participants, to partially reimburse expenses incurred by the County for a Kansas Department of Corrections (“KDOC”) program, such as local prisoner boarding fees.

Intended Use of Client Reimbursements

The KDOC Deputy Secretary, Community and Field Services, in a letter dated October 23, 2002, stated:

While specific language regarding fees and reimbursements does not appear until the FY2003 (sic) grant cycle, it has always been the intent of the Kansas Department of Corrections that collected fees and reimbursements shall be used for program operation and offender services. Historically, the use of client reimbursements funds within these broad parameters has been determined by the local agency.

Effective March 14, 2002, Kansas Administrative Regulations defined reimbursements to include both prior and current fiscal years, and required that the client reimbursements be used in accordance with an approved KDOC plan. Before March 2002, actual usage was determined by the local authority.

History of Project Account

The County Auditor attempted to determine the rationale for using a Project Account to maintain an independent fund balance³ for Client Reimbursements within the General Fund. Representatives from Budget & Financial Planning, Office of Financial Management (“OFM”), and Community Corrections were unable to locate written authorization by the County Manager or the BOCC for the establishment of this Project Account. The Directors of Community Corrections and Financial Management that originally established the Client Reimbursements Project Account are no longer employed by the County.

Community Corrections representatives stated that the original purpose of the Client Reimbursements Project Account was to segregate client reimbursement revenue funds for the specific purpose of program operations and offender services to be maintained within the General Fund.

Community Corrections representatives added, that due to limitations within the County’s financial system, Local Government Financial System (“LGFS”), a Project Account was established to maintain a separate fund balance, spanning a period of years, for Client Reimbursements.

³ GASB Cod. Sec. 1300.102(a) defines fund balance as the fund equity or all assets less all liabilities.

The County Auditor noted that throughout the history of this Project Account, numerous accounting solutions existed to record, retain, and differentiate historical information for Client Reimbursements within the County's financial system. **However, the use of a Project Account as a systems solution, did not conform to County policies⁴, the principles of fund accounting, financial reporting requirements of GASB⁵, nor did this practice restrict the use of Client Reimbursements funds, as intended⁶.**

RECOMMENDATION ONE

The County Auditor recommends that the County Manager or his representatives provide the BOCC with a time frame or implementation schedule for including Client Reimbursements within the Budget.

Community Corrections Comments

Community Corrections representatives stated that numerous discussions had taken place between the Community Corrections Department, the County Manager's Office, the Budget and Financial Planning Department, OFM, and the County's certified public accounting firm to evaluate the best methodology for recording and reporting Client Reimbursements in the Budget and financial statements.

Community Corrections officials also noted the need to carefully work through the mechanics of any proposed solution due to the numerous impacts on the current fiscal year reporting, the fiscal year 2003 Budget, and the long-term effect of a change in overall County policy regarding Client Reimbursements.

County Manager's Comments

The County Manager provided a firm commitment to include Client Reimbursements within the Budget and the budgetary process.

RECOMMENDATION TWO

The County Auditor recommends that the County Manager or his representatives review the three remaining Community Corrections Project Accounts, Recreation, Juvenile Supervision, and the House Arrest Program, to determine if any these projects needs to be included in the annual budgetary process.

Community Corrections Comments

Community Corrections officials agreed to make any necessary changes to existing operating procedures to appropriately budget and report all of Community Corrections' sources of revenue, including Client Reimbursements.

⁴ Budget Management Policies and Procedures, Policy No. 100, Responsibilities section.

⁵ The Client Reimbursement Project Fund Balances were reported in the annual financial statements as "Unreserved, Undesignated" elements of the General Fund. As a result, no portion of the General Fund was truly reserved for Client Reimbursements, GASB Cod. Sec. 1800.127 and 1800.128.

⁶ Client Reimbursements are reflected in the unreserved, undesignated portion of the General Fund's fund balance. In order to be used only for Community Corrections, the Client Reimbursements would need a reserved designation or a unreserved, designated for restricted agencies designation in the General Fund's ending fund balance.

RECOMMENDATION THREE

The County Auditor recommends that the County Manager or his representatives review all Project Accounts on a countywide basis to ensure that all Project Accounts are properly reflected in the County’s financial system and the Budget.

B. Lack of appropriate County Manager and BOCC authorization for:

- 1) Annual transfers to and from the Client Reimbursements Project Account of client reimbursement revenue;
- 2) Transfers of unexpended State grant revenue to the Client Reimbursements Project Account; and
- 3) Client Reimbursements Project Account payment of grant and other expenditures.

Exhibit Two

Overview of Client Reimbursements Project Account

Schedule of Revenues & Expenses, Grant Years 2000 – 2002⁷

	2000	2001	2002	Total
<u>Project Revenues</u>				
Adult ISP	\$ (100,104)	\$ 41,228	\$ 26,931	\$ (31,945)
Adult Residential Facility	229,179	236,425	259,721	725,325
Case Management	1,393	-	-	1,393
Juvenile ISP	26,230	(16,692)	94	9,632
Juvenile Justice Authority	31,384	-	-	31,384
Other	(23,189)	430	25,110	2,351
Total Project Revenues	\$ 164,893	\$ 261,391	\$ 311,856	\$ 738,140
<u>Project Expenditures</u>				
Adult ISP		\$ 7,602		\$ 7,602
Adult Residential Facility		(181,457)		(181,457)
Case Management		10,283		10,283
Other	\$ 9,051	248,002	\$ 112,986	370,039
Total Project Expenditures	\$ 9,051	\$ 84,430	\$ 112,986	\$ 206,467
Net Project Revenues & Expenditures	\$ 155,842	\$ 176,961	\$ 198,870	\$ 531,673

Source: County Financial System, LGFS

1. Annual Transfers to and from the Client Reimbursements Project Account and State Grants of client reimbursement revenues.

Policies and procedures for the use of client reimbursement revenues

The County maintained no specific policies or procedures for recording revenues, incurring expenditures, or transferring revenues or expenditures funded by client reimbursements.

⁷ Annual revenues and expenses were sorted by general ledger posting date and sorted by State Fiscal Year cycle, July 1 through June 30, except Grant year 2002, which included activity for August and September 2002.

Annual Practice for the Grant Year-End

Although the actual accounting mechanics vary from year-to-year, the County Auditor noted the following two recurring transfer practices that typically occur upon the closing of the prior year grants or during the closing of the County’s fiscal year.

Exhibit Three

Transfers Practices

Client Reimbursements Revenues

<u>Revenues Defined</u>					
Authorized Grant Award	+	Client Reimbursements Received Under Grant	=	Available Grant Revenues +/-	Project Acct. Transfer In or Transfer Out = Total Grant Revenues
<u>Transfers In from Client Reimbursements Project Account</u>					
<i>Total Grant Revenues must equal Total Grant Expenditures to close a grant, so when:</i>					
Total Grant Expenditures			<u>are Greater Than</u>	Available Grant Revenues	
<i>The amount, that available grant revenues are smaller than total grant expenditures is transferred in from Client Reimbursements Project Account into the State Grant.</i>					
Available Grant Revenue	+	Client Reimbursement Rev. Transferred In from Project Account	=	Total Grant Revenues	
<i>Now, Total Grant Revenues = Total Grant Expenditures and the year-end grant can be closed.</i>					
<u>Transfers Out to the Client Reimbursements Project Account</u>					
<i>Total Grant Revenues must equal Total Grant Expenditures to close a grant, so when:</i>					
Total Grant Expenditures			<u>are Less Than</u>	Available Grant Revenues	
<i>The amount of available grant revenues that exceeds total grant expenditures is transferred out of the revenues of the State Grant into the Client Reimbursements Project Account.</i>					
Available Grant Revenues	-	Client Reimbursement Rev. Transferred Out to Project Account	=	Total Grant Revenues	
<i>Now, Total Grant Revenues = Total Grant Expenditures and the year-end grant can be closed.</i>					

Source: LGFS journal vouchers examined fiscals 1995 – 2002

RECOMMENDATION FOUR

The County Auditor recommends that the County Manager or his representatives establish formal policies and procedures for the use of client reimbursement revenues.

The County Auditor observed that the above transfer practices fell within the parameters of the State’s intended usage of client reimbursement revenues. However, without the normal budgetary processes, the specific responsibilities of the County Manager and the policy setting objectives of the BOCC were not fulfilled.

Community Corrections Comments

Community Corrections officials stated that after a determination is made on how to treat Project Accounts, detailed policies, and procedures will be established, with input from all appropriate parties.

2. Transfer of Unexpended State Grant Revenue to the Client Reimbursements Project Account

The County Auditor located five transfers of unexpended KDOC grant revenues, totaling \$175,962, and one transfer of \$31,384 of unexpended Juvenile Justice Authority (“JJA”) grant revenues to the Client Reimbursements Project Account, for the period July 1999 – September 2002. The County Auditor determined that each of these transfers occurred without the recommendation of the appropriate corrections advisory board or the authorization of the BOCC.

Exhibit Four

Schedule of KDOC Unexpended Grant Revenues Transferred to the Client Reimbursements Project Account, 7/1999 – 9/2002

Grant Description	Unexpended Grant Funds Transfer
<u>KDOC Grants</u>	
1995 Administration	\$ 41,325
1995 Juvenile Intensive Supervision Program	51,356
1997 Administration	35,995
1998 Administration	22,825
2001 Adult Intensive Supervision Program	24,461
Total Transfer of Unexpended KDOC Grant Revenues	\$175,962
<u>JJA Grant</u>	
1998 Juvenile Justice Authority Grant	\$ 31,384
Total Transfer of Unexpended State Grant Revenues	\$207,346

Source: County Financial System, LGFS

Community Corrections Discussion regarding KDOC Grants

Community Corrections representatives noted that KDOC officials had reviewed the transfers in question and had indicated that no additional State action or approval was required.

County Auditor Observations

The County Auditor noted that KDOC officials’ action of not examining grants on a program-by-program basis appeared inconsistent with Kansas Administrative Regulations. Resultantly, the County Auditor telephonically contacted the KDOC Deputy Secretary, Community, and Field Services. According to this State official, the KDOC’s practice is to view unexpended funds on an annual agency basis, not on a specific program-by-program basis.

Community Corrections Discussion regarding JJA Grant

Community Corrections representatives stated that the transfer of \$31,384 occurred erroneously. Community Corrections officials agreed to request appropriate authorization to use the \$31,384 for grant year 2003 operations.

RECOMMENDATION FIVE

The County Auditor recommends that Community Corrections representatives notify the corrections advisory board and the BOCC of the transfer of unexpended KDOC grant funds of \$175,962 to the Client Reimbursements Project Account, and request usage of \$31,384 of unexpended JJA grant funds for grant year 2003 operations.

The County Auditor further recommends that, for all changes in approved funding to a State grant program, Community Corrections representatives obtain the required recommendation of the corrections advisory board and BOCC approval **prior** to submission for KDOC approval.

3. Client Reimbursements Project Account expenditures

The County Auditor noted total expenditures of \$353,839, in a Project Account designed to receive, accumulate, and transfer client reimbursement revenues.

The County Auditor selected a sample of \$251,340, or approximately 71% of the total Project Account expenditures, from the three largest expenditure categories, determined the following:

Mill Levy Expenditure Charged to the Client Reimbursements Project Account

- a. **The County Auditor's review noted a \$115,912 misposting of the Community Corrections 1995 overhead cost allocation to the Client Reimbursements Project Account. This misposting caused an annual mill levy expense being paid out of a non-mill levy fund.**

RECOMMENDATION SIX

The County Auditor recommends that the County Manager or his representatives take the appropriate action to correct the \$115,912 accounting error noted above.

Community Corrections Comments

Community Corrections officials noted that the 1995 overhead cost allocation was incorrectly charged to the Client Reimbursements Project Account. Community Corrections representatives stated that they are working to amend the fiscal year 2002 operating budget so that a correcting journal entry can be processed before the end of the current fiscal year.

Remaining Expenditures (\$251,340 of total sampled expenditures less \$115,912 for the 1995 overhead cost allocations noted above)

- b. **The Client Reimbursements Project Account has paid an on-going operating expense of totaling \$119,652 for electronic monitoring, since November 2000.**
- c. **The Client Reimbursements projects account purchased a 2002 Intrepid automobile, costing \$15,776, for the Juvenile Intensive Supervision program.**

RECOMMENDATION SEVEN

\$237,927 of Project Account expenditures (\$353,839 of total expenditures less \$115,912 of mispostings) were made without the County Manager’s authorization or the BOCC’s approval. The County Auditor recommends that Community Corrections representatives obtain authorization from the County Manager or his representatives and the BOCC’s approval for all expenditures made from the Client Reimbursements Project Account.

Community Corrections Comments

Community Corrections representatives agreed to prepare a memorandum, for the County Manager’s review, summarizing all expenditures charged to the Client Reimbursements Project Account from inception through the current period.

4. Other Grant Concerns

The County Auditor noted that approximately \$4,096 of unexpended JJA grants funding remained in the County’s Financial System.

RECOMMENDATION EIGHT

The County Auditor recommends that the County Manager or his representatives obtain the appropriate authorization to apply the \$4,096 of unexpended grant funding to grant year 2003 operations.

Community Corrections Comments

Community Corrections representatives concurred.

C. Errors in Monthly Client Reimbursement Reports to the State

The County Auditor determined that client reimbursement revenues reported to the State were reported net or less client reimbursement revenue transferred to the Client Reimbursements Project Account for grant years 2001 and 2002.

Kansas Administrative Regulation 44-11-121(b) states:

A monthly financial status report shall be submitted to the secretary...All reimbursements collected or maintained by the agency or governing authority for the agency shall be reported in the monthly financial status report.

Exhibit Five

*Schedule of Client Reimbursement Revenues Reported to the State***

Filed with KDOC, for Grant Years 2000-2002

Grant Year	Client Reimbursement Revenue Collected**	Variance @	Client Reimbursements Reported to the State
2002	\$528,310	\$261,423	\$266,887
2001	457,672	220,960	236,712
2000	442,579	0	442,579
Totals	\$1,428,561	\$482,383	\$946,178

Source: LGFS Financial System and Monthly Reimbursements Reports filed with KDOC.

** - Client Reimbursement Revenue from the Adult Intensive Supervision Program and The Adult Residential Program

@ Transferred to Client Reimbursements Project Account

RECOMMENDATION NINE

The County Auditor recommends that the County Manager or his representatives contact KDOC officials and determine the necessary remedial action.

Community Corrections Comments

Community Corrections representatives stated that a new individual began preparing the monthly reimbursements report in grant year 2001. According to Community Corrections officials, this individual inadvertently reported to the State client reimbursement revenues net or less transfers to the Client Reimbursements Project Account.

Community Corrections officials further stated that they had notified the State of this omission and were instructed to submit amended final reports for grant years 2001 and 2002. Community Corrections representatives concluded by explaining that the corrected reports soon would be submitted to the State.

II. Juvenile Intake and Assessment Audit Follow-Up

Due to concerns over the accuracy of Juvenile Intake and Assessment grants expressed in a previous County Auditor's Report, dated October 25, 2001, a formal audit follow-up was performed to ensure that all deficiencies cited were corrected.

Except as noted below, the County Auditor determined that all deficiencies cited in the October 25, 2001 JIAC audit report were adequately resolved.

- A. Original Finding: \$62,168 of the grant year 1999 was incorrectly distributed.**
The County Auditor's review determined that Community Corrections representatives had either resolved or obtained appropriate authorization to correct all but \$7,133 of the 1999 JIAC grant funds.

The County Auditor noted that the remaining \$7,133 was incorrectly moved to the Client Reimbursements Project Account.

RECOMMENDATION TEN

The County Auditor recommends that the County Manager or his representatives obtain the appropriate authorization to apply the \$7,133 of unexpended 1999 JIAC grant funding to the JJA grant year 2003 operations.

Final Auditor Comments

Due to the dollar materiality and policy implications of the findings of this report, the County Auditor recommends a follow-up audit for either fiscal 2003 or early fiscal 2004.

Appendix A
County Manager's Response



Johnson County, Kansas

Michael Press, County Manager

DATE: December 3, 2002

TO: Board of County Commissioners

FROM: Michael B. Press, County Manager

SUBJECT: Response

County Manager's Response to Community Corrections Grants Audit

General Comments

The following comments provide some background and context on this issue:

- Early in the audit process, all parties agreed that changes were needed regarding project accounts and expressed their willingness to resolve any issues and implement the necessary changes.
- There have been no formal County policies regarding project accounts. Financial Policies currently under review by the Board of County Commissioners will govern project accounts in the future.
- It has not been the County's practice to budget for project accounts. Project accounts will now be included in the annual budget process, beginning with the FY04 budget.
- The fact that project accounts have previously not been part of the budget process has not excluded these expenditures from meeting the County's Purchasing and Financial Policies.

Client Reimbursement Project Fund

Client reimbursements are payments by the offenders for those services that they receive. For example, offenders at the Adult Residential Center pay \$12 "rent" per day. These payments, or "user fees", are designed to help cover the cost to local agencies for providing those services. In Johnson County's case, these dollars have historically been used to cover the shortfalls in State funding for adult corrections programs. This reduces the reliance on property tax dollars to support these programs. On July 18th, the Board of County Commissioners approved a request to use client reimbursements to leverage \$500,000 in Federal Byrne grants to support the Therapeutic Community and the Absconder Monitor programs for FY03.

In general, client reimbursements have been governed by two principles:

- a) (From Kansas Department of Corrections) Client reimbursements are intended to “support program operation and offender services”.
- b) (Johnson County Office of Financial Management) Fee-based project accounts are administered by the department director, subject to the County’s Purchasing and other Financial Policies.

In order to put in place a mechanism for tracking the receipt and disbursement of these user fees, the former Director of Corrections requested that a project account be established for the collection, retention and expenditure of client reimbursements. This project account was approved and set up by the Finance Department in 1992. At that time, a project account was the only method on the County’s financial system to collect, retain and record activity on an on-going (multiple-year) basis.

With the implementation of the new financial system, many established (formal and informal) processes are being evaluated for their continued need and relevance in light of the new system capabilities. The use of project accounts is just one example.

All department directors are expected to manage their operating budgets within the framework of the County’s Purchasing and other financial policies and to make sound business decisions on the use of those dollars. The expenditure of client reimbursement dollars has been made with the same deliberation, oversight and adherence to County policies. The absence of formally adopted policies and procedures regarding project accounts in general, or client reimbursements in particular, has not lessened the review and due diligence used in managing these dollars. The Corrections Department has been very frugal in the use of client reimbursements over the years. This has resulted in a reserve to be used as a safeguard against future state budget reductions in adult corrections.

Response to Auditor’s Recommendations

Listed below are the Auditor’s Recommendations (as presented in the Executive Summary) with the County Manager’s Responses:

1. The County Auditor recommends that the County Manager or his representatives provide the BOCC with a timeframe or implementation schedule for including Client Reimbursements within the annual operating budget.

County Manager’s Response: We concur with this recommendation. The FY03 Budget will be revised during the first quarter of FY03 to include the four Corrections project accounts - Client Reimbursements, Recreation, Juvenile Supervision and House Arrest. All four projects will be included as part of the FY04 annual budget process.

2. The County Auditor recommends that the County Manager or his representatives review the three remaining Community Corrections Department's Project Accounts to determine if these programs should be included in the annual budgetary process.

County Manager's Response: We concur with this recommendation. As previously indicated, early in the audit process all parties agreed that changes were needed regarding project accounts. County staff has already begun reviewing all existing project accounts, including those in Corrections, for inclusion in a FY03 budget revision and the FY04 annual budget process.

3. The County Auditor recommends that the County Manager or his representatives review all County Project Accounts to ensure that all Project Accounts are properly reflected in the County's financial system and the annual operating budget.

County Manager's Response: We concur with this recommendation. As previously indicated, early in the audit process all parties agreed that changes were needed regarding project accounts. County staff has already begun reviewing all existing project accounts, including those in Corrections, for inclusion in a FY03 budget revision and the FY04 annual budget process.

4. The County Auditor recommends that the County Manager or his representatives establish formal policies and procedures for the use of hundreds of thousands of dollars in annual reimbursement revenues received during the execution of State grants.

County Manager's Response: We concur with this recommendation. Formal departmental policies and procedures have been established for the use of client reimbursement revenues. (See attachment A)

5. The County Auditor recommends that Community Corrections representatives notify the corrections advisory board and the BOCC of:
 - 1) The transfer of \$175,962 of unexpended Kansas Department of Corrections grant funds to the Client Reimbursements Project Account, during grant years 1999 – 2002, and
 - 2) The anticipated usage of \$31,384 in unexpended Juvenile Justice Authority grant funds, from grant year 1998, to be used for grant year 2003 operations.

County Manager's Response: We concur, in part, with this recommendation.

- 1) **The Kansas Department of Corrections has been notified of the transfer of \$175,962 of unexpended funds and has determined that no action by the Johnson County Department of Corrections is required.**
- 2) **Regarding the \$31,384 in unexpended Juvenile Justice Authority grant funds, staff has contacted JJA to request the use of these unexpended funds for FY2003.**

6. The County Auditor recommends correcting a \$115,912 misposting of the fiscal 1995 overhead cost allocation. This \$115,912 misposting caused an annual mill levy expense to be paid out of a non-mill levy fund, the Client Reimbursements Project Account.

County Manager's Response: We concur with this recommendation. Staff is working with the ASPIRE project team to process the correction on the new financial system.

7. The County Auditor recommends obtaining County Manager authorization and BOCC approval for the Client Reimbursements Project Account's off-budget expenditures of \$237,927, primarily occurring after November 2000.

County Manager's Response: We concur, in part, with the recommendation. The summary of expenditures from the Client Reimbursement Project Account for January 1, 1992 through July 31, 2002, prepared by the Corrections Department (see attachment B), has been reviewed by the County Manager's office. All expenditures have been made within the guidelines and parameters of the County's Purchasing Policy, and have received the same scrutiny and required approvals as any other expenditure of tax dollars. Therefore, any additional authorization or approval by the BOCC is not required.

It should be noted that, in regards to the Electronic Monitoring charges of \$119,716.67, the Corrections Department went through the formal RFP process and the Board of County Commissioners subsequently approved and awarded the contract for these Electronic Monitoring services.

8. The County Auditor recommends that the County Manager or his representatives obtain the appropriate authorization to use \$4,096 of unexpended grant funding, from prior years, for grant year 2003 operations.

County Manager's Response: We concur with this recommendation. Staff has contacted JJA to request the use of these unexpended funds for the FY03 grant year.

9. The County Auditor recommends that the County Manager or his representatives contact KDOC officials and determine the necessary remedial action needed to correct approximately \$482,383 of under-reported reimbursement revenues for grant years 2001 and 2002.

County Manager's Response: We concur with this recommendation. Kansas Department of Corrections officials, when informed of the situation, instructed Corrections staff to submit amended final reports for FY01 and FY02. Amended final reports for FY01 and FY02 were filed with KDOC on November 6, 2002. No further action is necessary.

Response
December 3, 2002
Page 5

10. The County Auditor recommends that the County Manager or his representatives obtain the appropriate authorization to apply the \$7,133 of unexpended grant funding to grant year 2003 operations.

County Manager's Response: We concur with this recommendation. Staff has contacted JJA to request the use of these unexpended funds for the FY03 grant year.

Cc: Hannes Zacharias, Assistant County Manager

Attachments

PROPOSED GUIDELINES FOR USE OF CLIENT REIMBURSEMENT FUNDS

(Note: these guidelines reflect the changes to the Kansas Administrative Regulations regarding the use of funds; amendments were effective as of March 29, 2002.)

- 1. Client reimbursement funds are intended to support local program operation and community-based offender services; adult-generated funds shall be expended and obligated for operation and management of programs for adult offenders only.**
- 2. The expenditure and obligation of adult-generated client reimbursement funds shall include, but not be limited to, the following:**
 - a) support of state-funded adult offender services;**
 - b) required local matching funds for other grant opportunities;**
 - c) new programs for adult offenders.**
- 3. Expenditure of client reimbursement funds shall meet all the requirements of the County's Purchasing Policies.**

SUMMARY OF CLIENT REIMBURSEMENT EXPENDITURES

JANUARY 1, 1992 THROUGH JULY 31, 2002

Grant Shortfalls	\$1,285,085.58
Adult Electronic Monitoring	119,716.67
FY95 Cost Allocation	115,912.00
Other Expenditures	<u>118,209.83</u>
Total Expenditures	\$1,638,924.08

Other Expenditures	
Air Conditioner Repair (1992)	\$ 9,970.00
ACA Accreditation Fee (1994)	4,150.00
Purchase of Copier (1997)	15,317.00
Psychiatric Services (SA/MH grant - 2000)	14,138.46
Phone System Upgrades (2001)	13,989.77
NSA Fees (2001)	4,580.00
Furnishings, Appliances, DP Equipment (2001)	6,550.74
Alarm System (2001)	7,300.00
Department Video (2001)	3,000.00
Vehicle (2002)	<u>15,776.00</u>
Sub-total	\$ 94,771.97
Expenses Not Transferred – 21 Object Codes (2000)	13,606.82
Miscellaneous Supplies, Other Expenditures (YTD)	<u>9,831.04</u>
Total Other Expenditures	\$118,209.83

Notes:

- 1. Expenses Not Transferred - for FY2001, expenditures for Adult Intensive Supervision were directed to the Client Reimbursement Project in error. The majority of these expenditures were later transferred to the grant; a few transactions hit the account at the same time the journal vouchers were processing.**
- 2. Miscellaneous Supplies, Other Expenditures – this total represents various miscellaneous expenditures over the eleven-year period of the project account.**

Appendix B
County Auditor's Comments



MEMORANDUM
Johnson County Audit Services

Date: December 5, 2002

To: The Board of County Commissioners and the County Manager

From: Martin J. Kolkin
County Auditor

Subject: County Manager's Response to the Community Corrections Grant Audit

The County Auditor noted that the County Manager concurred in part with all audit recommendations. The following partial audit recommendations represent the recommendations not fully agreed to by the County Manager:

RECOMMENDATION NUMBER FIVE

The County Manager did not agree with the necessity of notifying the BOCC of the transfer of \$175,962 of unexpended Kansas Department of Corrections grant funds for grant years 1999 – 2002 (refer to the County Manager's Response, page 14).

The County Manager did not agree with the necessity of notifying the BOCC of the anticipated usage of \$31,384 in unexpended Juvenile Justice Authority grant funds from grant year 1998 (refer to the County Manager's Response, page 14).

RECOMMENDATION SEVEN

The County Manager did not agree with the necessity of obtaining BOCC authorization or approval for the Client Reimbursements Project Account's off-budget expenditures of \$237,927, primarily occurring after November 2000 (refer to the County Manager's Response, page 15).