



## Audit Services Warning Letter

**Date:** January 10, 2002  
**To:** Johnson County Developmental Supports Executive Director, the Board of County Commissioners, and the County Administrator  
**From:** Martin J. Kolkin  
County Auditor  
**Subject:** Johnson County Developmental Supports Procedure and Compliance Review.

In accordance with the approved review workplan, the County Auditor completed a limited review of Johnson ("JCDS") Internal Control Environment, Grant Monitoring and Management Procedures, and Contract Compliance.

**The County Auditor determined that JCDS' internal controls and financial monitoring systems require revisions in order to ensure the appropriate treatment of Federal and State funding.** This review noted that JCDS personnel currently manage less than two hundred thousand dollars of grant funding and have agreed to work toward resolving all issues identified by the Audit Services Department. The County Auditor judgmentally elected to issue an "Audit Service Warning Letter" based upon the dollar magnitude of grant dollars involved and management's responsive attitude toward resolving control weaknesses identified.

Additionally, the County Auditor notes the strong possibility, during fiscal 2002, that JCDS personnel may be required to assume the responsibilities of a third party paying agent to administer over \$18 million of State disabilities funding. The potential expanded accounting and monitoring responsibilities of JCDS personnel in administering over \$18 million of State funding heightens the need to address control and financial monitoring deficiencies discussed in this review.

### **Recommended Revisions to Control and Monitoring Systems:**

#### **1. Appropriate Segregation of Grant Expenditures**

Codification of Federal Regulations ("CFR") 24-85.20 requires subgrantees to "maintain records which adequately identify the source and application of funds provided for financially related activities." JCDS personnel recorded grant revenues and expenditures in undifferentiated general fund accounts, which did not comply with CFR 24-85.20.

JCDS representatives agreed to use accounting codes within the County's existing financial system to provide a means to identify receipts and expenses by grant, and thereby comply with CFR 24-85.20.

#### **2. Increase Grant Monitoring and Request Reimbursements on a Timely Basis**

Prudent business practices dictate appropriate grant authorization prior to making a transaction. The County Auditor recommends that JCDS increase grant monitoring and planning to include appropriate authorization and planning for grant expenditures prior to payment.

JCDS representatives currently incur expenditures and then attempt to match these expenditures to potential grant funding. Planning and authorization practices would assist in maximizing JCDS' cash resources.

Prudent business practices also dictate prompt requests for grant reimbursements to minimize lost cash flow. A sample of fifty-seven JCDS grant reimbursement requests noted an average of 68 days between an expenditure and request for reimbursement. The County Auditor recommends establishing a practice of requesting reimbursements on a periodic basis, such as weekly or monthly.

JCDS personnel agreed to submit requests for grant reimbursement in a timely manner.

#### **3. Monitoring Affiliate Organizations**

JCDS did not have a procedure for documenting affiliates' compliance with contractual requirements, as contractually required by the State. The County Auditor recommends that JCDS personnel establish policies and procedures to ensure all State requirements are met by affiliate organizations.