



## Johnson County Audit Services

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Honorable Members of the Board of County Commissioners:

The Johnson County Audit Services Department has completed a progress report on the resolution of a reportable condition within the Treasurer's Department. Our examination was conducted in accordance with generally accepted government auditing standards, with the exception of a peer review, and the responsibilities of the County Auditor, Resolution 80-94.

This report is a follow-up to a Johnson County Audit Services progress report, Report Number 2001-03, issued May 9, 2001. Our review was performed to provide the Board of County Commissioners, the County Manager, and the Treasurer with an objective evaluation of the progress made in the Treasurer's Department toward resolving identified cash reconciliation weaknesses.

The Interim County Auditor was involved in the implementation of the new County financial accounting system. This involved establishing processes and procedures for handling cash receipts, including those processed by the Treasurer's Department, in the accounting system. This involvement did not include any decision making with regard to the processes used by the Treasurer's department in handling cash reconciliations.

In my opinion, opportunities remain to improve the managerial controls implemented by the Treasurer's Department, as noted in the Findings section of this report. However, substantial progress has been made in correcting the findings noted in earlier reviews.

The audit findings were discussed in detail with the Treasurer's representatives. The Treasurer and his representatives' responses are included in the Findings section of this report. Where applicable, the Office of Financial management has also commented on the Findings. We appreciate the assistance, courtesy, and cooperation extended to us by the Treasurer's office and by the Office of Financial Management.

John Middleton  
Interim County Auditor  
July 2, 2003

**Progress Report on Cash Weaknesses Identified  
Within the Treasurer's Department  
Report Number 2003-01  
Executive Summary**

Johnson County Audit Services has completed a progress report on the resolution of a reportable condition, within the Treasurer's Department, cited in the fiscal 1999 Management Letter and subsequently cited in a Johnson County Audit Services report dated May 9, 2001, Report 2001-03.

Recommendation Summary of Report 2001-03

Recommendation	Current Status	Page Reference
1) The Treasurer's Department establish written policies and procedures that clearly delineate responsibilities and practices for monthly bank reconciliations.	Incomplete	Page 3
2) The Treasurer prepare a monthly reconciliation of the bank statement balance, the Treasurer's records balances, and LGFS balances.	Complete	
3) The Treasurer's representatives ensure that appropriate County personnel provide void check listings to the bank.	Complete	
4) The Treasurer take all necessary steps to accurately state the Accounts Payable account outstanding checks.	Complete	
5) OFM officials correct the Accounts Payable outstanding warrants list.	Complete	

**All of these recommendations have been complied with except for the policies and procedures.**

The procedures available do not adequately describe the current procedures and do not adequately address the full range of required activities.

**Recommendation** – The Auditor continues to recommend that adequate policies and procedures be developed. (See Pages 3)

**Additional Finding** – **The cash balance in one account in ASPIRE is overstated by \$785,173.66.**

In setting up the ASPIRE system certain balances from old or closed accounts were entered in the new system. There is no documentation supporting these balances and the amounts have not been changed since October 2002.

**Recommendation** – The Auditor recommends that these amounts be researched and properly accounted for. (See Page 4)

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**Introduction**

In accordance with the current year work plan, we have reviewed the progress made by the Treasurer's office in correcting the reportable condition and material weakness in cash reconciliations first noted in the 1999 Management Letter prepared by Cochran, Head, and Company, CPAs, Johnson County's external auditors. We prepared an earlier report on the Treasurer's progress in this area dated May 9, 2001 entitled *Progress Report on Cash Weaknesses Identified Within the Treasurer's Department*. (Report Number 2001-03)

**Objectives**

The Audit Services Department worked with the Treasurer's Department, The Office of Financial Management (OFM), and the County Manager's Office (CMO) to provide recommendations to strengthen managerial controls over the cash accounts.

**Background**

The 1999 Management Letter issued by Cochran, Head, and Company, CPAs cited a reportable condition<sup>1</sup> and material weakness<sup>2</sup> in the Treasurer's bank reconciliation process. The Management Letter noted that the Treasurer did not perform accurate and timely reconciliations or maintain an accurate listing of outstanding checks.

Our report of March 2001, Report Number 2001-03, found that little progress had been made in correcting the overall problem and made several recommendations:

- 1) The Treasurer's Department establish written policies and procedures that clearly delineate responsibilities and practices for monthly bank reconciliations;
- 2) The Treasurer prepare a monthly reconciliation of the bank statement balance, the Treasurer's records balances, and LGFS balances;
- 3) The Treasurer's representatives ensure that appropriate County personnel provide void check listings to the bank;
- 4) The Treasurer take all necessary steps to accurately state the Accounts Payable account outstanding checks; and
- 5) OFM officials correct the Accounts Payable outstanding warrants list.

Each of these matters, except for the first, has been addressed and corrected by the Treasurer's Office. The 2002 external auditor did not cite any reportable conditions or material weaknesses in its Management Letter.

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<sup>1</sup> A reportable condition is a significant deficiency in the design or operation of the internal control that could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general-purpose financial statements. (*Codification of Statements on Auditing Standards AU 325.02*)

<sup>2</sup> A material weakness is a reportable condition in which a specific control procedure does not reduce, to a relatively low level, the risk that error or irregularities in amounts that would be material in relation to the general-purpose financial statements. (*Codification of Statements on Auditing Standards AU 325.02*)

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**Audit Scope and Methodology**

Our initial report, Report Number 2001-03, reviewed the Accounts Payable Account and the Payroll Account. The current review examined all of the accounts currently managed by the Treasurer's Office. As of the date of this audit, the Treasurer's Department is primarily responsible for 26 bank and investment accounts. We reviewed the account reconciliations prepared for the months ended December 31, 2002 and April 30, 2003.

Our review included, but was not limited to the following:

- An examination of bank account statements for all accounts;
- Analytical examination of Johnson County financial data;
- Review of the Treasurer's bank reconciliation records;
- Review of Treasurer's bank reconciliation policies and procedures; and
- Discussion with the Treasurer's Office and the Office of Financial Management.

**Change in Conditions**

In October of 2002, the County initiated the use of a new financial accounting software system, ASPIRE. The use of this system eliminates one step of the reconciliation process as described in our earlier report. The reconciliation process as of December 31, 2002 consisted of reconciling the bank statements for each account to the ASPIRE balance for that account. This eliminated the need to further reconcile the bank balance to the Treasurer's records.

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

This section will examine Treasurer's progress in implementing each of the recommendations from our prior audit (Report Number 2001-03). In each case the Treasurer or his representative concurred with our recommendation at the time of the earlier review.

**Finding Follow-up**

**1) The Treasurer's Department establish written policies and procedures that clearly delineate responsibilities and practices for monthly bank reconciliations.**

**Condition** – The Treasurer has provided some written procedures for reconciling accounts. The procedures, as presented, have the following problems:

- They do not indicate when they were adopted nor do they have any indication that the Treasurer or his Deputy have reviewed and approved them.
- The procedures do not have any indication of how and when problems noted in the reconciliation will be corrected or who is responsible for the corrections.
- The procedures do not clearly indicate levels of responsibility for completion of the procedures.

We also noted that, although the process for bank reconciliations had changed, the procedures described in the written materials we received had not been updated.

**Recommendations** – The Auditor recommends:

- The Treasurer formally adopt and approve departmental policies covering the completion of reconciliations and the related corrections.
- The procedures that are in use more fully describe the activity.
- The procedures be updated whenever necessary.
- These procedures be followed and documented each month.
- Where appropriate, there should be a coordination of efforts between the Treasurer's office and OFM to ensure that all of the accounts are fully reconciled and that there is a separation of duties for reconciliation and review.

**Treasurer's Comments**

The Treasurer is willing to comply with the request of the Internal Audit staff to prepare a set of procedures that will be reviewed and approved by the Treasurer or his Deputy. These procedures will not only provide information regarding the process of how to perform a basic reconciliation, but will also include procedures regarding responsibility levels for the completion of corrections to errors found during the reconciliation process, methods for researching these corrections and anticipated timelines associated with the

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performance of this research. The Treasurer feels these recommendations will be helpful in creating a more complete and detailed set of procedures for the reconciliation process to assist others who may be learning the process in the future.

Procedures will be updated in accordance with changes in systems, methodology or policies that impact the reconciliation process. Any change made to the procedures will include information stating who made the change, the date of the change and an approval section to be signed by the Treasurer or Deputy after their review has been completed. The Treasurer strongly believes this is a good business policy and should be incorporated by this office to provide better controls in order to create a more formal environment related to office policy and procedures.

There have been significant changes in the processes of the County and the method for reconciliation in the past year has changed dramatically due to the implementation of ASPIRE. The Treasurer's current reconciliation staff has done an incredible job of handling the workload to keep the reconciliation current by dedicating the majority of their time solely to the reconciliation and the cleanup required after the implementation. Due to the many changes and the availability of time for special assignments, the Treasurer has issued a directive dated May 22, 2003 requiring all Treasurer staff members to complete a set of current procedures associated with their positions. The Treasurer fully anticipates having completely revised sets of procedures for not only the bank reconciliation process, but for all of the office's processes, by November 2003.

**Additional Finding**

**Overstatement of Book Account Balance**

**Condition** – The Accounts Payable account bank account reconciliation shows additions of \$785,173.66 to the bank balance for amounts related to old bank accounts to arrive at the ASPIRE cash balance. The Treasurer had not been able to determine the nature and disposition of these amounts.

**Resolution** – During the discussion of this finding, the Treasurer's staff and OFM researched this amount and determined that, during the set up of the ASPIRE system, the questioned amount was posted to the incorrect account in ASPIRE. OFM has determined that a correcting entry is needed to transfer this balance to another cash account which has been carried with a negative balance. As of the time this report was written, this correction had not been made.

**Recommendation** – The Auditor recommends that the reconciliation review procedure be designed to identify and correct ongoing reconciliation issues. The ability to communicate and resolve issues like this between departments is part of a strong control environment.

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The auditor concurs with the resolution offered by the Treasurer's staff and OFM with the understanding that OFM will continue to monitor the account receiving the transfer to ensure that the correction offered by OFM resolves the issue.

**Treasurer's Comments**

The Treasurer agrees there is an overstatement to one balance recorded on the books related to a specific bank account. The Treasurer believes there is an understatement to another account to offset this and is currently researching the matter. Overall, the Treasurer believes the total cash balance is correct.

The Treasurer also agrees that this item needs to be corrected and all older items should be researched and accounted for as quickly as possible to ensure the accuracy of the reconciliation process is not disrupted.

The Office of Financial Management concurs with the Treasurer's comments to the Additional Finding.