



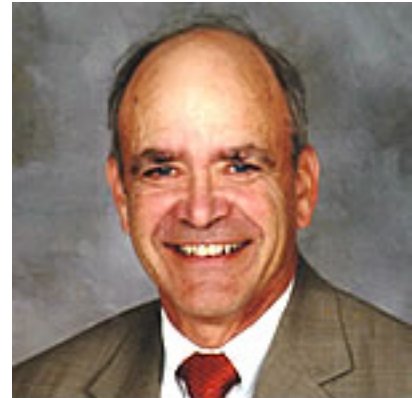
Johnson County Auditor

Johnson County, Kansas

Annual Report – September 2005-2006

----- A MESSAGE FROM
THE COUNTY AUDITOR

Board of County Commissioners



Dear Commissioners:

It is my pleasure to present the County Auditor's Annual Report. It is my responsibility to report annually on the activities and accomplishments of this office in order to keep the Board informed.

We issued six audit reports, three special memorandums and three follow-up reports. We examined:

- Transition of the Sheriff's Office
- Transition of the Treasurer's Office
- Review of JOCO Developmental Supports
- Management of Surplus Computers
- Vendor Accounts Payable
- Sole Source Purchases

During this reporting period, we made 103 recommendations for improvement and the County Offices and Departments agreed with 94 for a 91 percent concurrence rate.

Key recommendations in the audit reports concerned establishing and improving management and financial controls at the Sheriff's Office, implementing business management principles at Johnson County Developmental Supports, ensuring surplus computers are properly cleaned before auctions, and improving management of the vendor master list and controls over use of purchase cards. (*Summaries are included at Appendix A, page 10*)

We continued our quarterly monitoring of agreed upon recommendations and issued reports on the status of the County's implementation of the recommendations. As a measure of the County's responsiveness to our recommendations, the County Auditor set a standard for implementing recommendations which is to have at least 90 percent of agreed upon recommendations implemented within 2 years. All of the recommendations implemented this year were implemented within 2 years. The remaining open recommendations are still within the 2-year timeframe for implementation.

We estimated the quantifiable cost effect from our audits to be \$1,481,547. This amount considers (i) funds at-risk for fraud or loss, (ii) cost avoidance, (iii) efficiency in use of available resources, (iv) waste, and (v) questioned costs. The cumulative cost effect since September 2004 is \$1,796,547.

In performing our audits, we use applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We will continue our mission to provide the BOCC, through our audits, assurance that county services are provided the most cost effective and efficient way, and that government is accountable in its stewardship of the public trust.

We appreciate the support we have received from the Board and the cooperation of County departments as we conduct our audits.

William D. Miller CIA, CGFM
County Auditor

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MISSION AND GOALS

Charter Authority

The County Auditor is appointed by and reports directly to the Board of County Commissioners. The charter (County Resolution **008-94**) grants the County Auditor complete access to the books and records of all County departments. The County Auditor uses this access, independence, and authority in performing his charter mandate to conduct audits on a continuous basis for all departments and programs.

Internal audit has no direct responsibility or authority over any of the activities or operations reviewed. To maintain independence, audit will not develop or install procedures, prepare records, establish policies or engage in activities that would normally be reviewed by internal audit.

Our Purpose

We provide the BOCC, through oversight and review of County programs and performance, assurance that county services are provided the most cost effective and efficient way, and that government is accountable in its stewardship of the public trust. We seek to accomplish our mission by evaluating department and program performance and identifying recommendations to assist the activities of the County to be more efficient and effective.

Our Work Products

The County Auditor conducts financial and performance audits, and follows up on prior recommendations. Audit work is conducted according to generally accepted government auditing standards. These standards require due professional care in conducting audits, professionally qualified staff, independence, adequate supervision and planning of audit work, reporting of audit results, and periodic review of the office by outside professionals.

A performance audit systematically examines evidence to independently assess the performance and management of a program against objective criteria. Performance audits provide information to improve program operations and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.¹ A follow-up audit is a performance audit that determines the progress made in addressing findings identified in previous audits. Performance audits include

¹ Comptroller General of the United States, *Government Auditing Standards* (Washington, D.C: U.S. Government Printing Office, 2003), p.21.

reviews of accounting for funds, accomplishment of programs, effectiveness and efficiency of programs, and outcomes of programs.

The culmination of a performance audit is generally an official audit report addressed to the BOCC containing descriptions of conditions noted in the audit, recommendations for improvement in program management, and management's response to the recommendations. Memorandums may be used to report single-issue instances as appropriate. Most audit reports result in recommendations that will improve resource utilization, reduce the risk of loss or abuse of assets, increase productivity, or correct wasteful practices.

OFFICE OPERATIONS

Audit Planning

We use a risk assessment process to identify audit topics as well as evaluating suggestions from others including members of the BOCC and management. We also evaluate complaints. We look for ways to save, recover, or avoid costs while recognizing that efficiency is a means to an end not an end itself.

We submit an annual audit plan to the BOCC for approval. Any adjustments to the plan are approved by the BOCC before proceeding with the adjustment. With our current staff levels, our planning includes conducting between 5 and 7 audits during a year.

Expenses

The office is authorized 4 full-time positions: the County Auditor, 1 Senior Auditor, 1 Staff Auditor II, and 1 Staff Auditor I. Staff members have at least Bachelor's degrees in Accounting or Criminal Justice. Two staff members have advanced degrees. All staff members have had previous experience in either the public or private sectors and have a working knowledge of performance auditing principles.

The office had expenditures of about \$340,170 during this report period.

PROFESSIONAL DEVELOPMENT

Summary

The County Auditor promotes professional development of the staff to improve our skills, effectiveness, and efficiency. Such professional development includes enrollment in continuing education courses, encouragement to seek professional certification, support for involvement in professional organizations, and career-building assignments on the job.

Three staff members have professional certifications including Certified Public Accountant, Certified Internal Auditor, Certified Government Financial Manager, and Certified Fraud Examiner.

Education

Government auditing standards require our staff to complete at least 80 hours of continuing education every 2 years. All of the staff met this requirement by attending seminars, forums and conferences. Training topics included supervision, report writing, fraud awareness, forensic auditing, and updates to accounting standards.

All staff members are active in professional organizations either by attending events or serving on Governing Boards. Professional organizations include: Kansas and Missouri Societies of Certified Public Accountants, Institute of Internal Auditors, Association of Government Accountants, Association of Certified Fraud Examiners, Mid-America Intergovernmental Audit Forum and Association of Local Government Auditors.

The County Auditor and Staff Auditor I have given formal presentations to several of these organizations. The County Auditor has also made presentations to advanced degree students at the University of Kansas-Edwards Campus and University of Missouri-Kansas City. The County Auditor has also published articles in three professional publications.

PERFORMANCE MEASURES

Outputs

We monitor our performance by tracking (i) outputs or work products, (ii) outcomes or results of these products and (iii) the efficiency with which we produce work products and results.

We issued 12 audit products during this period.

Audit Product	Number Issued
Formal Reports	6
Memos	3
Quarterly Follow-up Reports	3

A synopsis of the formal reports is included as Appendix A

Outcomes

The benefits of the work of the County Auditor's Office include reduced costs, increased revenues, improved services, and government accountability. Audit does not directly achieve these benefits. Management achieves them through implementation of recommendations. Therefore, it is incumbent upon audit to make meaningful and workable recommendations that are well supported by the audit evidence.

To measure the effectiveness of our recommendations, we established a goal to achieve management agreement with 85 percent of our recommendations. We also measure the recommendation implementation rate and set a goal of 90 percent for agreed upon recommendations implemented within 2 years.² We track recommendations and report the progress toward implementation quarterly.

During this report period we obtained agreement with 91 percent of our recommendations. Forty-eight of 103 (47 percent) recommendations have been implemented. The remaining 55 recommendations are still in the 2-year window.

² The 2-year period was established because oftentimes the more complex recommendations cannot be implemented immediately because further review and evaluation is needed and development of systems may require extended timeframes.

We have a goal to accomplish audit work within 750 hours. This goal will be reevaluated as experience is gained in conducting the work. The average for the six formal reports was 747 hours.

Cost Efficiency

The audit value and cost effect can be measured in several ways. We established the following definitions for measuring the impact of our recommendations on County programs:

Cost Avoidance—Funds that will not be spent.

Efficiency—Obtain a better value for dollars to be spent.

Waste—Funds we did not believe should have been spent or lost opportunity to acquire funds such as sale of assets

Questioned Costs—Funds missing or imprudently spent.

Funds at Risk—Could be misappropriated due to poor controls.

Cost Effect from Audits	Amount
Cost Avoidance	\$182,750
Efficiency	100,000
Waste	10,260
Questioned Costs	226,842
Funds at Risk	961,695
Total	\$1,481,547

Source: Auditor calculations

Cost Avoidance: Includes avoidance of payments to contractors for contracts that were canceled, avoidance by converting contract IT services to County service, avoidance in computer maintenance costs, reduction in payment for employee meals, and avoidance in contract expense for services in grant management.

Efficiency: Represents the amount not spent for prepaid postage.

Waste: Represents value of missing assets discounted by 90% because of age of assets.

Questioned Costs: This represents missing cash, employee meal reimbursements and value of some consultant service contracts.

Funds at Risk: Represents funds managed by one person and lack of separation of duties, funds for a computer contract for managing a critical database without safeguards for ensuring county ownership of rights, and amounts vulnerable while purchase cards for terminated employees were still active.

***Client
Relations***

The audit/client relationship is strong, fostered by a willingness of the County Manager and Department Directors to dialog and embrace the audit process. All audit results are discussed in advance and issues are resolved before the final report is released. The County Auditor appreciates the efforts of the County Manager and Department Directors to consider and implement recommendations that enhance the county's operations and to assist the auditors in understanding the programs and environments within which the programs operate.

Appendix A - Formal Report Synopsis

Disposal of Surplus Computers

The County Auditor reviewed management and control of surplus computers no longer needed by County departments and agencies. Our objectives were to determine if departments were following consistent policies, and whether surplus computers were properly managed to ensure County data did not remain on the computers after they were sold.

After an initial review by the audit team in early 2004, the County took immediate action to suspend sales of surplus computers until a procedure for cleansing computers was developed. The initial review disclosed that computers placed for auction sales had County data on them. Our audit, initiated in 2005, disclosed the departments and agencies did not have consistent procedures for preparing computers for surplus. Some did not clean the hard drives and others did not effectively clean the hard drives. As a result, surplus computers had County data on them.

We concluded that while the County took prudent action by suspending sales of surplus computers, they have not taken expeditious action to develop the policies and procedures needed to ensure departments and agencies consistently clean the hard drives, or develop a computer disposal program. Over 1 year has elapsed since the problems with surplus computers were identified. As a result, over 400 computers have accumulated in storage – all of which must be checked and purged of County data before sale. Purging data from the existing surplus computers is not contingent upon the County developing a disposal policy.

We recommended developing a standard procedure for preparing computers for disposal.

Sheriff Transition

The County Auditor reviewed the status of the transition of the officeholders of Sheriff of Johnson County as of January 2005. The audit objectives included reviewing cash and asset management, determining the adequacy of small asset inventory and purchasing procedures, reviewing grant and project management, and reviewing fund management.

We concluded improvements were needed in cash management, asset inventory management and grant and fund management. Our recommendations would allow the Sheriff's office to be more accountable for the funds spent and the assets acquired.

Treasurer Transition

The County Auditor reviewed the status of the transition of the Johnson County Treasurer functions from an elected office to an appointed position under the County Manager as of December 2005. The objectives were to evaluate the progress of the transition and the transition plan, review cash and asset management, determine the adequacy of small asset inventory and purchasing procedures, and review fund management.

The County Manager has taken the opportunity to explore options, alternatives and opportunities for managing Treasurer and Department of Motor Vehicle functions in relation to other county activities. We acknowledge this approach and have recommended that a documented plan be developed to map out the actions decided upon when they are decided.

In addition, we concluded improvements were needed in these areas:

- Written policies and procedures of the Treasurer's Office
- Transition planning for the Department of Motor Vehicles
- Fund and asset management of the Department of Motor Vehicles

Accounts Payable Vendor Payment

The audit objective was to determine if the Accounts Payable Division, Office of Financial Management was managing the approved vendor listing effectively and efficiently and if vendors in the Oracle system were valid. The audit included these objectives:

- Analysis of the Active Supplier Listing
- Review of the management of the Purchasing Card (P-Card) program
- Review of the use of resources
- Review of the adequacy of management and internal controls in reducing the risk of fraud and liability to the County

We concluded improvements were needed in these areas:

- Management of the active vendor listing records
- Management and oversight of the P-Card program
- County policy for purchasing food and meals

We recommended correcting errors in the vendor listing, improving techniques for managing and reviewing the P-Card program, and establishing clear policy for purchasing food and meals.

JOCO Developmental Supports Financial and Management Review

The audit was requested by the BOCC and the JCDS Governing Board. The objectives were to:

- Review operating policies and procedures for completeness and clarity
- Review JCDS' compliance with applicable laws, rules, and regulations and County policy
- Review financial transactions for the consumer payroll account, outside contracts, and grants
- Review cash and asset management
- Review contract management procedures and practices
- Review management and internal controls over programs, accounts, grants, and projects

The audit determined there was a lack of deployment of basic business management principles in financial and program management areas. Weaknesses were identified in management decisions because alternatives were not considered and cost benefits analyses were not used. County resources were available for some activities but they were not considered and duplicate capability was created at JCDS. As a result, substantial resources were unnecessarily spent for support services that could have been made available for direct consumer services.

We recommended substantial changes in the financial and program management functions to ensure JCDS has a process for prudent use of taxpayer dollars.

Review of Exceptions to Competitive Procurement

Our objectives were to determine compliance with County policies for awarding sole source contracts and exceptions to competition, and to evaluate decisions made and reasonableness of rationale for using sole source or exception to competition contracting procedures.

An analysis of sample survey results showed small numbers of noncompetitive contracts and general compliance with the County's purchasing procedures for requesting approval for sole source and exceptions to competition procurements. Additionally, the control procedure for reviewing these requests, based on our sample, was effective. The rationale used by agencies to request sole source procurement and exceptions to competition were generally adequate.

A minor deficiency was noted when we asked for a listing of sole source and exception to competition purchases. The Oracle purchasing system has a code structure for identifying sole source and exception requests. When responding to our request, the Purchasing Manager discovered that purchasing staff were not consistently using these codes when entering the purchase information. As a result, we were not able to ensure that all of the sole source and exception request purchases were reported to us. The

Purchasing Manager took immediate corrective action and, as a result, no recommendation was required.

Appendix B – Memorandum Reports Issued September 2005- September 2006

The memorandum reports were issued for unique issues identified during the year or because of a sense of urgency requiring attention before an audit was completed.

Controls and Operation of JCDS Consumer Payroll Account and Vehicle IDs

Bank signature cards were not up to date and check signature plates were not properly controlled. Bank reconciliations were not performed and duties were not segregated. We recommended instituting proper controls.

JCDS had not complied with state law to apply appropriate County identification on JCDS vehicles.

E-Mail Transmissions

Countywide clarification was needed on procedures for transmitting sensitive information. We recommended County policy be established.

Homeland Security Grants

Items received from the grants were not properly recorded in accounting records. We recommended the proper recording of these items and establishing proper implementing accounting procedures for future items.

Appendix C - Reports Released September 2005-September 2006

Performance Audits

Disposal of Surplus Computers (December 2005)
Sheriff Transition (December 2005)
Treasurer Transition (February 2006)
Accounts Payable Vendor Payment Review (May 2006)
JCDS General and Financial Management Review (July 2006)
Review of Exceptions to Competitive Procurement
(September 2006)

Special Memorandums

Controls and Operation of JCDS Consumer Payroll Account
(February 2006)
Email Transmissions (May 2006)
Homeland Security Grants (May 2006)

Status Reports on Implementation of Recommendations

Quarterly Progress Reports Issued:
February 2006, April 2006, July 2006

Appendix D - County Auditor's Staff

William Miller, County Auditor
Certified Internal Auditor
Certified Government Financial Manager

John Middleton, Senior Auditor
Certified Public Accountant

Jeffrey Slinkard, Staff Auditor II

Michelle Holland, Staff I Auditor
Certified Fraud Examiner