



Johnson County Auditor
Johnson County, Kansas
PERFORMANCE AUDIT

July 27, 2006

**Johnson County Developmental Supports
General and Financial Management Review**

The organization needs to improve management practices

EXECUTIVE SUMMARY

An audit of Johnson County Developmental Supports' (JCDS) financial and general management was conducted at the request of the JCDS Governing Board and the Board of County Commissioners. The audit evaluated internal, financial and management controls over operations and finances. Audit results showed that strong leadership was needed to ensure business and financial management was effective.

1. JCDS management duplicated available County services, assumed a research mission which diverted resources from consumer care, and contracted for services that should have been provided by staff. We attributed these conditions to key managers' failure to employ basic management principles such as planning, needs assessment, cost-benefit analysis, legal review, management and internal controls, and supervision. *(See page 1)*

2. Consultant contractors were used to perform duties that JCDS staff should have been able to perform. Contracts with these consultants were not reviewed by legal services and did not contain appropriate provisions to protect Johnson County's interests. One contract for computer maintenance did not have any warranties and contained provisions for unilateral and quick price increases. Another contract gave away JCDS' ownership rights to mission critical software. *(See page 5)*

3. The consumer payroll account had never been reconciled and the book balance cannot be determined. Amounts for uncashed checks over a year old were not remitted to the State as unclaimed property. Contractor income was not accurately reported to the Office of Financial Management for reporting to the Internal Revenue Service. *(See page 11)*

4. JCDS contracted with University researchers. The contracts did not require any specific deliverables or time schedules for work completion and did not require any definite results or end product. The researchers' University salaries were dependent upon getting approved grant funding for the University. *(See page 17)*

5. Record keeping for pharmaceuticals needed improvement. Inventory records were not complete and not used for management oversight purposes. Controlled substances were not segregated from other pharmaceuticals as required. Drugs are vulnerable to theft. *(See page 19)*

6. JCDS staff did not adequately comply with the incident reporting system procedures. Problems noted included documentation errors, incomplete reports, insufficient information, untimely followup, and premature closure of cases. Additionally, JCDS could use incident information for tracking and management oversight. *(See page 23)*

7. The County needed to better safeguard protected health information in email transmissions. *(See page 29)*

Three other issues regarding grant funding for Not for Profit organizations start-up, inventory control over assets between \$1,000 and \$10,000 and results of consumer investigations are reported. *(See pages 21, 31, and 35)* The Quality Assurance staff did a commendable job. *(See page 3)* The Executive Director took immediate action to implement a corrective action plan to address all of the recommendations. *(See pages 39 and 44)*



Johnson County Audit Services

July 27, 2006

To: The Johnson County Board of County Commissioners
Johnson County Developmental Supports Governing Board
Executive Director, Johnson County Developmental Supports

At the request of the Johnson County Developmental Supports Governing Board and with the approval of the Johnson County Board of County Commissioners, we performed an audit at Johnson County Developmental Supports (JCDS). The audit was requested to assist in the transition of the Department to a newly appointed Executive Director. The audit focused on the following objectives:

- 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:
 - a. Determine if cash handling procedures are adequate
 - b. Review petty cash accounts
 - c. Determine the adequacy of small asset inventory and purchasing procedures
- Review contract management procedures and practices
- Review management and internal controls over programs and accounts
- Review grant and project management

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. The Executive Director took a proactive approach to resolving the issues reported in this report and his cooperation is appreciated.

The audit was conducted according to applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, except that Peer Review has not been performed, and included such tests of the procedures and records as considered appropriate.

William D. Miller, CIA, CGFM
County Auditor

The following auditors contributed to this report:

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**JOHNSON COUNTY DEVELOPMENTAL SUPPORTS
GENERAL AND FINANCIAL MANAGEMENT REVIEW**

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RESULTS AND RECOMMENDATIONS

1. Strong Leadership Is Needed to Ensure Business Management Is Effective

Johnson County Developmental Supports (JCDS) leadership was weak in some financial and general management areas which led to poor decision-making and wasted resources that could otherwise have been used to provide services to the developmentally disadvantaged. Management controls over organizational operations were either non-existent or were not enforced and monitored when present. Management duplicated available County services, assumed a research mission which diverted resources from consumer care, and contracted for services that should have been provided by staff. Our audit discovered significant problems including:

- Over a 10-year period, approximately \$200,000 was paid to academic researchers who are fully employed at other jobs and used JCDS consumers as research subjects and publication material;
- Over a 3-year period, \$100,000 was paid for computer support which duplicated County provided services and the work required of salaried staff;
- Over a 4-year period, \$130,000 was paid for internet applications and programming which duplicated available County provided services;
- Management did not comply with County contracting and purchasing policies including legal review of some contracts; and,
- Management did not provide effective internal controls and monitoring for financial transactions, drug handling, protected personal information, and grant management.

We attributed these conditions to key managers' failure to employ basic management principles such as planning, needs assessment, cost-benefit analysis, legal review, management and internal controls, and supervision. This led to management's inability to clearly communicate goals and outcomes that would balance the best interests of JCDS' stakeholders and the taxpayers of Johnson County.

Recommendations

We recommend the Executive Director develop:

- 1.1 A management system that includes appropriate management and internal controls over operations.
- 1.2 A management reporting system to enable proper oversight of the effectiveness of management and internal controls and to develop a mechanism for reporting to the Board of Governors to assure the established controls are effective.
- 1.3 A strategic plan which defines the organizational goals and implement the plan by developing an operational plan that defines measurable performance objectives and outcomes. Include results in the annual report to the Board of Governors.

1.4 An operating procedures manual for all critical operations in JCDS.

Management Comments

- 1.1 *We concur with the Auditor’s recommendation. The Executive Director has instituted a control document that requires all contracts, expenditures, and obligations requiring the Executive Director’s signature be reviewed and approved by individual supervisors, division directors, and the County Legal Department before receiving agency and executive approval.*
- 1.2 *We concur with the Auditor’s recommendation. The Executive Director will institute a monthly written report format for JCDS senior managers. This report will articulate major activity, recommendations or actions that result in cost or obligation by JCDS to any vendor, affiliate or partner agency; the report will also disclose any programmatic or consumer issues that could result in policy changes that might require board approval or notice.*
- 1.3 *We concur with the Auditor’s recommendation. The Executive Director has directed Leadership/Executive Team members to develop Strategic Goals and Objectives, with measurable objectives that will be submitted for board review on a timely basis. An annual review will also be submitted to the Governing Board.*
- 1.4 *We concur with the Auditor’s recommendation. An operating procedures manual for all critical operations in JCDS does exist and is in the process of revision. We have been conducting research to update the manual and related processes and a draft for policy/procedure implementation and maintenance is in development for presentation to the agency’s Leadership Team by year-end.*

Discussion

JCDS business management was not effective or efficient. The management environment was not business oriented. Basic operating procedures were not prepared for many of the critical jobs and job incumbents were not held accountable for their duties. In some instances, key managers were not aware that subordinates were not performing their duties properly or the manager did not supervise the employees appropriately. Financial and general management decisions were made without proper analysis – analysis that may have led to reduced costs. Decisions to use consultant contractors were not based on sound management principles resulting in unnecessary costs to achieve results. Alternatives to outsourcing were not reviewed and, therefore, were not part of the decision-making process.

JCDS did not follow general business principles

In our opinion, management fostered a culture of independence from the County even when County services were available to them and less costly than other alternatives. Using an available County resource does not translate to County control of the entity. JCDS failure to use the County’s Information Technology (IT) services clearly demonstrates this business culture and

the consequences of it. Although the County was able and willing to provide IT services, JCDS chose to develop their own IT function. The assigned JCDS staff was not provided with sufficient training and, over time, was unable to provide adequate service in a rapidly changing environment. Consequently, JCDS entered into consultant contracts to accomplish the tasks at significantly greater costs.

JCDS did not have a business plan clearly outlining the decision making process. Such a plan would include provisions requiring decisions to be made through review and analysis including:

- Needs assessment
- Review of alternatives
- Cost benefit analysis of alternatives
- Legal review of all contracts for services

JCDS did not have a system for management and internal controls over business functions including:

- Supervisory oversight of all staff
- Accounting controls over cash management and payroll
- Internal controls over prescription drugs, and step by step control over Drug Enforcement Administration (DEA) scheduled controlled substances

While JCDS' mission is to provide services to developmentally disabled consumers, resource and finance management must be accomplished in a business-like manner to optimize fund availability for their mission.

Our review of the Quality Assurance function disclosed that staff did a commendable job with their available resources. They developed a comprehensive program which includes:

- Special reviews
- Licensing reviews
- Billing and billing rate assessments
- In-home and residential support services evaluations
- Crisis management
- Kansas Lifestyle Outcome assessments

The Quality Assurance staff review licensed Affiliates annually and uses a random selection process on a monthly basis to target non-licensed Affiliates. The number of reviews conducted is dependent on available staff.

The ensuing chapters of this report discuss the problems identified in the audit as well as actions taken by the newly appointed Executive Director to address them as the audit progressed.

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2. JCDS Management Placed Undue Reliance on Consultants to Conduct Their Business

JCDS relied on consultant contractors to perform duties that should have been performed by incumbent staff, or to duplicate County central services functions. JCDS managers did not ensure staff in skill positions had the requisite skills to perform their duties. To overcome the deficiency in skills, management used consultant contracting as a tool to get things done when staff could not do the tasks. Managers did not follow prudent contracting procedures which led to contractors dictating the conditions of contracts without proper protection for JCDS. In addition, the managers did not use basic management principles in assessing needs and cost benefits in using contracts when Johnson County central services were an available alternative. As a result, JCDS wasted resources, was vulnerable to unilateral price increases, and abdicated their ownership rights to a mission-critical data system.

Recommendations:

We recommend the Executive Director:

- 2.1 Review alternatives for providing computer services including the availability of Johnson County Central Services and select a cost efficient method.
- 2.2 Review alternatives for managing the consumer database including the availability of Johnson County Central Services and select a cost efficient method.
- 2.3 Renegotiate the contract for the consumer database management to gain accessibility and ownership of the software and program.
- 2.4 Prior to renewing a contract for grant management on the foundation grant, evaluate in-house capability to manage the grant. Such evaluation could include realignment of duties of the grant manager. If the decision is made to outsource grant management, use competitive bidding procedures and price the function at no more than 8 percent of the total grant.
- 2.5 Send all contracts to legal services for review to ensure proper language and protections are included.

Management Comments

- 2.1 *We concur with the Auditor's recommendation. We concur that JCDS should avail itself of County IT services, rather than employing JCDS IT staff and relying upon additional IT contract vendors. The practice began during a period when County IT services were viewed as non-responsive. The executive director has met with County ITS and has agreed to integrate JCDS IT services with County IT Services. At the suggestion of County IT, JCDS will maintain one JCDS IT Help Desk Support Staff.*

- 2.2 *We concur with the Auditor's recommendation. JCDS staff met with our assigned county IT project team on April 25, 2006. It was agreed by all that the consumer database would be migrated to a county server which would be maintained by county IT. JCDS will continue to work with the current programmer and JCDS staff will continue, as we have from the inception of the consumer database, to manage the database.*
- 2.3 *We concur with the Auditor's recommendation. JCDS staff met with county legal on April 13, 2006 to renegotiate the programmer's contract for the consumer database. County legal has agreed that the programmer owns the software and JCDS owns the data. JCDS will institute a new contract with support from county legal services.*
- 2.4 *We concur in part. We do not concur with the Auditor's recommendation that competitive bidding should be a factor in grant management and do not believe our foundation or other grant providers would either. Grant management costs are a factor considered by grant providers and determined by the grant maker. JCDS does evaluate staff capability for managing grants prior to grant application and acceptance. JCDS is re-evaluating the effort needed to administer the foundation grant. With a recent realignment of staff duties, we believe that the grant administration responsibilities can be completed by in-house staff as part of their overall duties. Utilizing established County guidelines and processes for professional services contracting (OFM Procedure 110.135 C), it is our intent to outsource the development of some of the unique consumer support tasks involved in the project. Those tasks can then be incorporated into the direct support routines of regular staff over time as the grant is implemented*
- 2.5 *We concur with the Auditor's recommendation. Contracts and agreements are being forwarded to county legal services for review prior to approval and authorization by the JCDS Executive Director. A JCDS procedure has been written that prescribes how this process is to occur for all levels at JCDS. The process includes obtaining review for new contracts and renewing contracts as well as addressing changes needed to existing contracts.*

Discussion

Outsourcing computer services was not necessary

JCDS entered into a sole source contract with a one-man company to provide computer set-up, repair and upgrades and help-desk activities. The contract was not advertised for competitive bid, nor was a needs assessment, including reviews of alternatives, conducted prior to contract award. The contract was written by the contractor and there is no evidence that it was negotiated as to price or deliverables. The contract was renewed from year to year. In 2005, the contractor was paid \$46,180, and in 2006, the contractor is on pace to earn \$55,000. An additional \$39,800 was paid for parts. JCDS did not submit the contract for legal review resulting in significant risks for JCDS in contract performance and rights in the event of non-performance.

The concept for this contract was that it was cheaper to rebuild existing computers than purchase new ones. According to JCDS staff, the contractor provided parts cheaper (all the parts came from the contractor's father's business) than any other supplier although they had no studies or documentation to support their conclusions. Additionally, they could not demonstrate that rebuilding computers was an appropriate management decision. The County policy is to replace computers, usually on a 3-year cycle. The County contracts provide warranties to protect the County investment. The JCDS contract expressly denies warranties while the County contract provides for replacement of defective computers and components for 3 years.

County did not receive warranties on contract work

The JCDS contract puts the organization at risk for loss of service and quick, non-negotiable price increases during the period of the contract:

[contractor] reserves the right to terminate account and to change rates and otherwise modify these terms and Conditions at any time upon a one week written notice.

The Johnson County IT has the capability, willingness and expertise to assist JCDS, but neither this option, nor any other option, was considered.

JCDS did not maintain proper control over their consumer database and records

JCDS' Information Technology staff did not have the skills to develop and maintain a mission-critical database of records for their consumers. They outsourced the function to a contractor, renewed the contract from year to year since 1999, and placed complete reliance on this contractor to accomplish the tasks and manage the consumer database. Legal review was not performed on these contracts. The value of these contracts for 2002 and 2005 was \$130,000.

County does not own mission critical system

The contract called for the contractor to:

- Develop a secure, web-based database applications
- Provide site support
- Design the database
- Maintain the database
- Data entry (original data entry)

JCDS gave away their rights to the software and programs used to develop and maintain the database. The contract states, in part:

Customer acknowledges and agrees that the Programs and any copies in whole or part of the Software are and remain the valuable property of [the contractor] and that this Agreement grants Customer no title or rights of ownership in the Program(s). Customer shall have no right to grant sublicenses to the Programs or to transfer or assign the license granted under this Agreement.

The contractor did not follow generally accepted software development standards by documenting the system or providing standard testing routines. This results in the inability to maintain the application by anyone other than the contractor. Until recently, the development system and backup of JCDS' live data was maintained at the contractor's work site, not at JCDS. This was done to allow the contractor to work from his office and to provide JCDS with a way to backup the mission critical data in the database.

Contractor ensured foothold over database in JCDS

Until mid-2005, JCDS did not have any plan for backing up its mission critical data. In 2005, JCDS obtained a tape backup system but it had not been installed at the time of our audit.

Only the contractor had the knowledge to maintain the software developed for JCDS. In addition, the hardware at the contractor's business was password protected and, although the contractor was a one-man operation, there was no contingency plan for access to the backup data or the development system in the event the contractor was not available.

This is not the first time JCDS has entered into this type of contract. The JCDS IT director said there was a prior contractor that terminated his services and the current contractor had to devote considerable time to recover or create the database.

With the assistance of Johnson County ITS, this function could be brought in house. However, if a contractor is required, JCDS needs to ensure their rights to access and software and hardware programs are protected in the event the contractor terminates the contract.

JCDS outsourced project management of a grant and paid exorbitant administrative fees

JCDS received a \$55,000 grant from a foundation for a project entitled *Enhancing the Quality of Practical Oral Care for People with Developmental Disabilities*. The stated purpose of the project was to provide training to parents and in-home support providers on how to provide oral care to adults and children with developmental disabilities and to establish a dental assistance fund. The grant manager stated she could not find anyone willing to manage the grant. To accomplish this project, JCDS hired an oral hygienist and outsourced the management of the project because the grant manager did not have time to do the work.

Administrative fees out of line with benchmarks

The project manager's duties were to direct, coordinate and schedule activities related to the implementation of all project components:

- Develop and submit all requisite grant reports
- Provide necessary documentation to support grant requirements
- Track project costs and control expenditures according to approved project budget
- Maintain accounts of all grant funds

JCDS awarded a management contract which paid the contractor \$14,100 or 26 percent of the total grant. This amount is excessive when compared to the normal percentage for administering

grants which is between 5 and 8 percent or \$2,750 and \$4,400. Additionally, this particular contractor already had a full-time position with a school district and another full-time position with a university. Thus, the contractor had a heavy work schedule before accepting the grant work. The management function was originally estimated at a cost of \$16 an hour for 1,040 hours or \$16,640 which equates to a .5 Full Time Equivalent employee. This amount was reduced to \$14,100 because the available grant funds were less than originally estimated.

JCDS staff justified the cost by stating the contractor was instrumental in writing scenarios for the consumers included in the grant. The scenarios are step-by-step instructions on how to assist consumers with oral hygiene. These scenarios were prepared in a standard format used by JCDS for other purposes and did not require special knowledge not already available by cooperation between the dental hygienist and residential staff who work with the consumer on a daily basis.

Consultant and personal service contracts favored contractors in disputable areas

Contract management practices were not consistent or logical. Some contracts were forwarded to Johnson County Legal for review while others were not. Every contract we examined that did not have legal review had significant problems in contract language, legal protections for the County, and needs assessment for the contracted service including reviews of alternatives. We could not determine why some contracts were not forwarded for legal review. We asked legal counsel to review some of these contracts and they found them to be deficient because the contracts did not contain adequate provisions to protect the County. These deficiencies included the failure to:

Lack of legal review of contracts put County at risk

- Articulate the contractor's scope of services
- Specify service (i.e., number of service hours and when) and payment schedules
- Require invoices to document the services provided
- Ensure the contractor's warranty extends to service disruptions caused by the contractor
- Include termination provisions for JCDS
- Include advisable "boilerplate" contract provisions including indemnification, appropriate contractor insurance coverage and limits, independent contractor status, governing law, conflict of interest, waivers, ownership and use of documents, right to audit, and severability
- Provide a cash basis provision which allows the County to terminate the contract should funds no longer be available to support continuation of the contract

The deficiencies noted in the contracts discussed in previous paragraphs resulted in risks to the County that could have been avoided had legal services been used to review the contracts before they were perfected.

Conclusions

Consultant contract provisions put the County at unnecessary risk for nonperformance with no remedy. To become more effective, JCDS will need to devote attention to how decisions are made and ensure alternatives and cost benefits are considered before making decisions.

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3. JCDS Management Did Not Adequately Manage Some Financial Activities

JCDS management did not provide adequate supervision and control over the Consumer Payroll Account (CPA), petty cash, and tax reporting for miscellaneous income. Deficiencies in the CPA were so significant JCDS cannot determine the proper balance for the account:

- The bank statements were never reconciled to the general ledger
- The list of outstanding checks dates back to before 2001
- The outstanding checks older than one year, currently estimated at \$8,298.09 were not remitted to the State Treasurer as required by state law (escheatment)

Petty cash did not balance to the authorized amount when we reviewed it, and payments from petty cash were made for items that should have been paid through employee reimbursement in the ASPIRE system.

Miscellaneous income (1099¹) information was not submitted to the Office of Financial Management so that it could be properly reported to the Internal Revenue Service as required.

Incomplete W-2s were prepared for employees that received reimbursement for non-travel meals.

These conditions were caused by failure to establish internal controls including supervision of subordinates, failure to obtain an understanding of the requirements, and a complete lack of formal financial policies and procedures.

Recommendations:

We recommend the Executive Director:

- 3.1 Establish a comprehensive set of financial policies and procedures ensuring adequate internal and management controls including supervision of staff. These procedures should include the review and monitoring of the financial transactions by the responsible member of the Governing Board.
- 3.2 Reconcile the CPA and make appropriate general ledger entries to adjust for the differences noted. If JCDS staff is unable to make a complete reconciliation of the account, we recommend closing the account and opening a new account. The old account should be closed, and the balance adjusted to zero, by December 31, 2006.
- 3.3 Establish a procedure to reconcile the CPA monthly and have the reconciliation reviewed by a responsible manager. This reconciliation should be reviewed by the responsible member of the Governing Board and incorporated in the Board's minutes.

¹ A 1099 is the federal tax filing that informs the Internal Revenue Service when unincorporated, service providers have been paid more than \$600 in a tax year.

- 3.4 Prepare a list of the amounts required to be escheated to the State Treasurer. Consult with the State Treasurer to determine whether any interest or penalties are due on the past due remittances and how best to handle the unidentified amounts. Remit the amount due to the State Treasurer as soon as possible.
- 3.5 Establish procedures that will ensure that JCDS complies with the provision of K.S.A. 58-3950² in the future.
- 3.6 Reduce the build-up of long lists of outstanding checks and the potential for escheatment, by providing for alternative means of payment where the consumer is unable or unwilling to cash the payroll checks consistently. Possible alternatives might be to require automatic deposit of the payroll, where there is repeated failure to cash checks, or payment of some of the payroll in cash.
- 3.7 Develop procedures to ensure that the required miscellaneous income (1099) information is captured and sent to the Office of Financial Management. Based on our review and Legal Counsel concurrence, IRS Forms 1099 were issued to two individuals.
- 3.8 Determine the amount of additional compensation required to be reported for employees receiving reimbursement for non-travel related meals and adjust tax reporting accordingly.
- 3.9 Establish procedures for the use and monitoring of the petty cash fund. These should include regular reconciliations, supervisory review, and clear descriptions of the appropriate use of petty cash which would exclude the reimbursement of employee expenses.

Management Comments

- 3.1 *We concur with the Auditor's recommendation. A written and formalized set of financial policies and procedures are being prepared. JCDS intends to have these completed to ensure proper controls and they will identify responsibilities. Monthly review and monitoring will be conducted with and by the JCDS board treasurer. This has been occurring at least each month since the beginning of 2006.*
- 3.2 *We concur with the Auditor's recommendation.*
- 3.3 *We concur with the Auditor's recommendation. A procedure for reconciling the CPA monthly and identifying review by a responsible person will be established. This will be reviewed with the JCDS board treasurer at the monthly financial review meeting.*

² K.S.A. 58-3950 – “Report of Abandoned Property” – requires filing a report by November 1st of each year showing the amount and identifying information for abandoned property held as of the prior June 30th. The report is to be accompanied by the value of the abandoned property.

- 3.4 & 3.5 *We concur with the Auditor's recommendations. We have consulted by phone and have received an e-mail response from the Deputy Director, Unclaimed Property Office of the State Treasurer Lynn Jenkins, CPA, concerning our list of outstanding consumer payroll checks. Per the e-mail response we received, if we are still in contact with the owner of a check then we can reissue the check to the owner rather than report the property as unclaimed. If we cannot return the funds to the rightful owner, then the check is reportable after it has reached its dormancy period. We have reviewed our outstanding checks list and are still in contact with each person on the list and will have all checks reissued by the end of June 2006. Therefore, a list of amounts to be escheated to the State Treasurer is not needed at this time, but will be provided when the conditions require it to be done.*
- 3.6 *We concur with the Auditor's recommendation. The use of direct deposit accounts for consumer paychecks has been explored in the past and determined to not be cost effective. JCDS will revisit this possibility and obtain current information regarding possible direct deposit including a cost/benefit analysis of such a requirement.*
- 3.7 *We concur with the Auditor's recommendation.*
- 3.8 *We concur with the Auditor's recommendation. JCDS has contacted OFM to seek advice regarding proper procedures for compensation and reporting of meal reimbursement. OFM staff has agreed to work with us to revise our procedures as needed. OFM indicates that new county-wide administrative policies governing meal reimbursement are being proposed.*
- 3.9 *We concur with the Auditor's recommendation. Although reconciliations occur regularly, JCDS will formalize procedures for this petty cash fund that include those items noted. This procedure will be a part of the JCDS written overall financial policies and procedures.*

Discussion

Consumer Payroll Account

JCDS maintains a checking account to process the payroll related to its sheltered workshop. This account, and the related payroll activity, is not monitored by the County Treasurer or by the Office of Financial Management. We were not able to determine the date of initial activity in the account but we found activity prior to 2001. Our review of the account showed that bank reconciliations for the account had not been done. Staff remains unable to identify the owners of outstanding checks written prior to 2001.

Consumer payroll account cannot be reconciled

A bank reconciliation is the critical internal control for cash fund balances. Such reconciliation was never done for the CPA and the staff supervisor was unaware of this. The lack of supervision of this account perpetuated the problems found to the extent the account cannot be reconciled.

In January 2006, we asked JCDS staff to prepare a bank reconciliation for this account showing the outstanding checks. Three months later, on April 28, 2006, we received a bank reconciliation showing outstanding checks of \$31,768.38. The reconciliation was from January 1, 2001, to March 31, 2006, but did not include any analysis of the checks written prior to January 2001. Accordingly, we cannot determine whether the book balance presented is accurate or whether the outstanding check list presented is complete.

Of the \$31,768.38 in outstanding checks, \$8,298.09 was issued between January 1, 2001, and June 30, 2004. K.S.A. 58-3950 requires the funds for all uncashed checks, older than 1 year on June 30th of each year, be remitted to the State Treasurer for the benefit of the payee (escheatment). In addition, \$1,820.97 of the remaining outstanding checks was older than 1 year as of June 30, 2005, and will become subject to escheatment in the current year.

JCDS staff destroyed supporting documentation for checks written prior to 2001. The destruction of these records was in accordance with County records retention policy. However, a then current list of outstanding checks and a detailed bank reconciliation should have been prepared prior to the destruction. As a result, JCDS staff was unable to complete the reconciliation during the audit. The account balance of \$36,679.09 provided for December 31, 2005, remains an estimate because the information prior to 2001 is not available.

Check records
were destroyed

Tax Returns for Miscellaneous Income (1099s)

JCDS staff did not inform the Office of Financial Management about payments requiring the issuance of 1099s. JCDS entered into contracts with two individuals to provide consulting services. The contracts provided annual payments of \$9,000 to each contractor and also required JCDS to provide each contractor with an office space. We estimated the market value of the space provided at \$1,000 per year³ for each contractor. The value of the office space was not conveyed to the Office of Financial Management and these amounts were not included on the 1099s issued to the contractors.

Taxable Employee Meals

JCDS regularly pays for the meals of JCDS staff members who participate in providing social opportunities for consumers. These meals were at local restaurants and are limited by JCDS policy to a \$10 reimbursement for each meal. The consumers are required to pay for their own meals in these situations. The staff members are encouraged but not required to provide these socializing opportunities for the consumers nor are the staff members required to participate in the meal. In addition, the supporting documentation for these meals is very limited. Sometimes a receipt is presented but often a substitute is included. This documentation does not comply with IRS Code p. 3595 which states that the documentation must include:

³ The estimate is based on the square footage of the offices provided and the square foot lease rate that JCDS pays for the office as a whole.

...amount, date, place (name and address or location) and type of entertainment or meal, reason for entertainment or the business purpose and the nature of the business benefit expected to be gained, business relationship to the taxpayer of the persons at the entertainment or meal (name, occupation, title), and presence of the taxpayer or an employee at the business meal.

Accordingly, since the meals are not a condition of employment and do not comply with the IRS regulations for documentation, they should be reported as additional income to the staff.

Petty Cash Fund

Our review of the petty cash fund showed it was out of balance by a small amount and staff could not establish the reason for the imbalance. In addition, we noted expenses, such as employee reimbursements, were made from petty cash when the use of the iExpense function in ASPIRE is designed to manage the reimbursements. Use of petty cash for reimbursements invalidates the approval mechanisms built into the ASPIRE system. Staff was unable to provide an explanation for this practice.

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4. JCDS Assumed a Research Mission and Contracted with Consultant Researchers

Over a 10-year period from 1995 to 2005, JCDS paid approximately \$9,000 per year to each of two researchers at the University of Kansas to provide “staff training, technical assistance, and consultation.” These contracts did not have any specific deliverables or time schedules and did not require any definite results or end product. Staff interviews indicated these contracts were entered to provide JCDS with access to leading-edge research in the area of developmental disabilities. This activity did not show any tangible result and diverted attention and resources from direct services for JCDS consumers.

Recommendation:

We recommend the Executive Director:

- 4.1 Discontinue the consultant contracts with the researchers and focus resources on direct services to JCDS consumers (Completed)

Management Comments

- 4.1 *We concur with the Auditor’s recommendation. We do agree with the auditor that resources should be focused on direct services to JCDS consumers. Though the auditor cites specific weaknesses in this specific relationship with University of Kansas professional staff, we do believe that JCDS and other Johnson County human service organizations can benefit from collaborative affiliations with university-affiliated resources.*

Discussion

The researchers were on the staff of Kansas University as researchers. As such, they received no payment from the University unless they generated grant funding for research. Most of the work they did for JCDS was specifically related to developing grant proposals and related pilot projects to support their grant proposals and, thereby, generating their University salaries. They used JCDS consumers as research subjects in these pilot tests and subsequently in the main studies. We concluded the researchers were achieving a benefit from the use of the JCDS environment and access to the JCDS consumers at least equal to a less well defined benefit that JCDS received. Accordingly, we do not believe the payments made under the consulting contracts were justified.

In addition to the cash payments, JCDS provided these researchers with office space and telephone service with an estimated value of \$2,000 per year. Early in the relationship, JCDS also rented an apartment and purchased furniture for the researchers. The contracts called for the researchers to provide periodic reports of outcomes from the studies and monthly statements of billings. The audit disclosed the reports were not prepared and the monthly billings could not be reconciled to work performed.

When we brought these issues to the attention of the Executive Director, he chose not to renew the contracts.

5. Better Controls over Prescription Drugs and Controlled Substances Are Needed

JCDS needed to improve record keeping for pharmaceuticals they received for disposition to consumers. While data from various pharmacies was collected and entered into a data base, there was no reporting system to provide an ongoing inventory. To acquire an inventory for the audit, JCDS personnel had to go to a contractor who also provides services to one of the pharmacies. From this relationship, the contractor was able to provide a listing of drugs used by JCDS from that one pharmacy. JCDS consumers choose the pharmacy they will use for their prescriptions and many pharmacies are used. Accordingly, the list provided by JCDS was incomplete and did not provide an inventory. JCDS also did not provide adequate control over the handling of controlled substances. As a result, drugs are vulnerable to theft and consumers could be at risk of not receiving drugs.

Recommendations:

We recommend the Executive Director

- 5.1 Develop an inventory and reporting system for all pharmaceuticals and specifically document controlled substances for ready identification.
- 5.2 Establish appropriate controls over controlled substances to include separate storage and tracking mechanisms from receipt to dispersal or destruction.

Management Comments

- 5.1 *We concur with the Auditor's recommendation. JCDS has refined the internal medication "inventory" system to improve the tracking of medication that is prescribed to persons served by the agency for whom agency staff provide assistance in taking medication. The refinement of the system included an emphasis on tracking the very few controlled drugs prescribed to persons served by JCDS.*
- 5.2 *We concur with the Auditor's recommendation. To date, internal processes have been installed which include safeguards for managing the safety and security of controlled medications. All controlled medications are stored separately (under double lock) and tracked from receipt to dispersal and/or disposal.*

Discussion

JCDS receives prescription drugs for administration to consumers. Most of the drugs are received from one pharmacy and they are packaged in bubble packs (for unit doses) or individual packages. Drugs received from other pharmacies are not in bubble packs. Upon receipt, the drugs are matched to the Pharmacy manifest to ensure they received what was sent. The drugs are made available for team leaders to pick up and dispense. A medical administration record is maintained to show disposition of the drugs and it is forwarded back to JCDS Nursing Service to review and log into a data base.

A system for reviewing pharmaceutical inventory was needed

JCDS did not have a good inventory system for pharmaceuticals received and dispensed. The inventory consisted of manifests received from one of the pharmacies they dealt with and logs of pharmaceuticals received from other pharmacies. Information from these sources was transferred to a data base but was not used to count inventory or for management reporting purposes. Controlled substances were not separately maintained or readily identified in the inventory.

When asked, staff could not retrieve an inventory of items from the data base. They had to rely on the services of a contractor who maintained the database.

Management did not develop a reporting system for the inventory of pharmaceuticals and as a result there was no management oversight of the inventory. The inventory turnover is fairly rapid since most pharmaceuticals are dispensed within the 30-day period they are retained. A management report on the inventory and dispersal of the pharmaceuticals would allow management the proper oversight of the pharmaceuticals and their consumption or destruction.

Controlled substances were not separately accounted for

Controlled substances are pharmaceuticals identified by DEA as high risk for abuse. DEA requires strict accounting and record keeping for controlled substances from receipt to administration or destruction. These requirements include storing controlled substances separately from other medications and keeping readily identifiable records of drug distribution. The record keeping requirement can be satisfied by maintaining separate records for controlled substances or by clearly annotating records to identify controlled substances.

JCDS has a limited number of consumers who require controlled substances for their care. These controlled substances were not segregated in storage and not specifically identified in the inventory records. Until our request, JCDS had not queried the data base for controlled substances. Therefore, they did not have a system for tracking use and trending controlled substance activity (dispensing, wastage etc.).

6. Grant Funding to Non-profit Organizations Was Poorly Managed

Grants to provide “start up” money for non-profit Community Service Providers (CSP) were made without proper legal review and safeguards to ensure the money was used for Johnson County residents. In 2005, JCDS made a grant of \$49,425 to a non-profit agency in Wyandotte County, Kansas. Although the Board resolution awarding the grant included several stipulations, these stipulations were not made clear to the recipient and were not monitored by JCDS staff. The Board policy used to award the grant was flawed in that restrictions on the use of JCDS tax funding, as prescribed by Kansas statute, were not incorporated in the policy.

Recommendations:

We recommend the Executive Director:

- 6.1 Review Board Policy 1-13, “Application of Contract Service Funds Through Governing Board,” and consult with counsel to recommend a policy to the Governing Board which requires that grant funds be used specifically for JCDS consumers, requires that an accounting be provided to JCDS for all grants, and requires that JCDS shall have the authority to audit such reports.
- 6.2 Have other Governing Board policies reviewed by legal for compliance with applicable federal, state and local laws and policies and make recommendations for any needed changes.

Management Comments

- 6.1 *We concur with the Auditor’s recommendation. The Governing Board has already begun looking at this policy to make it more specific and detailed in what is allowable. County counsel plans to attend a future Governing Board meeting to give advice as to the circumstances in which grants may be awarded.*
- 6.2 *We concur with the Auditor’s recommendation.*

Discussion

The JCDS Governing Board approved a grant of \$49,425 to Autism Asperger Resource Center (AARC) located at Kansas University Medical Center in Kansas City, Kansas. The grant was made under the provisions of Board Policy 1-13, “Application of Contract Service Funds Through Governing Board.” The policy relies on K.S.A. 19-4001⁴ to justify the grant of tax funds. Discussion during the Board session making this grant centered on assurances the funds would be spent for Johnson County residents and that an appropriate accounting for the money be provided to the Board.

⁴ K.S.A. 19-4001 states, in part, “It [mental retardation governing board/JCDS] may establish consulting and/or referral services in conjunction with related community health, education, and welfare services.” [Explanation added]

Our initial review showed JCDS staff did not follow up on the use of the grant money or provide a detailed report to the Board on how the money was used. AARC staff said no specific conditions or requirements for fund use were conveyed to them. Our review of AARC records disclosed we could not support the use of the funds as described in the proposal and their records were not sufficient to differentiate between Johnson County funds and other funds in their accounts. They do keep track of this information for grants requiring that level of detail.

JCDS could not attest to the use of grant funds

We also asked counsel to review the statutes, K.S.A. 19-4001 to 19-4008, to determine whether the Governing Board Policy 1-13 was in compliance. The opinion of counsel was “JCDS can provide funding in the form of grants or "seed" money only when there is a commitment to provide services to clients of JCDS and those services are provided in exchange for the funding.” Under this interpretation, Johnson County tax funds should only be used for specific activities related to JCDS consumers and the activity would have to be monitored to ensure the desired result.

7. The JCDS Incident⁵ Management System Could Be More Effective

JCDS staff has not consistently complied with JCDS' existing comprehensive incident reporting system and management has not provided adequate oversight of the process. This is a performance issue. Our review of 105 of 1,050 incident reports (10%) submitted during 2005 showed 62 reports (59%) had at least one of the following problems:

- Documentation errors
- Insufficient information
- Incomplete or untimely reporting
- Inconsistent investigation processes
- Untimely follow-up
- Premature closure of cases

JCDS could develop a systematic process to track and trend incidents by consumer to identify potential recurrence or high risk encounters. This would assist in assessing the behavior trend by consumer and trigger remedial actions if trends so indicate.

Recommendations:

We recommend the Executive Director:

- 7.1 Develop stringent guidelines and accountability procedures to ensure incident reports and investigations: a) are accurately documented, b) submitted within policy timelines, c) thoroughly and consistently investigated, d) generate corrective measures which properly address the incident cause within policy timelines, and e) assure that corrective measures have been implemented prior to closing investigated cases.
- 7.2 Develop a systematic process for tracking and trending incidents to assist in identifying potential problems with specific consumers, staff, facilities, or situations.

Management Comments

- 7.1 *We concur with the Auditor's recommendation. The incident reporting procedures have been reviewed and revised procedures will be in place by July 1, 2006.*
- 7.2 *We concur with the Auditor's recommendation. The incident reporting procedures have been reviewed and revised procedures will be in place by July 1, 2006.*

⁵ JCDS defines an incident as "an event (or suggesting an event) which seriously or adversely affects the health or safety of a consumer or has the potential to do so."

Discussion

JCDS “Policy on Incident Management” states they are to provide assurance that all incidents affecting consumer health, safety, and well being are properly documented, investigated, and resolved.

Kansas Administrative Regulations (K.A.R.) 30-63-28 and 30-63-29, prescribe CSP Affiliate responsibilities for reporting and documenting consumer incidents and suspected cases of abuse, neglect, and exploitation (ANE). To comply with these requirements, JCDS developed and adopted an incident management and reporting system to protect the consumers they serve.

Our objectives were to determine if:

- Incident reports were being completed and submitted in compliance with established JCDS policy and timelines
- Conclusive non-biased investigations were being conducted
- Corrective action plans were being developed and implemented
- Management had established a systematic process for tracking and trending incidents to identify frequency and severity of occurrence

We used JCDS incident policy criteria to base our audit tests, conclusions, and recommendations.

The incident reporting system was not working as well as it could

In 2005, JCDS staff documented 1,050 consumer incidents classified as shown in Table 7.1

Table 7.1: Consumer Incidents in 2005

Incident Category	Number of Occurrences
Medication errors	278
Classified as “potential consumer injury”	248
Minor consumer injuries	184
Injuries requiring delivery of first aid	168
Required physical intervention	131
Miscellaneous	41
Total Occurrences	1,050

Source: Compilation of reported incidents

About half of the reported incidents met the JCDS threshold of severity for conducting an investigation.

We reviewed the 105 incidents (10% of total incidents for 2005) that occurred during September 2005. Of the 105 incidents reviewed, 45 required investigations. Examples of documented incidents included:

- Consumer aggressiveness (hitting, biting, or verbal)
- Unexplained bruises and cuts
- Inappropriate behavior
- Self inflicted injuries
- Elopements
- Administration of incorrect or incorrect dosages of medications

Management did not provide assurance that JCDS policies are being followed and the incident management system is not functioning as designed. We found errors and noncompliance with policy in 62 of the 105 incident reports reviewed. Some reports had multiple errors. Table 7.2 shows analysis of the sampled incident reports.

Table 7.2: Errors in Incident Reporting System

Error Type	Number of Occurrences	Required Time Period	Range of Days Late
Report not within prescribed time period	37	End of shift	1-11
Lack of required documentation criteria ^a	19	End of shift	1-15
Investigations not completed on time	17	3 Work Days	1-14
Corrective action plan not signed on time	8	3 Work Days	1-14
Failed to notify proper authorities	2	Immediate	n/a
Corrective plan not implemented on time	2	Expected Date	n/a
Total Occurrences	85		

Source: audit analysis of selected sample of incident reports

^a Times and dates not documented, all involved consumers not identified, insufficient posting required information

Timeliness of reporting is a critical internal control in an incident reporting system. Proper authorities need to be notified quickly to ensure consumer safety and proper decision-making on the incident. Even incidents that are resolved immediately need to be reported timely to ensure proper oversight of the incident and recording of the incident for future trending. Staff did not complete the reporting as required which becomes a performance issue that needs to be resolved by management.

JCDS policy for conducting investigations needs improvement

The JCDS incident management system policy does not provide necessary guidance on conducting investigations. Key factors missing in the guidance are:

- Clear identification of who should conduct the investigation of an incident including who would be prohibited from conducting the investigation
- A mechanism for tracking investigation timeline delays and implementing a process to hold investigators accountable to established timelines.
- Instructions on closing investigation cases

We reviewed the investigation process with a JCDS official and identified occurrences of case managers investigating their own staff or consumers. This type of process can cause potential conflict issues. While these case managers may be well versed in managing the consumer, they

should not investigate incidents concerning their own consumers or staff to prevent the appearance of biased review and results. Incident investigations were concluded anywhere between 0 and 314 days. We understand investigations follow a path and may not be regulated by strict timeframes. However, conducting investigations and holding investigators accountable to defined timelines is extremely important to ensure that potential consumer issues are properly addressed and resolved.

At the completion of an investigation, a corrective action plan may be required. Audit analysis disclosed there was no guidance on closing the investigation cases. Case reviews disclosed investigations were closed before the corrective action plan was implemented. We followed-up on five cases which identified the corrective action plan as “re-training needed” but we were unable to determine if the staff had been retrained before closing the case.

Tracking and trending consumer incidents could be a valuable quality assurance tool

Although not required, JCDS could benefit by developing a trending and tracking system of consumer incidents to determine if there are opportunities to take proactive corrective measures. For example, a rise in number of incidents by a consumer over past occurrences could trigger closer monitoring or adjustment of activity. The current data base gives JCDS the opportunity to review, sort, and compile data in a meaningful way to show a baseline of consumer incidents by consumers and evaluate occurrence rates. A JCDS official told us they routinely track incidents by type as a summary report and in some cases on specific consumers as requested, but this is a rare occurrence. This official told us case managers know their consumers and have a good understanding of their routine behaviors.

To illustrate how a trending system could work, Table 7.3 shows incidents that occurred in 2005 for a few consumers. We have no judgment as to whether the results reflect a good or bad situation, but it could be a baseline from which to build a record and look for trends.

Table 7.3: Consumer Incidents Reported in 2005

Consumer	Number of Incidents	Percentage Investigated	Common Incident Description^a
A	43	21	Aggression, Verbal, Biting
B	27	85	Elopement
C	23	17	Aggression, Verbal, Hitting
D	22	27	Tripping, Bleeding, Medication Errors
E	21	48	Aggression, Self Inflicted Injuries
F	21	48	Medication Errors (Staff and Self)

Source: Audit analysis of selected sample of incident reports

^a General categories

A system to track and trend consumer incidents would provide management the ability to identify potential risk situations and to proactively manage repetitive behavioral issues.

In another example, Table 7.4 demonstrates the type of management follow-up that could be done by tracking incident reports. This analysis is based on facility location but there are many other attributes in the incident database that could be used to isolate potential concerns.

Table 7.4 Incident Analysis by Location (Partial)

Facility Location	Consumers		Total Incidents		Type I Incidents		Injuries		Medication Errors	
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
A	7	7	66	65	37	35	14	14	19	23
B	2	4	13	33	12	11	0	9	10	7
C	0	2	0	29	0	26	0	2	0	16
D	4	5	12	26	10	17	1	4	8	13
E	0	2	0	22	0	4	0	0	0	3

Source: Audit Analysis based on JCDS Incident Report Database

An analysis of Table 7.4 brings relationships into focus and leads to these questions:

- 1) Why does Facility C, with 2 consumers in 2005, have as many incidents as Facility D with 5 consumers and Facility B with 4 Consumers?
- 2) Why did the incidents at Facility D double from 2004 to 2005 when the number of consumers increased from 4 to 5?
- 3) Facility C and E have 2 consumers each, why were medication errors 5 times higher at C than E?

We cannot tell if any of these illustrations represent a problem but the supervisor would have a tool that may be useful in identifying potential problems and providing a better outcome for consumers. This information is currently available at JCDS but it is not analyzed.

Conclusion

JCDS policy states all employees shall “document and report all incidents that threaten the health, safety, and well-being of consumers served by JCDS.” In order for the system to function effectively, it is management’s responsibility to provide assurance that incident reports are properly documented, submitted timely, thoroughly and timely investigated by independent persons, and corrective measures identified and implemented prior to closing the case. Not providing adequate oversight of the incident management system subjects consumers to unnecessary risks.

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8. Compliance with HIPAA Final Regulation

JCDS, although in compliance with County policy, has not adequately safeguarded protected health information (PHI) as required by the Health Information Portability and Accountability Act (HIPAA). JCDS has made a substantial effort to safeguard PHI and has been successful except in the use of email to transmit PHI. JCDS policy is to include PHI in emails only in an attachment as prescribed by County policy. The HIPAA regulations require PHI be included in emails only when the email is encrypted or another substantially similar method is used. No encryption or substantially similar method has been used. This subjects consumer PHI to potential interception and the County to substantial costs should the information be provided to any unauthorized person. Since this problem had potential County-wide implications, we issued a Quick Reaction letter on May 3rd with recommendations to the County Manager to address this issue with all departments.

Recommendation:

We recommend the County Manager:

- 8.1 Notify the agencies currently handling PHI that the current policy is not in compliance with the Final Regulation.
- 8.2 Pending modification of the current policy, cease sending all email containing PHI outside the County email server.
- 8.3 Modify and disseminate an email policy that will be in compliance with the HIPAA Final Regulation using either encryption or a comparable alternative.

County Management Comments

- 8.1 *JCDS was advised on May 5th to send PHI by fax only to entities outside of the County.*
- 8.2 *JCDS confirmed that all staff had been advised to cease using email with attachments to transmit PHI, unless password protected. EMR Legal (county contracted HIPAA consultant legal service) approved the interim password protection procedures being utilized as HIPAA compliant. All other covered county entities were contacted to determine their use of emails to transmit PHI, to whom sent and means used to protect the information. It was determined that there are no other covered County entities that transmit information electronically unless protected either by password or encryption.*
- 8.3 *In a meeting with county legal and EMR legal and JCDS, the following action plan was developed. The JCDS Privacy and Security Officer is to update the JCDS HIPAA Risk Analysis to address this issue. The updated risk analysis will be reviewed by EMR Legal. EMR Legal will provide an overview letter of past HIPAA compliance audits performed of JCDS as well as of all other County covered entities. A meeting will be scheduled with the HIPAA Steering Committee to address this issue, revisit risk analysis, revise email policies and take any other corrective action that is determined to be necessary. EMR*

Legal was requested to provide its opinion as to compliance of current e-mail policies with the HIPAA final regulations, the severity of any noncompliance, and reasonable corrective action to be taken.

UDiscussion

In 2004, Johnson County management hired a consultant to develop a plan for compliance with HIPAA security and privacy requirements. The final determination was that PHI information could be emailed as long as the PHI was not entered in the body of the email but entered in an attached document. This procedure was adopted by Johnson County and adhered to by JCDS. We asked for clarification of the consultant's opinion and found that the consultant was not aware that some of the email would be transmitted outside the County email server. The consultant now believes PHI transmitted by email outside the County email server should be encrypted or enclosed in a password protected attachment.

The HIPAA temporary regulations suggested encryption and provided some alternatives to encryption but the final regulation did not require encryption and left the final solution up to the end users with the statement that the method used provides comparable security.

The password protection offered by Microsoft Office documents, the County standard office application, may not be adequate for this purpose. Only the most recent versions of Office applications will provide the appropriate levels of security in password protected documents. Until an adequate solution is determined, JCDS needs to use high levels of caution in transmitting PHI by email.

9. Management Did Not Maintain Adequate Inventory Controls

JCDS management did not maintain an equipment inventory listing of items costing between \$1,000 and \$10,000 dollars as County policy requires. JCDS did have a listing of vehicles and an incomplete listing of computer equipment. No inventory of other equipment was maintained prior to the audit. As a result, we found the following problems with the equipment inventory listing which was produced during the audit:

- Items appeared on the inventory listing that did not qualify as equipment inventory
- Items that qualified as equipment inventory located on JCDS property were not found on the inventory listing
- 19 percent (41 out of 219) of the items on the equipment inventory that were tested could not be located
- Dates of purchase and actual purchase price were not tracked so that computers could be replaced when they became obsolete

JCDS staff was not able to explain the failure to maintain an adequate inventory. We also found there were no written policies and procedures for the maintenance of inventory records or of supervisory review of the process. In our opinion, JCDS management did not make a commitment to maintaining the inventory as required by County policy.

Recommendations:

We recommend the Executive Director:

- 9.1 Take a physical inventory of items that cost \$1,000 to \$10,000 and maintain an accurate listing of these small assets in JCDS possession.
- 9.2 Update the computer equipment inventory listing and include purchase date and an accurate purchase price. Ensure that computers are specifically assigned to an area or an employee and update the listing if the computer is moved or re-assigned.
- 9.3 Establish written policies and procedures to ensure compliance with County equipment policy and adequate management supervision and review.

Management Comments

9.1 *We concur with the Auditor's recommendation. JCDS has initiated a new inventory of items costing between \$1,000 and \$10,000 that have a useful life of three or more years as defined in the Johnson County Financial Policies, Section #140.*

9.2 & 9.3 *We concur with the Auditor's recommendations. JCDS will amend, and create as needed, a set of internal processes to assure current knowledge and tracking of computer equipment purchase dates, prices, physical location and replacement scheduling in*

accordance with Johnson County Financial Policies and Information Technology Services recommendations.

Discussion

Maintenance of an Equipment Inventory Listing

Johnson County Financial Policy 160.2 (2) states:

The separate agencies, departments, and offices shall maintain recorded and physical inventory of assets in its possession which have a cost of \$1,000 to \$10,000. Assets with a value of less than \$1,000 should be inventoried as needed for the prudent care of County funds and property.

JCDS did not maintain an inventory listing of these items and had no written policies and procedures for inventory maintenance. In response to our audit request, JCDS management provided an inventory list of purchases costing between \$1,000 to \$10,000 made between 2002 and 2005. In addition, they provided their computer equipment listing and vehicle inventory.

Inventory records were needed

The equipment list included items, such as 8 telephones totaling \$1,255 when combined and \$2,805.72 worth of tape dispensers that did not meet the criteria for equipment inventory because the unit price was less than \$1,000. We located some equipment, such as a Toyota fork lift and a Continental stretch wrapping machine, each worth between \$1,000 and \$10,000, which were not recorded on the equipment inventory. We tested 48 items found on JCDS property (39 computer hardware items, 3 vehicles, and 6 larger equipment items) to verify they were on the inventory listing. Sixty percent of these items (29 out of 48) were not included on the inventory listing.

Inaccurate Computer Equipment Listing

The computer equipment listing that we were provided was inaccurate and incomplete. We could not locate 41 of 219 (19%) of the equipment inventory items in our sample. Forty of the unlocated 41 items were on the computer equipment listing. In a reverse test, we traced 39 computer equipment items located on JCDS property to the computer equipment listing and found 25 of the 39 items (64%) were not on the list. JCDS staff did not remove items from the computer inventory listing when they were sent to surplus or correct the location of the items on the inventory when they were moved. Additionally, computers were cannibalized to build or repair other computers and were not removed from the computer inventory. With such inaccuracies, computer equipment was easily misplaced and at risk for theft.

19% of items on inventory list could not be found

The purchase date and a verifiable cost of the computer equipment were not recorded on the computer equipment listing. The recorded equipment prices appeared to be estimated and would be difficult to verify since a contractor built the majority of the computers from parts that were purchased or salvaged from other computers.

Johnson County ITS developed a strategic plan which suggests County departments replace computers every 3 years to maintain operating system standards, software compatibility, and avoid the lapse of manufacturer's warranties. Since the majority of JCDS computers were built by a contractor, most of the computers were not under any warranty. JCDS staff claimed that they tracked the computers for replacement by the type of computer and model number. Without an accurate record of when the computer was purchased or built, they could not ensure that the computers were at the Johnson County ITS standard operating system level.

Conclusion

JCDS management did not maintain adequate inventory records and did not provide a control environment, through written policies and procedures, sufficient to ensure the assets were safeguarded and properly managed.

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10. JCDS Is Not Aware of Status of Consumer Investigations Conducted by the State

State investigators failed to communicate to CDDO officials the status of 82 (71%) investigated incidents of suspected ANE during Fiscal Year 2005. These incidents were initiated through the Kansas Department of Social and Rehabilitation Services (SRS) anonymous 1-800 hotline service. By contract, Affiliates are required to notify the CDDO when they are aware of reported cases, but anonymous reporting often leaves them unaware of cases filed with state agencies until an investigation process has been initiated. K.A.R. Article 64, prescribes the CDDO/Affiliate responsibility to ensure corrective action has or is being taken to resolve causes of abusive environments on all confirmed investigations. Without the critical information regarding the status of anonymously reported cases of ANE, CDDO officials cannot effectively perform their responsibilities. The lack of an effective communication process leaves JCDS consumers at risk and in potentially dangerous environments.

Recommendation:

We recommend the Executive Director:

- 10.1 Amend Affiliate contracts to include a provision requiring them to immediately advise CDDO officials of any initiation of an SRS investigation involving suspected ANE of the JCDS consumers they serve. In addition, such a provision should include a requirement that upon completion of any investigation process, all recommendations, correspondence and reports made between the Affiliate and SRS be forwarded immediately to CDDO officials.
- 10.2 Consult with County legislative liaison to determine a way to ensure that SRS communicates the status and results of ANE investigations to JCDS.

Management Comments

10.1 & 10.2 We concur with the Auditor's recommendations. The CDDO agrees that the outcomes of ANE reports made to SRS are not shared with the CDDO. Without this critical information regarding the status of ANE reports, we are unable to ensure the safety and well being of the JCDS consumers. The CDDO will work with county legal regarding an additional provision in our Affiliate Agreements for fiscal year 2007 that clarifies the Affiliates expectations and requirements regarding cases of reported ANE incidents. The CDDO will also work with the county legislative liaison to determine a way to ensure that SRS communicates the status and results of ANE investigations to JCDS.

Discussion

K. A. R., Article 64, prescribes the responsibilities of the CDDO. Significant responsibilities include quality assurance of services being provided and oversight of the Affiliates contracted to provide authorized services to JCDS consumers. K.A.R. 30-64-27.4 and 30-64-27.5(A) and (B) are specific regarding consumer ANE. The CDDO and Affiliates are responsible for:

- Affording consumers all legally protected rights
- Reporting any and all suspicions of ANE to the appropriate State agency
- Correcting or actively in the process of correcting the cause of any confirmed violations involving ANE.

CDDO records show 116 incidents involving suspected or confirmed cases of ANE during Fiscal Year 2005. Most were reported to CDDO officials through the state Quality Enhancement Coordinator (QEC) from cases reported through the state’s 1-800 anonymous hotline service. This information enables the CDDO to identify and follow-up as needed to ensure Affiliates have, or are taking corrective actions as necessary to resolve abusive environments. Table 11.1 shows the categories of reported incidents involving consumer ANE.

Table 10.1 Reported Cases of Abuse, Neglect, or Exploitation

Status of Reported Cases During Fiscal Year 2005	Number of Occurrences
Investigated by SRS - “Unknown” Outcome	82
Screened-Out by State	15
Unconfirmed by SRS Investigators	10
Potential Risk Determined by SRS	7
Confirmed	2
Total	116

Source: Analysis of CDDO records

Our analysis shows SRS did not provide the investigation results of 82 incidents of suspected ANE involving JCDS consumers. A CDDO official told us the state QEC is notified when a case is reported and then provides the status of investigations as that information is presented by the investigators. Unfortunately, the results of the investigations are not consistently being provided to the QEC, leaving the status of investigated cases “unknown.” The CDDO official tracks cases based on fiscal year and starts each new fiscal year at 0. The status of the 82 cases reported in 2005 documented “unknown” was not pursued by the CDDO past the fiscal year and remains unresolved.

The CDDO Affiliate contract requires disclosure of all reported incidents of ANE within defined timelines. If a state investigation is conducted, the Kansas Economic Employment Support Manual used by Protective Services investigators stipulates that a report be sent to inform the CEO of the Affiliate within 3 working days of the completion of the investigation and shall include, a) a summary of the allegation, including the facts gathered to support the finding, and b) a copy of the report to the SRS QEC worker responsible for licensing that facility. We interviewed the SRS QEC and were told this information is not consistently being provided. Affiliate agreements do not specify that the results of investigations be reported to CDDO officials, only that any incidents of ANE be reported to the appropriate authority and, in-turn, reported to the designated CDDO designated staff person within 2 working days of the incident. However if an incident is reported anonymously through the state 1-800 hotline, the Affiliate

might not be aware of the reported incident and possible pending investigation until contacted by state investigators.

The SRS QEC and the CDDO official told us the ultimate goal is to ensure the safety and well being of JCDS consumers. However, they also told us they did not encourage “micro managing” Affiliates. They told us Affiliates are responsible for, and are required to comply with, the state’s licensure laws, and for providing quality services to the consumers they serve. The current breakdown in communication places Affiliates at an important position for reporting all activities relating to suspect cases of ANE to the CDDO.

Conclusion

State regulations require the CDDO to ensure the quality of services being provided JCDS consumers and to provide the necessary oversight of contracted Affiliates providing those services. The ultimate responsibility is placed upon the CDDO for the consumer’s health, safety, and well-being. Due to the identified breakdown in communication and potential risks involving JCDS consumer safety, CDDO officials need additional cooperation from SRS. In-addition, modifying or clarifying Affiliate expectations and requirements regarding cases of ANE is needed.

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EXECUTIVE DIRECTOR ACTIONS

After receiving a briefing on the issues identified in the audit, the Executive Director immediately set a course of remedial action. He instructed his management staff to develop a corrective action plan for each issue raised by the auditors, set due dates for response to the plan and asked for milestones for completing the items on the action plan. This approach was effective in resolving many of the issues raised as evidenced below.

Consumer Payroll Account Internal Controls

On February 25, 2006, prior to the arrival of the Executive Director we issued a Quick Reaction letter to the Interim Executive Director to address issues with the consumer payroll account.

- The checks in this account were signed with one signature using a signature plate. The plate was kept in the accounting office where it was available to anyone there.
- The signature card on file with the bank had three signatures but only one of the individuals who signed was still with JCDS.
- The same signature card showed the account owner as Johnson County Mental Retardation Center although the organization's name was changed in 1996.

The Interim Executive Director took action to establish proper controls.

JCDS-owned vehicles did not have proper markings

JCDS passenger vehicles were not marked to indicate they were owned by a County agency.

K.S.A. 8-305 states:

All motor vehicles owned or leased by any political subdivision of the State of Kansas shall bear the name of the political subdivision owning or leasing such vehicle plainly printed on both sides thereof.

The Executive Director took immediate action to have new decals identifying the JCDS vehicles installed before the end of audit field work.

Nursing supervision

We had concerns about the qualifications of the supervisor of the nursing staff. Although an administrative function, the supervisor did not have credentials for the type of oversight necessary for nursing activities. In a reorganization plan, the Executive Director reassigned the nursing supervision duties.

The Executive Director continues to monitor the corrective action plan and is addressing many of the issues in this report.

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OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

The audit was done at the request of the Johnson County Developmental Supports Governing Board. The request was for a financial and performance review of JCDS to enhance the transition to a new Executive Director. Specific objectives included:

- 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:
 - d. Determine if cash handling procedures are adequate
 - e. Review petty cash accounts
 - f. Determine the adequacy of small asset inventory and purchasing procedures
- Review contract management procedures and practices
- Review management and internal controls over programs and accounts
- Review grant and project management

Background

Johnson County Developmental Supports (JCDS) is the designated Community Development Disabilities Organization (CDDO) for Johnson County. In addition, JCDS acts as a Community Service Provider (CSP) and contracts with other agencies to be CSPs. JCDS is the "single point of contact" for Johnson County residents needing services for the developmentally challenged.

As a CDDO, JCDS is a pass-through agency for funds paid to CSPs and accepts applications from all those needing services and extends those services by the use of the established CSPs.

JCDS provides services ranging from residential to daily care for developmentally disabled consumers. They accomplish this service through a sheltered-workshop and affiliate contracts with other private providers

Scope and Methodology

The audit covered transactions from January 2004 to December 2005. This time frame covered the transition period which was the goal of the audit.

To accomplish the audit objectives the auditors:

- Interviewed JCDS executives, managers and staff
- Reviewed JCDS policies and procedures
- Examined expenditures from January 2004 through December 2005

- Observed cash counts and documented cash procedures for petty cash accounts and cash management funds
- Compared the small asset inventory list to the physical assets and did a reverse asset-to-inventory list check
- Reviewed current purchasing procedures through interviews with JCDS staff and conducted tests of purchases to determine if they followed procedures
- Examined the Consumer Payroll account
- Reviewed the Foundation grant and expenditures
- Reviewed consultant contracts
- Consulted with Legal Counsel
- Reviewed appropriate State laws and Federal regulations

We analyzed JCDS's financial operations, policies and procedures, and internal controls and developed our conclusions and recommendations based on the materials gathered and results of this analysis.

Computer Data

We used data from various computer systems in performing this audit including, but not limited to: The County's Oracle financial and human resources system (ASPIRE), JCDS database systems, JCDS Consumer Payroll system, and other systems used to gather information and report on operations.

The ASPIRE system data has been validated by others as part of the annual audit process. We tested the information from the Consumer Payroll system and did not find anything to indicate that the data in that system was unreliable. We did not rely on any other systems other than to make selections for testing purposes.

Statistical Sampling

We used both statistical and judgment sampling to select items for review. We used statistical sampling to select testing samples in a number of audit steps . We designed our samples to provide 90 percent assurance with a 5 percent margin of error. Both sample sizes and items to be reviewed were generated by commercial statistical software. Judgment sampling was used primarily for attribute testing – procedural compliance. We did not use sampling to arrive at conclusions nor did we project the sample results to the underlying population.

ABBREVIATIONS

AARC – Autism Asperger Resource Center
ANE – Abuse, Neglect or Exploitation
ASPIRE – Johnson County Accounting and Human Resources System
CDDO – Community Development Disabilities Organization
CPA – Consumer Payroll Account
CSP – Community Service Provider
DEA – United States Drug Enforcement Administration
IT – Johnson County Information Technology Services
JCDS – Johnson County Developmental Supports
K.S.A. – Kansas Statutes Annotated
K.A.R. – Kansas Administrative Regulations
QEC – Quality Enhancement Coordinator – State of Kansas
SRS – Kansas Department of Social and Rehabilitation Services

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MANAGEMENT COMMENTS

June 16, 2006

To: The Johnson County Board of County Commissioners
Johnson County Developmental Supports Governing Board
Johnson County Audit Services

On behalf of the staff of Johnson County Developmental Supports, I have attached Management Responses to the Recommendations and Observations of the Johnson County Auditor regarding the business and operating procedures, fiscal procedures, and programmatic activity of JCDS.

It is my belief that the audit conducted during the first half of 2006 was a positive experience for JCDS in identifying business procedures that could stand improvement. Many of the practices that were the subject of the Auditor's recommendations were the result of a period of growth within JCDS and county administration that began with outlying agencies viewing themselves as independent agencies that needed to develop their own procedures and capacities for operations rather than rely upon central county services for administrative supports.

This attitude seemed, and may have been justified at the time, when county central services were not viewed as being effective in delivering support business services to county agencies. As the years have progressed, Johnson County Government has evolved to a level of excellence, which has resulted in county agencies greatly benefiting from a strong and effective relationship with county central services.

The overall content of the 2006 Audit of JCDS has provided significant guidance to JCDS administration that will be implemented and continually monitored by the Executive Director and the JCDS Governing Board for execution and compliance. There are however a few, limited areas contained in the audit that involve some areas in which we do not agree with the Auditor's conclusions. Those few areas are articulated with an explanation that identifies the JCDS management rationale for not concurring with the recommendation.

A final note regarding the audit procedure: Affiliate developmental disability organizations similar to JCDS that deliver human services, are often independent 501 C-3 organizations that benefit from an annual independent audit. Annual audits contribute to a positive environment that identify areas in need of correction early. Agencies of County Government do not receive the same independent audit services, thus audits such as the enclosed audit may be discussing issues over a several year period that might otherwise be addressed and resolved on an annual basis. The quantity and degree of recommendations contained within this report do indicate the utility of having an audit division within County Government and does indicate a useful and positive experience that in the end will provide direct benefit to the people we serve with developmental disabilities, and to Johnson County taxpayers.

Gary Blumenthal
Executive Director

MANAGEMENT COMMENTS**Summary**

Recommendations	JCDS Response
1.1	Concur
1.2	Concur
1.3	Concur
1.4	Concur
2.1	Concur
2.2	Concur
2.3	Concur
2.4	Concur in part
2.5	Concur
3.1	Concur
3.2	Concur
3.3	Concur
3.4	Concur
3.5	Concur
3.6	Concur
3.7	Concur
3.8	Concur
3.9	Concur
4.1	Concur
5.1	Concur
5.2	Concur
6.1	Concur
6.2	Concur
7.1	Concur
7.2	Concur
8.1, 8.2, 8.3	<i>Responses by the CMO</i>
9.1	Concur
9.2	Concur
9.3	Concur
10.1	Concur
10.2	Concur