



Johnson County Auditor
Johnson County, Kansas
PERFORMANCE AUDIT

February 23, 2006

TREASURER TRANSITION

The County needs to formalize a transition plan



Johnson County Audit Services

February 23, 2006

To: The Johnson County Board of County Commissioners
Michael Press, County Manager
Charles Letcher, Interim Treasurer
Tom Roskop, Director, Department of Motor Vehicles

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 audit included these objectives:

- 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
- 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

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.

I appreciate the cooperation received from the Interim Treasurer, his staff, and the Department of Motor Vehicles staff during this audit.

Signed, William Miller

William D. Miller, CIA, CGFM
County Auditor

The following auditors contributed to this report:

John Middleton, CPA
Michelle Holland, CFE

TREASURER TRANSITION

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RESULTS AND RECOMMENDATIONS

A Formal Plan for the Transition from Elected Treasurer to Charter Operation Is Needed When Alternatives Have Been Reviewed

A formal plan is needed upon completion of a review of alternatives to ensure the functional and legal requirements of the Treasurer's transition from elected official to Home Rule Charter status are met. The plan needs to have detailed information about the expected outcomes of the transition, timelines for completion, and identification of those responsible for the transition. Without this plan, we are unable to determine the status of the transition.

In the course of our review, we did note some issues we believe need management attention:

- More clarity in the office procedures in the Treasurer's office
- Establishment of internal controls over small asset inventories in both offices
- Realignment of approval levels for Purchase Card (P-Card) transactions
- Elimination of prepayments for postage in the Department of Motor Vehicles (DMV)

County management took immediate corrective action to address our concerns with the prepayments for postage and the approval levels for P-Card purchases within the Treasurer and DMV offices.

Recommendations

We recommend the County Manager:

- 1.1 Develop a formal transition plan that will effectively direct the future management of the Treasurer's and DMV's operations under the Home Rule Charter upon completion of a review of options, alternatives, and opportunities. *(See discussion, pages 3 and 4)*

We recommend the Interim Treasurer:

- 1.2 Enhance the office procedures by researching best practice models for preparing policies and procedures and revising the current procedures to more closely follow those models. *(See discussion, page 4)*

We recommend the Interim Treasurer and Director, DMV:

- 1.3 Establish written policy and procedures to ensure inventory records list all assets meeting County policy and only those assets that are currently owned appear on the inventory list. The written policies should:
 - Assign responsibility for the maintenance of the small assets inventory list
 - Require a physical inventory to be completed at least annually
 - Assign responsibility for the management and oversight of the physical inventory
 - Require newly acquired assets to be incorporated in the inventory upon receipt
 - Clearly define the record keeping and methodology required for asset disposals*(See discussion, page 5)*

We recommend the County Manager:

- 1.4 Review the established P-Card approval process to ensure that all purchases are approved by a superior. (*See discussion, page 5*)

Management Comments

- 1.1 *The County Manager concurs that once alternatives have been reviewed, a formal plan for the transition from elected treasurer to the charter is needed. The County Manager is currently exploring a number of alternatives that potentially enhance the effectiveness and efficiency of the processes currently performed in the Treasurer's Office. The County Manager will complete the review of alternatives by the end of the second quarter of 2006.*
- 1.2 *The Treasurer's Office agrees to make the recommended improvements based on the models supplied by the Internal Audit staff. These changes will be implemented as we make additions and modifications to our policy and procedure documents in the future.*
- 1.3 *The Treasurer's Office is in agreement that a clearly defined set of internal procedures needs to be developed and followed. We will develop procedures to clearly define responsibilities for maintenance of the inventory list, management and oversight of inventory, and regular physical inventories. This will be addressed immediately due to the recognized importance of internal controls within our department.*

The Department of Motor Vehicles is in agreement that a clearly defined set of internal procedures needs to be followed. We will develop written procedures to clearly define responsibilities for maintenance of the inventory list, management and oversight of inventory, and regular physical inventories by the end of the second quarter. Prior to the audit, the records and asset duties were assigned to an individual, however there were no departmental checks on the currency of the inventory records, nor was there an alternate assigned should the primary person be unable to update the inventory. These areas will be delineated in a written procedure. An updated physical inventory was conducted, and the resulting records were revised immediately due to the recognized importance of internal controls within our department.

- 1.4 *The Treasurer's Office agrees that all transactions must be approved by a superior in order to ensure proper oversight of purchases. We wish to address the statement, "We noted that P-Card transactions for the Interim Treasurer and manager of DMV were approved by subordinates". Please note that all transactions done by the Interim Treasurer do require approval by the County Manager. The original document submitted to OFM had the Deputy Treasurer listed as the approver. However, the form was revised to designate the County Manager as the approver for the Interim Treasurer and has been on file in OFM. A copy of the revised form is now on file in the Treasurer's Office also.*

The Department of Motor Vehicles agrees that all transactions must be approved by a superior in order to ensure proper oversight of purchases. This has been addressed in coordination with OFM to ensure all DMV Director purchases are approved by the CMO's office.

Year end spending was not necessary

The Department of Motor Vehicles, CMO's office, County legal and OFM have agreed that DMV will revise purchasing procedures to cover the initial months of operations without having the expected revenue in hand. This removes the need for end of year spending to cover expenditures early in the following calendar year.

DISCUSSION

In November 2000, voters of Johnson County, Kansas, passed a Home Rule Charter that eliminated the elected office of County Treasurer. Effective January 2005, the Charter provided for the transition of the County Treasurer functions to a County department reporting to the County Manager. The transition is mandated upon completion of the final elected Treasurer's term. The County Treasurer resigned in June 2005 and the Home Rule Charter provisions became effective. The County Manager appointed an interim County Treasurer and a manager of DMV.

The County Manager needs to prepare a formal transition plan

Overall Plan

The transition from elected official to Home Rule Charter operation of the Treasurer's office functions needs to be clearly defined. There are legal, management, timing, and functional issues that need to be researched and addressed by the application of a broad spectrum of County expertise. The timing of this plan is dependent upon completion of the County's review of options, alternatives and opportunities for the Treasurer and DMV. However, without an established plan, staff lacks clear direction and authority to ensure compliance with the Charter provisions, and there is no viable means for measuring progress against milestones which would lead toward a stable environment for these operations.

DMV Office

The County has not addressed changes in statutory compliance, budgeting and accounting resulting from the transition from elected office to appointed official in the DMV operation. The DMV, prior to the adoption of the Home Rule Charter, was managed by the elected County Treasurer.

K.S.A. 8-145, required the County Treasurer to collect fees for issuance and registration of motor vehicles and allowed for a portion of the fee collected to be retained by the Treasurer to offset the collection costs. The money retained by the Treasurer was to be used for the costs of

collection and any money remaining at the end of the calendar year was to revert to the County general fund.

K.S.A. 8-129 provides that an additional fee be charged for registration by mail and required the fees collected under this statute to be placed into the same separate fund that was established for the fees from K.S.A. 8-145. The residual of this money was to revert to the general fund annually as well.

The Office of Financial Management (OFM) set up a set of accounts in the General Fund for both of these fees. This allowed the County to keep track of the fee revenue and the related expenses. K.S.A. 8-129 fees are put into a set of general ledger accounts within the general fund which OFM calls the Auto Postage Fund.

The Johnson County Charter, 5.05 (C), states:

...the functions and operations of the office of the County Treasurer shall be performed under the administrative authority of the County Manager. The statutory duties of the County Treasurer shall be performed by or, as necessary, consolidated under the authority of and as delegated and assigned by the County Manager.

We did not find a written plan to implement this Charter provision. During the audit, the Deputy County Manager stated the Department of Motor Vehicles operations will be overseen by the County Manager's office with the Director of the Department reporting directly to the County Manager or his designee. A final plan is needed that clearly establishes the relationship of the Department of Motor Vehicles operations to the relevant Kansas statutes and the Home Rule Charter.

Treasurer's office policies and procedures could be improved

The Treasurer's office developed a procedures manual for staff to use in response to two prior audit reports. During this audit, we reviewed these procedures and determined they were comprehensive. However, the procedures were not easy to read or follow and could be improved by following an established model for policy and procedure documents.

We researched a number of models for writing policies and procedures and examined examples of existing policies and procedures to establish a best practice approach to evaluating the Interim Treasurer's policies and procedures. The models we examined exhibited the following common characteristics:

- Clear date of adoption
- Date for update or review
- Approving authority
- Listing of authority – statute, regulation, etc.
- Cross-reference to other related policies and procedures
- Section and page numbers
- Definitions

- Attachments, where necessary
- Legal disclaimers
- Documentation of review and extension, where necessary

The Interim Treasurer's policies and procedures did not address all of these areas and were difficult for the audit staff to follow and analyze. Without clear and concise policies and procedures, current practices cannot be adequately tested. New or temporary staff would have a difficult time using these procedures effectively.

Management of small assets needs improvement

Fifteen percent of the items on the Interim Treasurer's small asset inventory were recorded incorrectly or were unaccounted for. We tested 33 of 43 items on the small asset inventory list and found 4 items were sent for surplus without being removed from the inventory and another item was recorded incorrectly. At DMV, 35 percent of the computers on the small asset inventory we tested were either not recorded on the inventory or they were recorded incorrectly. In addition, the small inventory listing did not include the date of purchase for the computers; therefore, the replacement cycle could not be tracked.

County Policy 160.2 #2 states "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 prudent care of County funds and property."

Neither the Treasurer's office nor the DMV had written policies or procedures to assign responsibility or direct anyone in recording or maintaining a physical inventory of small assets. Treasurer and DMV staff took immediate action to correct the inventory errors we noted.

The County Manager needs to ensure that P-Card transactions are properly approved

We noted that approvers for P-Card transactions for the Interim Treasurer and manager of DMV were subordinates. We examined a few other department directors' P-Card authorizations and noted that the approval by subordinates was not uncommon.

Good internal control requires all P-Card purchases to be approved by a superior to provide proper oversight of purchases. This situation was corrected during the audit for the Treasurer and DMV. The procedure needs to be clarified County-wide to ensure that all directors and staff are aware that P-Card purchases must be approved by the purchasers' supervisors.

Year end spending was not necessary

At the end of the year, unexpended vehicle registration fees on hand are required to be turned over to the general fund. In prior years, DMV management prepaid postage to consume the funds and to have the postage available for mailings. The rationale for the prepayment was to ensure funds for mailings would be available until sufficient registration fees could be collected to cover the costs. The cycle of fee payments did not match the costs to be incurred. In December 2003,

DMV prepaid \$100,000 and in December 2004, prepaid \$25,000. DMV planned to prepay again in December 2005. However, DMV management's concerns that funds would not be available at the beginning of the year were unfounded since the budgeted expenditures are not contingent on the timing of the related revenues.

The County Auditor issued a Quick Reaction letter on November 21, 2005, to the CMO, DMV, and Legal Services to bring to management's attention that spending down the funds in December was not an appropriate practice. As a result, DMV management met with the CMO and OFM to clarify the operation of the 2006 budget for the DMV management. The participants in that meeting agreed the excess December payments were not needed and they were not paid. Since corrective action was taken, a formal recommendation is not needed in this report.

Conclusions

Treasury and DMV operations have continued successfully since the resignation of the elected Treasurer. However, a formal plan for the transition still needs to be prepared and implemented. Additional improvements are needed in documenting procedures and policies and management of small assets was not satisfactory in either the Treasurer's office or DMV. Guidance for DMV operations and some internal controls were not adequate.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

The objective was to evaluate planning for the transition of the Treasurer's office from an elected office to an appointed official. We accomplished our objective as follows:

- Evaluated the progress of the transition and the transition plan
- Reviewed cash and asset management
- Determined the adequacy of small asset inventory and purchasing procedures
- Reviewed fund management

Scope and Methodology

Our period of audit included transactions from December 2003 through June 2005. We reviewed the following:

- Policies and procedures for compliance with County policies and applicable laws, rules and regulations
- Procedures for tax allocation
- Selected cash receipt and deposit transactions
- Payroll and overtime records for compliance with policies
- Small asset listing and physical location of assets
- Listing of P-cards, dollar limits, and controls and tested them for compliance with policy
- Listing of Delinquent tax amounts at December 2003 and December 2004.

We interviewed management and staff members to obtain an understanding of management and internal controls. We had staff members explain how they performed tasks relating to tax allocation and daily cash processing procedures. We reviewed cash reconciliations.