



Johnson County Auditor

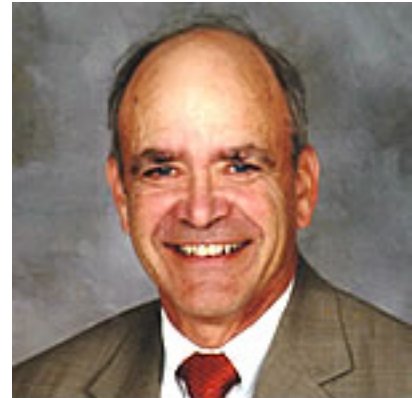
Johnson County, Kansas

2007

**ANNUAL REPORT
OF OPERATIONS AND
RESULTS**

-----A MESSAGE FROM
THE COUNTY AUDITOR

Board of County Commissioners



Dear Commissioners:

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

Our mission is to provide the BOCC, through our audits, assurance that county services are provided the most cost effective and efficient way, and that government is accountable in its stewardship of the public trust. To accomplish this mission we conduct financial and performance audits.

This year we focused on high vulnerabilities in programs and continued a series of transition performance audits targeted at departments that had recent changes in top echelon personnel. The focus of the transition audits was on management policies, practices and procedures, internal controls, and performance measurement. Audit recommendations were made to help smooth the transition between department directors.

We issued six audit reports, four special memorandums and four recommendation implementation follow-up reports. We examined:

- Library Special Use Fund
- Incident Reporting Systems
- Self-Insured Health Care Plan
- Public Works Fund
- Employee Take Home Vehicles
- Department of Corrections Transition

During this reporting period, we made 45 recommendations for improvement and the County Offices and Departments agreed with 44 for a 97 percent concurrence rate.

Key recommendations in the audit reports related to proper expenditures from funds, trend analysis in incident reporting systems, reserve amounts in the employee health care fund, accounting for county vehicles, and management of the Department of Corrections (*Summaries are included at Appendix A, page 12*)

We continued our quarterly monitoring of agreed upon recommendations and issued reports on the status of the County's implementation of the recommendations. As a measure of the

County's responsiveness to our recommendations, the County Auditor set a standard for implementing recommendations which is to have at least 90 percent of agreed upon recommendations implemented within 2 years. All of the recommendations implemented this year were implemented within 2 years. The remaining open recommendations are still within the 2-year timeframe for implementation.

We estimated the quantifiable cost effect from our audits to be \$12,881,884. This amount considers (i) questioned costs, (ii) cost avoidance, (iii) funds at-risk for fraud or loss, (iv) waste, and (v) efficiency in use of available resources. The cumulative cost effect since September 2005 is \$15,143,105.

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

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

William D. Miller CIA, CGFM
County Auditor

Results at a Glance

Audit Products	Number Issued
Formal Reports	6
Memos	4
Follow-up Reports	4
Total	14

2007 Recommendations		
	Number	%
Agreed	44	97
Disagreed	1	3
Total	45	100

2007	
Cost Effects from Audits	Amount
Questioned Costs	\$9,807,500
Cost Avoidance	2,200,000
Funds at Risk	720,000
Waste	153,984
Efficiency	400
Total	\$12,881,884

2004-2007 Recommendations		
	Number	%
Agreed	151	94
Disagreed	10	6
Total	161	100

Audits	Staff Hours	Average Standard	Average Hours
Corrections Transition	1,937		
Incident Reporting Systems	1,133		
Public Works Fund	1,053		
Self-Insured Health Care Plan	790		
Library Special Use Fund	760		
Employee Take Home Vehicles	298		
Total	5,971	750	995

Audit Expenses	Amount
Staff	\$341,154
Contract Services	5,059
Equipment	2,650
Total	\$349,313

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MISSION AND GOALS

Charter

The County Auditor is appointed by and reports directly to the Board of County Commissioners. The charter (County Resolution **008-94**) grants the County Auditor complete access to the books and records of all County departments. The County Auditor uses this access, independence, and authority in performing his charter mandate to conduct audits on a continuous basis for all departments and programs. Internal audit has no direct responsibility or authority over any of the activities or operations reviewed. To maintain independence, audit will not develop or install procedures, prepare records, establish policies or engage in activities that would normally be reviewed by internal audit.

Purpose

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

Work Products

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

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

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

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

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

OFFICE OPERATIONS

Audit Planning

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

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

Expenses

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

The office had expenditures of about \$349,314 during this report period.

PROFESSIONAL DEVELOPMENT

Summary

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

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

Education

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

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

The County Auditor, Senior Auditor and Staff Auditor II have given formal presentations to several of these organizations. The County Auditor has also made presentations to advanced degree students at the University of Kansas-Edwards Campus and University of Missouri-Kansas City. The County Auditor and Staff 1 have published articles in professional publications.

PERFORMANCE MEASURES

Outputs

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

We issued 14 audit products during this period.

<i>Audit Product</i>	<i>Number Issued</i>
Formal Reports	6
Memos	4
Quarterly Follow-up Reports	4

A synopsis of the formal reports is included as Appendix A, page 12.

Outcomes

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

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

During this report period we obtained agreement with **97** percent of our recommendations. This achievement will result in our increasing our expectations and goal to 95 percent for future years. All recommendations reported as implemented were implemented within 2

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

years. The remaining unimplemented recommendations are still in the 2-year window.

We have a goal to accomplish audit work within 750 hours. This goal will be reevaluated as experience is gained in conducting the work. The average for the six formal reports in 2007 was 995 hours. The increase was due to several multi-department audits and transition audits. We expect that in the coming years the audit work goal will be closer to 900 hours.

**Cost
Efficiency**

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

Questioned Costs—Funds missing or imprudently spent or acquired.

Cost Avoidance—Funds that will not be spent.

Funds at Risk—Could be misappropriated due to poor controls

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

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

2007	
Cost Effects from Audits	Amount
Questioned Costs	\$9,807,500
Cost Avoidance	2,200,000
Funds at Risk	720,000
Waste	153,984
Efficiency	400
Total	\$12,881,884

Source: Auditor calculations

Questioned Costs: Represents the amount of the excessive fund balance in the medical benefits fund, and a small amount for an unauthorized donation.

Cost Avoidance: Represents the estimated amounts the county and employees will not have to pay for medical benefits withholding based on a recommendation to reduce the reserve amount in the medical benefits fund

Funds at Risk: Represents the fraud risk of not reconciling medical claim payments. Amount is based on a national standard percentage of fraud to claims made.

Waste: Represents the computed value of cost difference between using P-Cards and purchase orders in the Department of Corrections. Better use of P-Cards would have saved the reported amount.

Efficiency: Represents the amount of reduction in a petty cash fund.

***Client
Relations***

The County Manager and Department Directors have been very cooperative during the audit process. The audits are conducted with open dialog throughout the audit process and issues are discussed, weighed and accepted or rejected through various meetings and response sessions. The County Auditor feels there is general support and is encouraged by the implementation rate of the audit recommendations. Throughout the audit process, the county staff input is critical to our understanding of their programs, practices and challenges. The staff was courteous and helpful in every department we audited.

Appendix A - Formal Report Synopsis

Self Insured Health Care Plan

The County Auditor reviewed management of the employee health care plan. The audit objective was to determine if the Health Care Fund was fiscally sound and managed in accordance with County policy.

We concluded the Health Care Fund reserve balance needs to be reduced, health care invoice management needs to be improved, and the review of the 3rd party plan administrator activities by the health care administrator can be improved. The County Manager agreed with the recommendations and initiated corrective action.

Department of Corrections Transition

The County Auditor reviewed the status of the transition of the Johnson County Department of Corrections during a change in leadership. The audit objectives were to review financial and management controls over major functions of the Department and to determine compliance with county policy and Kansas law.

Audit results showed the department was not managed uniformly between divisions and lacked sufficient internal controls. This created vulnerabilities and risks in some department programs such as medication controls, key controls, collections and ethics. We made recommendations to improve management and internal controls especially in the Adult division. The County Manager and Director agreed and initiated corrective action.

Employee Take Home Vehicles

The audit objective was to identify how many take home vehicles were assigned to employees, if the vehicles met IRS fringe benefit exemptions or were properly reported for tax purposes, and if departments and agencies complied with Johnson County policies, procedures, and internal controls applicable to these vehicles.

We concluded most of the directors were not aware of proper procedures for recording the use of the take home vehicles and the tax implications for the County and the employees applicable to these vehicles. This exposed the County and the affected employees to assessments for past due taxes.

We recommended appropriate county policies be established and action be taken to comply with Federal Internal Revenue Service provisions. The County Manager agreed and took action.

Management of Incident Reporting Systems

Based on prior findings in one department, our office expanded a review of incident reporting systems countywide. Our objective was to determine if incidents that could cause harm to consumers and staff are reported accurately and timely to effect meaningful intervention.

We concluded the departments implemented incident reporting systems, trained staff to report incidents, and staff generally complied with departmental procedures. The audit recommended management use trend analysis techniques to enhance their quality control. Such analysis would allow managers to identify broader issues such as problems with staff, consumers, programs or providers.

The County Manager and department directors agreed and initiated corrective action.

Public Works Fund

The audit objective was to review Public Works Fund management and internal controls and determine if the fund is managed effectively and efficiently and in compliance with County and departmental policies and procedures.

We found no evidence in our audit work to indicate the Public Works capital and small equipment inventory listing or processing of expenditures were inaccurate. We determined the County needs a policy or procedure for contributions to non County organizations since a donation was made without authorization or approval. Better management of petty cash was needed to eliminate risk of theft.

The County Manager and department director agreed and took corrective action.

Appendix B – Memorandum Reports Issued January 2007-December 2007

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

Public Works Petty Cash Management

The petty cash fund contained too high of a balance because of inappropriate expenditures from the fund for expenses that should have been reimbursed through the normal fiscal reimbursement policies. Fund controls during off season months needed strengthening. We recommended elimination of the fund. The department reduced the size of the fund and instituted proper off season controls.

Department of Corrections Medication Controls

There were insufficient controls over medications administered at the Adult Residential Center. Controlled substances were not segregated from other medications and medications were administered by untrained staff. We recommended immediate establishment of controls similar to those in the Juvenile Division to eliminate the risk of theft and improper administration. The department took immediate corrective action.

Department of Corrections Key Controls

The system for recording and tracking facility keys at the Adult Residential Center had broken down. Inventories were not complete and there was uncertainty as to who had keys. This included uncertainty over departed employees. We recommended immediate action be taken to account for and control all facility keys. The department took immediate corrective action.

Library Accounting Management

There was a lack of separation of duties, awareness of proper fund accounting, awareness of financial entity, and submission of incomplete financial reports and late submission of such reports. We recommended the Librarian seek assistance in obtaining the required accounting expertise to manage the Library finances.

Appendix C - Reports Released January-December 2007

Performance Audits

Library Special Use Fund—January 2007
Management of Incident Reporting Systems—January 2007
Public Works—April 2007
Self-Insured Health Care Plan—May 2007
Employee Take Home Vehicles—June 2007
Department of Corrections—December 2007

Special Memorandums

Public Works Petty Cash Management—March 2007
Corrections Medication Controls—April 2007
Corrections Key Controls—May 2007
Library Accounting Management—October 2007

Status Reports on Implementation of Recommendations

4th Quarter 2006—Jan 2007
1st Quarter 2007—April 2007
2nd Quarter 2007—July 2007
3rd Quarter 2007—October 2007

Appendix D - County Auditor's Staff

William Miller, County Auditor

Certified Internal Auditor
Certified Government Financial Manager
B.S. in Business Administration (Accounting)
Masters in Government

John Middleton, Senior Auditor

Certified Public Accountant
B.S. in Accounting
Masters in Fine Arts

Michelle Holland, Staff Auditor II

Certified Fraud Examiner
B.A. in Criminal Justice

Patrick McQueen, Staff I Auditor

B.S. in Public Administration
Masters in Public Administration