



Johnson County Auditor
Johnson County, Kansas
PERFORMANCE AUDIT

April 26, 2007

Public Works Fund Audit

*“Public Works Department effectively processed financial transactions and
maintained accurate inventory records”*



Johnson County Audit Services

April 26, 2007

To: The Johnson County Board of County Commissioners
Michael Press, County Manager
Mac Andrew, Director of Public Works

In accordance with the approved audit plan, we performed an audit of the 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. (See page 1)

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. (See pages 4 and 6)

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards, except that Peer Review has not been performed. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence that provides a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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County Auditor

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Public Works Fund

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RESULTS AND RECOMMENDATIONS

1. Public Works Follows County Policy and Procedures for Inventory and Expenditures

We found no evidence to indicate the Public Works capital and small equipment inventory listing was inaccurate. Our review of the Public Works inventory sample indicates the department complies with County inventory policies and procedures. All inventory reviewed was located and accounted for. In addition, we found no evidence of significant expenditure processing errors in the Public Works Fund. Sample testing indicates the department complied with County policies and procedures when processing Purchase Card and Oracle expenditures.

Management Comments

Management appreciates the positive comments

Discussion

Inventory

County policy requires all departments and agencies to record and maintain a physical inventory of assets in its possession that have a cost of \$1,000 to \$10,000 and useful lives of less than 6 years. Capital assets, assets with a cost exceeding \$10,000 and useful lives exceeding 5 years, are recorded in the County's Fixed Asset system. Assets with a value of less than \$1,000 should be inventoried as needed for the prudent care of county funds and property. In addition, periodic physical inventories are required.

We tested a statistical sample of inventory consisting of 166 small equipment items and 25 capital assets. All of the items tested were located or accounted for accurately. A physical inventory occurs annually on small and capital equipment. Timely updates to inventory listings take place with the purchase, transfer or disposal of equipment. Public Works maintained an accurate capital and small equipment inventory listing due to compliance with the County and departmental policies and procedures.

Purchasing Card Expenditures

County departments and agencies are obligated to follow County expenditure policies and procedures. When possible, County guidelines recommend the use of Purchasing Cards as an efficient means to reduce the processing cost of procuring goods and services. Public Works made 9,056 transactions expending over \$7 million from January 1, 2005, through October 31, 2006. Purchasing Cards account for 70 percent of the total number of transactions, with an average purchase of \$152. We tested a statistical sample of 205 Purchase Card transactions totaling \$42,199.46 and found no evidence of significant processing errors. Public Works abides by County and department Purchasing Card policies and procedures.

Table 1.1 Breakdown of P-Card & Oracle Expenditure Transactions

Transaction Type	Total Transactions	Percent of Transactions
Purchase Card	6,355	70
Oracle Expenditure	2,701	30
	9,056	100

Source: CAO Analysis¹

Oracle Expenditures

Public Works Oracle Expenditures comprise 30 percent of total department transactions and average \$2,246 per expenditure. We tested a statistical sample of 84 Oracle expenditures totaling \$117,006.14. Sample tests sought to ensure:

- Expenditures were made by an authorized purchaser,
- Compliance with individual authorized spending limits,
- The expenditure follows County purchasing policy for purchases of supplies, materials, equipment and contractual services whose cost is \$10,000 to \$100,000 by seeking open and competitive procurement including quotations, informal bids, formal bids, RFP or other,
- Purchases of goods or services in an amount of \$100,000 have Board of County Commission approval.

We found no evidence of significant error in the processing of Oracle expenditures in the Public Works Fund. The department complies with County financial and purchasing policies and procedures.

¹ Total Public Works Fund transactions from January 1, 2005 to October 31, 2006.

2. Donation to a Non-Profit Organization was an Unauthorized Expenditure

Public Works donated \$7,500 to the American Public Works Association (APWA) to support their 2006 National Convention. The APWA Expo Committee made the commitment to hold the event in Kansas City, Missouri based in part on the donation from Johnson County. The Director of Public Works said the convention's draw of over 7,000 people from all over the country benefited the economy. However, this contribution did not support the mission of Public Works and lacked specific budget authority. The County does not have a procedure for obtaining formal approval for donations to non-profit organizations. Lack of an approval procedure creates potential for the misuse of taxpayer funds to support events that do not directly benefit the County.

Recommendations

We recommend the County Manager:

2.1 Develop a procedure for which:

- Clearly defines the circumstances under which donations of County funds may occur,
- Provides a system of checks and balances to ensure County funds are not unilaterally donated without board approval, and
- Ensures donations directly benefit Johnson County.

Management Comments

Concur. The County Manager will prepare a procedure.

In 2006, Kansas City was asked to host this national congress because New Orleans was unable to host due to the devastation of hurricane Katrina. Kansas City was chosen to host because a highly successful congress had been held in Kansas City in 2002. A sponsorship from the public works operating fund was made to the 2002 congress after conferring with the county manager.

The 2006 congress brought almost 7,000 members from around the country to the metro area. However, the planning period for the event was only 9 months compared to the standard 3 year planning time. The public works director served as co-chair for this national event and was responsible for over 20 committees. Many of the metro cities and counties that contributed to this event in 2002 were contacted for sponsorships again.

As a sponsor, Johnson County was allowed to send as many of our employees as desired to the conference for one day at no charge to view new equipment and to attend technical sessions for continuing education credit. A vendor booth was also provided to the "JO" to distribute information to attendees.

In closing, it is hard to put a value on this donation as it was more of a metro wide team effort to attract a national congress with 7,000 people coming to this area to stay in hotels, eat at restaurants and shop, resulting in increased sales tax revenues. National congress opportunities

are rare as this business is competitive, but certainly brings much reward to our metro area. Johnson County and its cities played a role in this success.

Discussion

APWA National Congress and Exposition

The APWA holds an annual National Congress and Exposition. The 4-day event includes a series of educational seminars, exhibition booths and an equipment trade show. APWA originally planned to conduct the National Congress in New Orleans, Louisiana but had to change venue because of a hurricane. As a result, the Congress took place in Kansas City, Missouri on September 10-14, 2006.

The local APWA chapter of each host city is responsible for financially supporting the Congress. The national association warns, “Hosting a Congress requires a good deal of money no matter how you look at it.”² To help fund the Congress, APWA encourages local chapters to seek donations. The Public Works Director, in his role as General Vice Chairman of the APWA Congress Steering Committee, was in charge of the national fund raising effort for the Association, which included the \$7,500 donation from Johnson County. In exchange for the contribution, Johnson County received a certificate of recognition and floor passes to the convention’s trade show.

The Director donated the money without obtaining approval from the County Manager or the BOCC.

A policy would increase the transparency and accountability of donations

The ability for department directors to donate County funds without a public vote or specific budget authority creates the opportunity for future misuse of taxpayer dollars. Formal approval of transactions of this type increases the transparency and accountability of public fund donations to third parties. For example, the City of Overland Park contributed \$7,500 to the 2002 APWA Congress but the city council approved the contribution. Johnson County would benefit from a procedure that requires prior approval by the County Manager or the BOCC.

² Shilling, Joel, G. (2005), “*So you want to host a Congress?*” APWA Reporter, March 2, 2005.

3. Petty Cash Fund Represents Unnecessary Risks

The Department of Public Works uses a petty cash fund instead of participating in the County's automated employee reimbursement system. The current petty cash system does not have proper internal controls. The department used the petty cash fund for reimbursement because senior managers did not believe employees would use the automated system enough to warrant training for the system. As a result, the funds are at risk.

Recommendations

We recommend the Director of Public Works:

- 3.1 Discontinue the use of the petty cash fund for employee reimbursement and reduce the petty cash fund.
- 3.2 Include internal controls in the procedures for the \$50 cash box, such as surprise cash counts and occasional checks to ensure the drawer where the cash box is kept is locked when the cash box is not being used.
- 3.3 Return the \$50 cash box to the petty cash safe during the winter months when sales of chemicals do not occur.

Management Comments:

Management concurs with all recommendations and has implemented the following changes. The petty cash fund has been reduced to \$50 and will be used only for reimbursement for postage. iExpense or check request will be used for the other types of allowable reimbursables. The \$50 cash box used in the Noxious Weed Control office is locked in a drawer when not in use. Finance procedures have been updated to include the cash box. Cash counts on these funds will be made on a regular basis during the year, probably bi-monthly and confirm that the drawer is locked. When the cash box is being used, it will be counted daily.

Discussion

Petty Cash Fund and iExpense

Public Works has \$450 in petty cash; \$400 is used for expense reimbursement and small cash purchases and \$50 is used to make change for the Noxious Weed Control division sales of chemicals.

Petty cash funds were originally established to provide cash to employees for purchasing small dollar items that require cash. Since the petty cash policy was last revised, the county's business practices have changed. Office of Financial Management (OFM) purchasing division now recommends petty cash funds to be used only for postage due and small books of stamps. Employees' reimbursements are to be handled through iExpense or a check request. iExpense is the Oracle system used for employee reimbursements and a check request can be processed if

iExpense is not available. OFM also encourages P-Card use for small expenses wherever possible.

Public Works use of petty cash

In the past 2 years, the Department of Public Works spent \$2,039 through petty cash. Most of the purchases were for non-travel related lunches, parking and tolls, which would be considered employee expenses. Purchasing cards could have been used for many of these purchases. Purchases that required cash should have been reimbursed through iExpense or check request.

The following table shows the types of expenses reimbursed from the petty cash fund:

Table 3.1: Petty Cash Reimbursement 2005 - 2006

Reimbursement Type	Number of Transactions	Dollar Amount	Percent of Total
Local Meals	60	\$ 1,283	63
Miscellaneous ¹	25	375	18
Parking & Tolls	41	330	16
Travel Meals	5	37	2
Postage	3	14	1
Total	134	\$ 2,039	100

Source: Audit Services Analysis

¹ Miscellaneous items included: greeting cards, auto parts, batteries, permits, license plates, and a parade registration.

The top three Public Works officials accounted for 32 (24%) of the 134 total reimbursements and \$501.92 (25%) of the amount reimbursed through the petty cash fund. Purchases reimbursed through the petty cash fund by these officials have no supervisory review or approval. The iExpense system has built in controls that require supervisory approval for expense reimbursements.

We conclude the \$400 portion of petty cash is no longer needed. Postage can be easily accommodated in the remaining \$50.

Petty cash reconciliation procedures

The \$50 portion of the fund used for a change fund was not included in the procedures for reconciling and monitoring petty cash.

According to the Chief Financial Officer (CFO), there was no reason why the \$50 cash box was not included in the Public Works procedures. The cash box had been overlooked during the creation of the procedures and the CFO did not feel that the \$50 maintained in the cash box was a great enough risk to spend the time and money including it in the monthly petty cash fund reconciliation or audit.

Petty cash requires additional internal controls, which should include:

- Testing the drawer to ensure that the cash box is locked in the manager’s office

- Surprise cash counts on a quarterly basis
- Daily counting of the cash box when it has been used
- Locking the cash box in the petty cash safe in months it is not in use

The internal controls should be included in the written procedures to reduce current risks in cash management.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

The audit objective was to review the Public Works Fund and related internal and management controls to determine if the fund is (1) managed effectively and efficiently and (2) used in compliance with applicable policies, procedures and statutes.

Scope and Methodology

In order to accomplish these objectives we reviewed:

- 1) Applicable county-wide and departmental policies and procedures,
- 2) A random sample of expenditures which included P-Card purchases, as well as purchases over and under \$10,000,
- 3) A random sample of small and capital equipment inventory,
- 4) Department training documentation, policies and procedures, and
- 5) Applicable Kansas statutes.

Our period of audit included transactions from January 1, 2005, through October 31, 2006. We interviewed management and staff members to obtain an understanding of management and internal controls.

Our audit included gaining an understanding of the APWA Rodeo competition and reviewing its associated costs to Johnson County. To accomplish this, we conducted interviews with appropriate department staff members, reviewed daily work and time sheets, and calculated equipment usage and personnel costs.