



# Johnson County Auditor

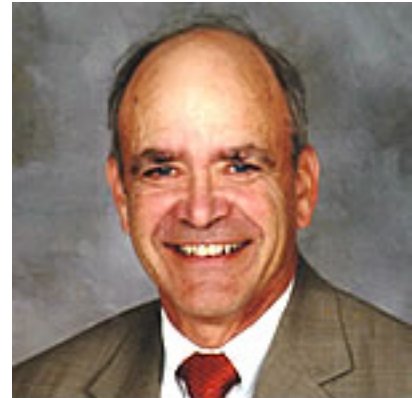
Johnson County, Kansas

**2008**

**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. Auditors focused on management control systems that would serve as the bellwether for top management in identifying problems and crafting remedies. All of the audits identified major improvements that could be made to assist top management in performing the organization functions effectively and efficiently.

We issued three audit reports, five special memorandums and four recommendation implementation follow-up reports. Audits in the Library and Public Health Department were transition audits. These audits focused on management control and reporting in departments with recent changeovers in top management. An audit at the Mental Health Department examined the management control structure and selected programs.

During this reporting period, we made 97 recommendations for improvement and the County Offices and Departments agreed with 87 for a 90 percent concurrence rate.

Key recommendations in the audit reports related to appropriate management of funds, conflicts of interest, identification and collections of money owed the County, effective use of resources, drug controls, and management control structures for directors and senior managers. (*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. One open recommendation is still outstanding after 2 years. The policy created to respond to the recommendation is in County Counsel for review.

We estimated the quantifiable cost effect from our audits to be \$2,810,507. 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 \$17,953,612.

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*

<b>Audit Products</b>	<b>Number Issued</b>
Formal Reports	3
Memos	5
Follow-up Reports	4
<b>Total</b>	<b>12</b>

<b>2008 Recommendations</b>		
	<b>Number</b>	<b>%</b>
Agreed	87	89
Disagreed	10	11
<b>Total</b>	<b>97</b>	<b>100</b>

<b>2008 Cost Effects from Audits</b>	
	<b>Amount</b>
Questioned Costs	\$ 60,315
Cost Avoidance	725,599
Funds at Risk	222,613
Waste	640,264
Efficiency	93,934
Unachieved Savings	360,291
<b>Total</b>	<b>\$2,103,016</b>

<b>2004-2008 Recommendations</b>		
	<b>Number</b>	<b>%</b>
Agreed	238	96
Disagreed	11	4
<b>Total</b>	<b>249</b>	<b>100</b>

<b>Audits</b>	<b>Staff Hours</b>	<b>Average Standard</b>	<b>Average Hours</b>
<i>Library Transition</i>	1,061		
<i>Mental Health</i>	2,218		
<i>Public Health</i>	2,593		
<b>Total</b>	<b>5,872</b>	950	1,957

<b>Audit Expenses</b>	<b>Amount</b>
Staff	\$420,181
Contract Services	13,364
Equipment	15,144
<b>Total</b>	<b>\$448,689</b>

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## MISSION AND GOALS

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### **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.<sup>1</sup> A follow-up audit is a performance audit that determines the progress made in addressing findings identified in previous audits. Performance audits include

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<sup>1</sup> 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.

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## OFFICE OPERATIONS

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### ***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 5 full-time positions: the County Auditor, 2 Senior Auditors, 1 Staff Auditor II, and 1 Staff Auditor I. Staff members have at least Bachelor's degrees in Accounting, or Criminal Justice. 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 \$448,649 during this report period.

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## PROFESSIONAL DEVELOPMENT

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### **Summary**

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

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

### **Education**

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

All staff members are active in professional organizations either by attending events or serving on Governing Boards. Professional organizations include: Kansas and Missouri Societies of Certified Public Accountants, Institute of Internal Auditors, Association of Government Accountants, Association of Certified Fraud Examiners, Mid-America Intergovernmental Audit Forum and Association of Local Government Auditors. The County Auditor is on the Kansas City Chapter Association of Government Accountants Board, Mid-America Intergovernmental Audit Forum Board, and National Intergovernmental Audit Forum Outreach and Awards Committee.

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 has published articles in professional publications.

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## PERFORMANCE MEASURES

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### **Outputs**

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

We issued 12 audit products during this period.

<b><i>Audit Product</i></b>	<b><i>Number Issued</i></b>
Formal Reports	3
Memos	5
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 **95** 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.<sup>2</sup> We track recommendations and report the progress toward implementation quarterly.

During this report period we obtained agreement with **89** percent of our recommendations. All recommendations reported as implemented were implemented within 2 years. One recommendation is still open after 2 years.

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<sup>2</sup> The 2-year period was established because oftentimes the more complex recommendations cannot be implemented immediately. Further review and evaluation is needed and development of systems may require extended timeframes before the recommendation is fully implemented.

We have a goal to accomplish audit work within 950 hours. This goal will be reevaluated as experience is gained in conducting the work. The increase is due to the types of issues we are discovering in our audits and the staff time needed to fully develop them. This allows us to present meaningful and helpful recommendations going forward. We expect that in the coming years the audit work goal will be closer to 1,200 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.

Unachieved Savings—Identified savings departments chose not to implement

<b>2008</b>	
<b>Cost Effects from Audits</b>	<b>Amount</b>
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Waste	640,264
Efficiency	93,934
Unachieved Savings	360,291
<b>Total</b>	<b>\$2,103,016</b>

Source: Auditor calculations

**Questioned Costs:** Represents unnecessary petty cash accounts in Mental Health, improper use of grant money for renovations, and duplicate charges to a grant in Public Health.

**Cost Avoidance:** Represents losses on book sales at the Library and excessive costs for services to community providers in Public Health.

**Funds at Risk:** Represents vulnerability to theft and misuse of pharmaceuticals in Mental Health and furniture purchase and deposit discrepancies in Public Health.

**Waste:** Represents purchase and non-use of computers by Public Health including loss of two of the computers, uncollected accounts receivables and amounts not billed to clients.

**Efficiency:** Represents lost earnings on investments at the Library and savings to be achieved by using the County's I-Expense for employee reimbursements at Mental Health.

**Unachieved Savings:** Represents cost of space provided to Friends of the Library, cost of leased space, and staff and space support to the Library Foundation.

***Client  
Relations***

The County Manager and Department Directors have been 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 Manager was responsive to quick reaction and advisory memos issued at the point of discovery of a problem. 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. Some of the audits were at departments with separate governing boards. Meetings with these boards were collegial, but not always productive. This resulted in some of the unachieved savings reported in this report.

## **Appendix A - Formal Report Synopsis**

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### **Library Transition Audit**

The County Auditor conducted the audit with a view toward evaluating operating practices and, where applicable, identifying alternatives that would help the Librarian in program management. In some instances, we identified opportunities for collaborating with the County to use available resources, thus saving library resources, while at the same time maintaining the independence of the Library decision-makers.

Better management of finances and business practices would allow cost savings in the Department. Accounts receivable needed to be collected and the Library did not need to subsidize the Friends of the Library,

### **Department of Mental Health**

Our results show the Center had good management control over inventory and assets, contracts, purchasing card purchases and expense reimbursement. We identified opportunities for improvement in the following areas:

- Upgrading the Electronic Medical Records Software
- Prescription drug controls
- Management of client funds and communications with clients
- Management of employee performance appraisals
- Compliance with Center procedures for obtaining employee background checks
- Increased use of Purchase Cards to reduce or eliminate numerous petty cash accounts
- Management of client accounts receivable

### **Public Health**

This audit reviewed the overall management practices of Johnson County Health Department and the status of the department after a management change. The audit reviewed department-wide practices and procedures for compliance with laws, rules, and regulations as well as County policy. We reviewed transactions for the period 2006-2007.

The audit identified a need to implement a management control system and department-wide policies and procedures. There were inconsistencies in program management between divisions, lack of knowledge on managing finances and grant money, and inconsistencies in identifying and collecting revenues. Top management needed to set the example of leadership for subordinate directors and staff that will

ensure efficient and effective management practices. Many of the areas included in our scope of audit could not be thoroughly reviewed for lack of documentation, and policies and procedures that would guide staff. Some of our results were based on interviews without corroborating documentation because there was no documentation.

## **Appendix B – Memorandum Reports Issued January 2007-December 2007**

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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.

### **Accounts Receivable Reporting**

We have noted in several recent audits that the Accounts Receivable amounts reported by departments and agencies to OFM for financial reporting purposes have been substantially understated. In our audit of Library operations we found \$2.5M in Accounts Receivable and the Library reported no Accounts Receivable. Library staff was unaware of the balances and did not attempt to make a calculation because they misunderstood the requirements for reporting. Our audit of Mental Health reveals that the methodology used to determine Net Accounts Receivable does not rely on GAAP basis posting of appropriate revenue and a consistently applied calculation of the Allowance. Mental Health reported \$52,000 in Accounts Receivable at the end of the 2007 year and our calculation shows that the actual net amount is closer to \$1M. (We can only estimate this amount because the calculation of Accounts Receivable cannot be clearly established from the records provided by Mental Health. Mental Health provided two separate amounts for net receivables - \$52,000 at year end and \$157,000 during the audit.)

We have also seen several instances where departments have sales activity but do not report any accounts receivable – JCDS and Public Health.

### **Department of Health Care Verification of Dependents**

The County does not require verification for the status of spouses or dependents covered under the health care plan. We also understand that verification (marriage license, birth certificate, etc.) is required for those changing their plan outside the open enrollment period (family status change).

We believe there is some risk that the County's health care plan may be covering individuals who do not meet the plan requirements.

### **Record Keeping for Assets Acquired Through Grants**

Public Health is not aware of the requirements for handling assets purchased with federal grant money. There was no specific procedure in place to keep track of assets purchased with federal grant money. There was a lack of inventory for fixed assets

purchased with federal grant money. This also applies to assets which have been transferred from the original department receiving the grant to another department. Public Health purchased computers with federal grant money and transferred some of them to Emergency Management. Public Health is required to maintain an inventory of these computers or ensure the receiving agency does so. (Sub-recipient monitoring).

### **Delinquent Performance Reviews**

We identified an issue regarding retro raises at the Department of Mental Health. We determined that 60% of the performance evaluations due employees were late and some were as late as 18 months. To make this determination, we worked with Oracle and got a database of employees who had late appraisals countywide from which we selected Mental Health employees. Countywide—34% of evaluations are late. The range of percentage late is from 87% late to 100% on time (Legal department). The average number of days late was 34.

### **Utility of Performance Measures**

In the last three departmental audits, a review of the performance goals, effectiveness and efficiency measures reported showed submissions have been incomplete, inaccurate, and basically not helpful in the management process. We have commented accordingly in the three audit reports.

## **Appendix C - Reports Released January-December 2008**

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### **Performance Audits**

Library Transition—January 2008  
Department of Mental Health—June 2008  
Public Health—December 2008

### **Special Memorandums**

Delinquent Performance Appraisals—March 2008  
Reporting Accounts Receivable—May 2008  
Health Care Verification of Dependents—May 2008  
Record keeping for Assets Acquired through Grants—August 2008  
Utility of Performance Measures—September 2008

### **Status Reports on Implementation of Recommendations**

4<sup>th</sup> Quarter 2007—Jan 2008  
1<sup>st</sup> Quarter 2008—April 2008  
2<sup>nd</sup> Quarter 2008—July 2008  
3<sup>rd</sup> Quarter 2008—October 2008

## **Appendix D - County Auditor's Staff**

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### **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

### **Ken Kleffner, Senior Auditor**

B.S. in Accounting  
MBA in Accounting

### **Michelle Holland, Staff Auditor II**

Certified Fraud Examiner  
B.A. in Criminal Justice

### **Lynn Smith, Staff I Auditor**

B.S. in Accounting