



Johnson County Auditor
Johnson County, Kansas
PERFORMANCE AUDIT

July 30, 2009

Review of District Attorney's Financial Practices

Internal policies, procedures and training will help ensure consistency in financial accounting.



Johnson County Audit Services

July 30, 2009

To: The Johnson County Board of County Commissioners
Steve Howe, Johnson County District Attorney

In accordance with the approved audit plan, we performed an audit of the transition of District Attorneys. The newly elected District Attorney requested us to focus the audit on financial procedures, practices, and internal controls. Our objectives were to determine if (1) accounting transactions were processed in accordance with Generally Accepted Accounting Principles (GAAP), (2) staff had the appropriate skills and competencies to manage the finances, and (3) funds were properly safeguarded.

Significant improvements can be made in management of finances. The staff managing the finances is not properly trained in accounting principles and consequently did not comply with many of the tenets of those principles. Some funds were vulnerable to fraud, not all documentation required to support payments was acquired, and financial statements were not accurate because expenditures were not charged to proper accounts.

The District Attorney stated: "As noted in the report provided by Audit Services, the District Attorney's Office has never undergone an audit of financial practices. As the District Attorney, it is my intention to manage an organization that is transparent to taxpayers and in line with County policies and procedures. It is my intention to comprehensively review all internal processes, procedures, and other controls. To that end, the work of Johnson County Audit Services has proven beneficial. The time spent by that office to review processes and prepare this report is appreciated."

Specific responses to the recommendations are included in management comments after each series of recommendations.

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 District Attorney's staff during this audit.

William D. Miller, CIA, CGFM
County Auditor

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Review of District Attorney’s Financial Practices

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Results and Recommendations

1. Key Recommendations

The current District Attorney, Steve Howe, took office in January of 2009. As part of the County Auditor's annual audit plan, a transition audit of financial management and practices was conducted. The District Attorney also requested the financial focus of the audit.

We looked at activity in the General Fund, the Forfeited Property Fund, and the District Attorney Training Fund managed by the District Attorney's office. We examined transactions from the years 2006 to 2008 which covered the two previous District Attorney administrations. We also looked at some transactions in 2009 to see if changes had been made.

We concluded the lack of written policies and procedures led to inadequate internal control functions, inconsistency in making routine decisions, and inconsistent processing of transactions. The lack of training and experience in accounting led to accounting errors and some failure to comply with County Policy, generally accepted accounting principles, and some statutory requirements.

Recommendations

Based on these main concerns we recommend the District Attorney:

1.1 Establish written policies and procedures to provide

- adequate internal controls over assets,
- guidance to staff in performing routine transaction processing, and
- adequate supervision and oversight.

1.2 Review the current position descriptions for financial staff and ensure that the requirements are met. This may include additional training or cooperation with other County departments, such as the Treasurer's Office, the Office of Financial Management, and Budget and Financial Planning.

Management Comments

1.1 The District Attorney agrees with key recommendation 1.1 and will continue work toward developing and implementing comprehensive written policies with the goal of completion by January 2010.

1.2 The District Attorney agrees with key recommendation 1.2 and will continue work toward reviewing position descriptions, staff training needs, and intra-County partnerships with the goal of completion by January 2010.

2. Additional Recommendations for Accounting Issues

DA Trust Account

There were weaknesses in the cash handling processes and procedures which could lead to inefficiencies and risk of loss. Lack of separation of duties, insecure storage of cash and lack of clearly defined and well documented procedures combine to reduce the likelihood that errors or fraud will be detected by staff in the course of operations.

- Cash was received in several locations within the office. The money is stored in locked cash drawers that are not secure. The keys to these cash drawers are held by the same people that receive the cash, count the cash, prepare the deposits, and make related accounting entries in the JIMS system. In most cases, the cash received is counted and then stored overnight in desk drawers and desk overhead compartments that, even though locked, are not secure.
- One staff person receives and counts cash, prepares deposits and has the ability to make adjustments to related accounting entries and payees in the JIMS system. The same staff person prints the checks for payment, has the ability to sign checks up to \$1,000 and reconciles the bank accounts. This person's supervisor does not review the bank reconciliations or payee documentation. If the DA's office moved its bank accounts to the same bank used by the County, the Treasurer's office could ensure proper bank reconciliations are performed and substantially increase internal control effectiveness.

Recommendations

We recommend the District Attorney:

2.1 Remove cash receiving from the DA office functions by having another department such as the Treasurer's Office or the Court Clerk accept and post payments to the JIMS system.

2.2 If cash receipts are not removed from the DA's office, we recommend the following steps be taken with the DA Trust Account:

- Combine all the cash receipt functions within the DA office to one location.
- Make all deposits before close of business or find a secure storage location for cash in transit.
- Change the responsibility for signing checks to another member of the administration.
- Move DA Trust Account and Petty Cash accounts to the same bank as the County accounts for better use of services, such as reconciliation of bank accounts and secure courier services for deposits.
- Ensure there is supervisory review of the bank reconciliations if bank accounts and reconciliations are not moved to the County's bank.

Management Comments

2.1 Current staffing and security limitations inhibit the District Attorney's Office from implementing key recommendation 2.1 at this time. The District Attorney's Office will continue to explore other options to address the concerns expressed in this report.

2.2 The District Attorney agrees that cash management is an important priority to combat fraud. Some recommendations offered by the Auditors are not able to be implemented by virtue of staffing and other special limitations currently experienced by the District Attorney's Office. Steps have been taken to implement recommendations that are not precluded by these limitations.

Petty Cash Account

The petty cash account was not handled properly. The petty cash was partially kept in a checking account and partially in cash of indeterminate amounts. The account had never been properly reconciled and records for the account were only kept in a business check register within the check books. Electronic journals were not maintained to easily track outstanding checks, check payees, or voided checks. Petty cash checks were primarily used to pay

- vendors for small dollar transactions when P-Cards should have been used,
- employees for out-of-pocket purchases when iExpense should have been used,
- other courts for transcripts or records,
- sheriffs and local law enforcement to serve witnesses with subpoenas, and
- out of state witnesses requiring payment in advance, per statute, for travel and expenses while testifying.

Cash was used to pay for soft drink and vending machine items for witnesses while in the courthouse. However, staff often used money out-of-pocket for these expenses and asked for reimbursement from Petty Cash rather than using iExpense. Two staff persons kept their own personal bags of quarters to pay for soft drinks for witnesses, then requested reimbursement on a monthly basis instead of keeping a determined amount of quarters on hand within the petty cash.

Often, the out of state witness checks are not cashed and remain outstanding for years. The DA administration informed us when witnesses do not appear, they are sent notices that the check for the witness's fees should to be returned to the DA office. Most of the time, these checks are not returned. These checks remained on the books as outstanding until the book balance in the petty cash account got low, then staff "voided" the oldest checks and wrote the check amounts back into the balance. We found one instance where a check had been recorded as void and was cashed 6 months after it was written.

Toward the end of the audit, staff had begun to move toward reconciling the petty cash account, but did not provide a list of outstanding checks in their reconciliation. They still need to identify checks that are due to witnesses and checks to witnesses that did not show up or whose testimonies were cancelled. Outstanding checks that were voided but are due to witnesses and have been outstanding for a year will need to be escheated to the State Treasurer.

Recommendations

We recommend the District Attorney:

2.3 Reconcile and close the existing petty cash account and establish a new account under the imprest system, which requires the following steps:

- Designate one person to be responsible for the petty cash fund. If that person needs to be away from the office, have the fund counted and transferred to another person. Whoever is responsible for the petty cash fund should be personally liable for the money in the fund.
- Ensure the custodian of the petty cash properly reconciles the account monthly with the supervision of the custodian's supervisor.

2.4 Determine which outstanding checks over a year old have been voided but are due to individuals, escheat the amounts to the state treasurer according to KSA 58-3935 and KSA 58-3950.

2.5 Establish conditions on which checks are voided and ensure the proper supporting documentation will be maintained if outstanding checks are voided.

Management Comments

2.3 The petty cash account held by the District Attorney will be closed and re-opened with new controls in place as soon as possible.

2.4 The District Attorney believes property is not required to be escheated to the State when testimonial service has not been rendered. Though a review of checks issued continues, it is not believed that any witness fees are currently due to the State through escheatment.

2.5 These written procedures will continue to be developed in accordance with recommendation response 1.1.

Purchasing and Accounting Practices

The DA office does not follow County purchasing policy or preferred purchasing methods on a consistent basis. Analytical review of the DA's trial balances showed recurring purchases were not accounted for consistently.

We found the following issues with general purchasing:

- Employees' immediate supervisors were not the official approvers for purchases.
- Detailed receipts were not turned in with charges or requests for reimbursement.
- P-Cards, the county's preferred method for purchases under \$10,000, were not used as often as they could be.
- P-Cards and iExpense could have been used for 1,977 purchases instead of check requests and reimbursements.

We performed a statistical review of the DA's purchasing transactions through the County's Oracle Accounts Payable (AP) system, P-Cards, and iExpense.

- An accounting technician (who does not have the authority or the knowledge for determining reasonableness) was signing approval for expense reimbursements rather than immediate supervisors.
- Some P-Card purchases did not have any documentation of approval on the transaction logs, detailed receipts of what was purchased, or did not have any supporting documentation.
- Documentation for requesting approval for purchases was prepared after the purchases were made for 60 percent of the transactions made during our review period.
- In all but one of the hotel receipts, a total amount for the hotel charges with employee names were turned in as a receipt. These charges are paid through one P-Card (usually the accounting technician's), without confirmation from employees of their stay. Additionally, without detailed expenses for the hotel, it can not be determined if unallowable purchases were made, or employees incurred additional expenses for which they were already reimbursed or provided per diem allowances.

Trial Balance Review

- Recurring expenses were not charged to the same accounts consistently. Our review of the trial balance showed that in 1 year, a cost center showed no salaries, wages, benefits, or social security that had been charged to the cost center in prior years. However, health insurance costs were charged to that cost center in the year that no other personnel costs were charged.
- The DA's office pays annual membership dues to a non-profit organization that provides training. While quarterly training fees and training registrations are allowed to be paid from the restricted Prosecuting Attorney's Training (PAT) fund, annual membership dues are not allowed to be paid from the fund. In 2009, the 2009 annual membership dues to the organization were paid from the PAT fund. The payment process began at the end of 2008 and was not adjusted correctly, therefore the 2009 annual membership that should have been paid for from the General Fund appears in the 2008 trial balance for the PAT fund and was reported in that year's PAT expenditures.

Recommendations

We recommend the District Attorney:

- 2.6 Ensure procedures require proper supporting documentation and supervisory approval for purchases before they go to administrative staff for payment or purchasing.
- 2.7 Ensure internal procedures for purchasing match the county's purchasing preferences, using P-Card and iExpense instead of check requests and petty cash whenever possible for purchases.

Management Comments

2.6 The District Attorney will ensure procedures and policies are codified to ensure supervisory approval is attained for purchases. Supervisors will review and approve all requests for reimbursement submitted to the Accounting Technician. Improvements will continue to be sought regarding the attainment and retention of detail receipts for all purchases.

2.7 The District Attorney will ensure procedures and policies are codified to ensure preferred methods are used. The District Attorney will continue to use P-Cards as the preferred method of payment. The District Attorney also acknowledges that this practice is not always feasible due to staffing and vendor limitations.

3. Management of Cellular Phones

The County policy, in compliance with IRS regulations, requires that county owned phones assigned to employees be reported to OFM for tax withholding of tangible benefits. The DA's office owns four cellular phones which have been assigned to the White Collar Crime Unit investigators. Since April 2007, no one has reviewed the cellular phone bills for personal use and no withholdings have been taken from the employees assigned the phones. The DA's office has not reported the cellular phones to OFM.

Recommendations

We recommend the District Attorney:

- 3.1 Create and implement internal procedures for the assignment or loan of county owned cellular phones in accordance with county policy.
- 3.2 Report the amounts paid for the cellular phones to OFM for each employee assigned a phone based on the length of time they have been assigned so that the proper amounts can be withheld for tax purposes.

Management Comments

3.1 Steps have been taken to review cellular phone use and approval procedures.

3.2 It is the District Attorney's intent to comply with county policies and reporting requirements regarding cellular phone usage.

4. Management of Training Funds

We could not determine whether the Prosecuting Attorney Training (PAT) Fund was spent or reported to the Attorney General and legislative sub-committees as required by KSA 28-170a (b) which states:

Expenditures from the prosecuting attorneys' training fund shall be paid by the county treasurer upon the order of the county or district attorney and shall be used exclusively for the training of personnel in such attorney's office and costs related thereto. Annually, on or before March 15, each county and district attorney shall submit to the attorney general and the chairperson of the judiciary committee of each house, an accounting that shows for the preceding year the amount of fees paid into the prosecuting attorneys' training fund, the amounts and purpose of each expenditure from such fund and the balance in such fund on December 31 of the preceding year. The purpose for each expenditure shall specifically identify the person or persons for whom the expenditure was made and, where applicable, the time and place where the training was received. If any expenditure was paid to a nonprofit organization organized in this state of which the county or district attorney is a member, the county or district attorney shall include information on the training received for such expenditure which information shall show the persons receiving the training and the time and place thereof.

The DA pays a portion of the PAT fees received to a non-profit organization in return for in-state training of the attorneys in his office. The amount of fees paid to the non-profit range from 50 to 100 percent of the fees collected by the DA. This arrangement has been kept with the non-profit organization because it was believed to be the most beneficial use of the training funds received through the PAT Fund. However, based on the information provided to us by the non-profit organization, we could not determine

- if the training funds paid by the DA to the non-profit were used “exclusively for training”¹, and
- whether the level of detail required by the statute was reported to the Attorney General and legislative committees.

Recommendations:

We recommend the District Attorney:

- 4.1 Review the statute, expenditures and reports sent from the non-profit organization to the Attorney General on the DA’s behalf and determine if changes need to be made in the methods for reporting the revenues and detailed expenditures to the PAT fund in accordance with KSA 28-170a.

¹ KSA 28-170a (a).

4.2 Request an audit of revenues and expenditures of the non-profit organization to ensure the PAT fees paid to the organization by the DA office can be tied directly to training expenses for individuals.

Management Comments

4.1 The District Attorney has reviewed applicable statutes and will take steps to ensure compliance.

4.2 The District Attorney will continue to pursue open communications with the governing board(s) of State organizations to ensure statutory compliance.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

Review the operation of the District Attorney's office from a financial perspective and determine if (1) accounting transactions were processed in accordance with Generally Accepted Accounting Principles (GAAP), (2) staff had the appropriate skills and competencies to manage the finances, and (3) funds were properly safeguarded.

Background

The District Attorney is publicly elected in Johnson County. It is a partisan election and has been heavily contested over the past several years. Despite the various transitions of the office, we cannot find any history of a financial audit of the District Attorney's office in our audit archives.

Scope and Methodology

In order to accomplish the objectives we reviewed:

- Cash receipt procedures for DA Trust Account
- Petty cash procedures and transactions
- Purchasing transactions through petty cash, accounts payable, P-Cards, and iExpense reimbursement
- Fund and cost center trial balances from 2006 - 2008
- Equipment inventory

Scope Limitations

The scope of our review was limited to financial transactions at the District Attorney's request.

Computer Data

We used data from the County's Oracle financial and human resources system (Oracle), the DA's Justice Information Management System (JIMS), and other systems used to gather information and report on operations.

The Oracle system data has been validated by others as part of the annual audit process. We tested the information from JIMS 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 statistical sampling to select testing samples in a number of audit steps. Where statistical sampling was used, 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.