



**Johnson County Auditor**  
Johnson County, Kansas  
**PERFORMANCE AUDIT**

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**January 8, 2009**

**Johnson County Health Department  
Transition Audit**

*Management controls are needed to ensure consistent and efficient decision making.*





## Johnson County Audit Services

January 8, 2009

To: The Johnson County Board of County Commissioners  
Director, Johnson County Health Department

In accordance with the approved audit plan, we performed an audit of the Johnson County Health Department (JCHD). 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 department is implementing an information management system including electronic medical records that will be helpful in their day to day activities. Audit results also showed general compliance, with one exception, to purchasing procedures and appropriate contract provisions in external contracts.

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.

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 Center's staff during this audit.

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County Auditor

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# Johnson County Health Department Transition Audit

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## RESULTS AND RECOMMENDATIONS

### **1. Better Stewardship Would Result from An Effective Management Control System**

JCHD does not have an effective management control system to ensure senior management officials are aware of division operations. Consequently, a series of weaknesses and errors occurred in the management of services that could have been avoided with proper controls. Notable weaknesses found were:

- Lack of policies and procedures to guide management and staff in their duties,
- Lack of consistency in management operations across department divisions,
- Lack of effective communications,
- Inability to effectively manage change, and
- Ineffective assignment of management responsibilities and accountability.

We attributed the cause for these conditions to management not focusing on the administration activities of the department. The weaknesses noted resulted in a series of errors. Among them were:

- Lack of appropriate internal controls in some areas (Pages 3, 9, 21, 27, and 37)
- Lack of a consistent approach to revenue generating activities (Pages 13 and 31)
- Failure to report accounts receivables to Office of Financial Management (Pages 13 and 25)
- Failure to collect accounts receivables (Page 13)
- Failure to maintain a small item inventory leaving assets vulnerable to theft (Page 27)
- Erroneous budget submissions (Page 41)
- Lack of consistency in managing finances between divisions (Pages 13 and 21)
- Improper management of federal grants (Page 3)
- Incomplete management on software installation and the related resource allocations (Page 37)

### **Recommendations**

We recommend the Director, Johnson County Health Department:

- 1.1 Develop a management control system and convey its requirements to all division managers. This system should include policy and procedures for administering programs, developing budgets, and guidance for managing finances and assets.
- 1.2 Develop a management reporting system to ensure proper internal controls are in effect and monitored on a regular basis.

### **Management Comments**

- 1.1 *We agree with the audit recommendation.*

*We have begun to develop a plan to address the development of new policies and procedures, which includes staff training.*

*1.2 We agree with the audit recommendation.*

*New staff have been added to the departmental workforce and are assisting in compliance.*

### **Discussion**

Management control systems are designed to keep top managers aware of activities in the organization. They should include clear definitions of the responsibilities of management and staff, reporting mechanisms, and oversight measures to detect good or bad performance in the organization. Through this system, senior managers can keep their fingers on the pulse of the organization and make timely changes when necessary. As a first step, the organization should have a set of policies and procedures that guide the divisions' management. Such policies and procedures should include administration of programs from a fiscal perspective as well as a service delivery perspective and include responsibilities, authority, and accountability of key individuals in the division. The system should include a reporting vehicle allowing managers to evaluate accomplishments and identify areas where improvement is needed.

The organization needs structured guidance

One of the BOCC's major goals is stewardship of funds. At JCHD, we noted a general lack of knowledge about record-keeping and reporting requirements of public financing. In many cases, staff was aware of what was required and simply did not do it or the staff was unaware of the requirements and did not make themselves aware. Staff relied heavily on information that was transmitted by word of mouth ("KDHE said it was ok." or "A previous employee said to do it this way.") but did not consult readily available information, such as County policies and federal grant documents, to ensure compliance with County policy, federal regulations, or other laws, rules, and regulations that govern their actions.

To attain better stewardship, there should be a top down commitment to the goals and objectives of the BOCC. We noted a high employee turnover rate in the Division of Administration over the past few years. Some of the turnover was in key management positions which could have had an impact. However, management needed to ensure proper accounting processes during transitions of staff. A strong commitment to quality along with clear policies and procedures can mitigate the effects of staff transitions.

Audit results disclosed numerous weaknesses in administering division programs and funds that an effective management control system could have detected and avoided. During the audit, JCHD management hired a new Accounting Manager who has begun reviewing the issues we discussed and implementing some changes. The audit results and recommendations are discussed in the following sections of the report.

## **2. Grant Managers Lacked Appropriate Knowledge and Training**

JCHD staff did not institute adequate controls to ensure the Bioterrorism Preparedness and Response Program grant funds were properly used and accounted for. They:

- Improperly charged costs incurred in 2007 to the 2005/2006 grant period.
- Erroneously charged the Bioterrorism Preparedness grant twice for the same expense.
- Did not maintain an inventory management system for equipment items purchased with grant funds.
- Purchased some equipment items that are missing from inventory using grant funds.
- Maintained equipment items in inventory that are not usable.
- Could not provide supporting documentation for some capital expenditures.

These actions are the result of a lack of management attention and oversight and JCHD staff not having an understanding of grant management requirements.

### **Recommendations**

We recommend the Director, Johnson County Health Department:

- 2.1 Ensure JCHD staff involved in managing federal grants attend formal training in grant administration and management.
- 2.2 Ensure JCHD staff develop and institute operating procedures for the proper accounting and reporting of grant expenditures in compliance with federal laws, rules, and regulations.
- 2.3 Strengthen inventory management practices to include capturing key information, update inventory records more frequently, and institute periodic checks of items maintained.
- 2.4 Provide for a detailed audit of the grants expenditures and reporting for the 2006, 2007 and 2008 grant years.
- 2.5 Inform KDHE and the granting agencies of the questioned costs noted in this audit and the results of the recommended detailed audit.

### **Questioned Costs**

\$ 56,015 – 2005/2006 Bioterrorism Preparedness Grant (CFDA 93.283) – Amounts not expended within the grant period.

\$ 2,200 – 2006/2007 Bioterrorism Preparedness Grant (CFDA 93.283) – Amount duplicated from the 2005/2006 Grant

### **Management Comments**

2.1 *We agree with the audit recommendation.*

*Additional training and review is planned in conjunction with existing practice: to communicate with and receive more specific advance approvals from our assigned grant liaisons.*

2.2 *We agree with the audit recommendation.*

*We are in the process of initiating new procedures and will be incorporating state/federal consultation as needed.*

2.3 *We agree with the audit recommendation.*

*A new inventory system is already in the process of being implemented. We are using an existing inventory system and will be expanding its application across divisions within the department.*

2.4 *We do not agree with this audit recommendation.*

*We have consulted with the county's external auditor (Allen, Gibbs, & Houlik, LC) and with OFM. Current estimates to accomplish this work are between \$80,000 to \$100,000. Instead, staff has discussed these issues with the external auditor and he recommends that the external auditor perform a process check on Public Health's grant management system and then recommend process modifications that will allow leadership to address these issues from a management perspective in the future. Additionally, they would provide training for Division heads, Program Managers, and the Accounting staff, at a cost of \$10,000 and \$20,000. This recommendation helps Public Health staff address the systemic concern in the long term.*

**Auditor's Comment:** The cost involved needs to be evaluated in terms of the overall risk to the County. As long as that analysis has been evaluated and approved, the alternative proposed will be acceptable.

2.5 *We agree with the audit recommendation.*

*Pursuant to this audit finding, the KDHE was notified and this item is undergoing their final review.*

### **Discussion**

In 2007, JCHD received 14 grants which generated approximately \$3.1M in grant revenue. We limited our review of their grant management practices to selected financial transactions for the Bioterrorism Preparedness & Response grant for the 2005/2006 and 2006/2007 grant periods.

The Kansas Department of Health and Environment (KDHE) sponsors the Bioterrorism Preparedness & Response Program. KDHE receives funding from the Centers for Disease Control and Prevention (CDC), Department of Health and Human Services. The CDC awards grants to states, localities and territories, annually, as part of a national effort to enhance the security of the United States with respect to bioterrorism and other public health emergencies. Individual state governments allocate portions of their annual grant to local governments. Local governments accepting federal grant funding are required to comply with local governmental accounting and financial reporting requirements of the Governmental Accounting Standards

Board and Office of Management & Budget Circular (OMB) A-133 and its Compliance Supplement.

### 2005/2006 grant year

JCHD entered into a contractual agreement with KDHE to participate in the State’s Bioterrorism Preparedness and Response Program for the 2005/2006 grant period which had a specific term of September 1, 2005, through August 31, 2006. The contractual agreement required JCHD to attain significant achievement of work plan items defined by KDHE in support of CDC’s overall national objectives.

KDHE staff agreed to allow some of the 2005/2006 grant funding to be used to improve the work space for Emergency Preparedness personnel. KDHE staff authorized using grant funding for “Expenditures to remove the cube wall to rearrange the work area for the BT staff into a team environment.” In July 2006, KDHE approved spending 2005/2006 grant funds for this limited objective.

Staff did not appropriately use grant funds

Instead, JCHD staff spent \$56,015 from that grant period to remodel office space for the department’s Emergency Preparedness Program, Health Education and Women & Infant Children divisions. These expenditures were made to install new carpet and reconfigure existing office space and work stations. An itemization of these expenses follows:

**Table 2.1 – Public Health Expansion – Bioterrorism Grant**

Expense Type	Amount
Flooring	\$ 29,492
Systems Furniture	\$ 18,800
Architect Fees	\$ 7,723
Total	\$ 56,015

Source: Johnson County Health Department Grant Submissions

These expenses were questionable under the terms of the 2005/2006 Bioterrorism Grant for the following reasons:

- The expenditures were not made until December 2006, and January, March and April 2007<sup>1</sup>.
- About 65 percent of these expenditures did not comply with the restrictions approved by KDHE.

<sup>1</sup>KDHE’s Bureau of Waste Management’s “Guide to Completing an Affidavit of Expenditures Form” states projections or estimates cannot be claimed and requires receipts/invoices to be dated within the report period claimed.

The lack of knowledge of OMB Circular A-133 requirements and not having detailed policies and procedures on preparing and filing a claim for reimbursement contributed to the department's mismanagement of grant funding for this period.

### **2006/2007 grant year**

The contractual agreement with KDHE for the following grant period, September 1, 2006, through August 31 2007, had a work plan requirement to maintain an inventory control system for monitoring and tracking capital equipment and electronics purchased with grant funding. Additionally, OMB Circular A-133's Compliance Supplement dated March 2006, Part 3, Section F states:

Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

JCHD Emergency Preparedness staff maintained a partial inventory list of equipment items. The listing was not complete for the assets or the information about the assets. Updates to the list were not timely and staff did not perform physical inventories on a recurring basis.

Required inventory control system was not implemented

We tried to track 8 personal computers<sup>2</sup> to their physical location as a test of inventory practices for equipment transferred to the Johnson County Emergency Management and Homeland Security Department. Two computers could not be located by Emergency Management staff and the remaining six computers were never used. Emergency Management staff stated the computers were never suitable for their needs. JCHD Emergency Preparedness staff was unaware of the missing computers or the lack of utility of the remaining units because they did not maintain a robust equipment inventory management system and they did not monitor the activities of grant subrecipients as required by OMB Circular A-133<sup>3</sup>. Consequently, \$12,280 of grant funds were wasted.

### **Supporting documentation for equipment purchases must be retained**

A recurring KDHE work plan requirement each grant year was to retain copies of expenditure reports, including invoices for each capital<sup>4</sup> equipment purchase, for a period of at least 3 years. This provided KDHE and Kansas Legislative Post Audit with the ability to review documents or records relative to program performance. We selected supporting documentation for a capital purchase of Dell computers acquired in the 2003/2004 grant year for review. We could not locate

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<sup>2</sup> The computers cost an average of \$1,535 per unit.

<sup>3</sup> OMB Circular A-133's Compliance Requirement, Part 3, requires recipients of Federal awards to monitor the activities of sub recipients to ensure the awards are used for their authorized purpose in compliance with applicable laws and regulations. In this instance, Emergency Management became a sub recipient of a portion of the Bioterrorism grant award through acceptance of the personal computers and JCHD was responsible for monitoring their use.

<sup>4</sup> KDHE has defined a "capital" purchase as an item costing greater than \$500 and having a useful life of > 1 year.

all of the Dell invoices in support of this capital purchase. JCHD did not comply with KDHE's work plan requirement.

**JCHD's grant management cannot be relied on**

Based on our limited review of JCHD's grant management business practices, we believe these issues may be systemic throughout JCHD. Because record-keeping was poor or nonexistent, reimbursement requests were made without supporting documentation or an understanding of the requirements, and the lack of knowledge of grant requirements exhibited by JCHD staff, we were unable to rely on the grant information we saw. We believe this warrants a thorough, independent audit of all JCHD grant activities for the 2006, 2007, and 2008 periods.

JCHD grant management is at high risk

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### **3. Management Did Not Follow County Purchasing Policy**

JCHD management inappropriately authorized an override of County purchasing policy, procedure and protocol. Management authorized an employee to use \$5,950 in personal funds to purchase used furniture for the JCHD Wellness Center and reimbursed the employee through the employee expense reimbursement system. This is an unusual occurrence for acquiring county assets and was not a prudent decision. The management decision to allow this process was driven by their perception of:

- The cost savings they would achieve by purchasing the used furniture;
- The difficulties they were having in using County purchasing tools (P-cards) to complete the purchase; and,
- A sense of urgency in acquiring the furniture.

These perceived benefits were incorrect. A misunderstanding of the benefit of using County's term and supply contract, lack of willingness to use the County's purchasing process, and sales tactics that created a false sense of urgency led to a very risky situation. This process bypassed the internal controls inherent in the County's purchasing system and created vulnerabilities to fraud for the county.

#### **Recommendations:**

We recommend the Director, Johnson County Health Department:

- 3.1 Comply with County purchasing policy and procedures.
- 3.2 Establish departmental policies and procedures in support of and complementary to County policy and procedures.

#### **Management Comments**

*3.1 We agree with the audit recommendation.*

*We have already commenced discussions and further planning with OFM in addressing this area.*

*3.2 We agree with the audit recommendation.*

*We have already commenced discussions and further planning with OFM in addressing this area.*

### **Discussion**

#### **County Policies**

County policy 110.150:

County departments and agencies under the scope of this policy shall be required to make purchases from the County's term and supply contracts if an applicable term and supply contract exists for the goods or services required unless the purchase would otherwise qualify for an exemption under these Policies and the Purchasing Procedures.

This policy provides purchasing consistency and maximum savings throughout County departments and agencies by allowing vendors to bid on large purchase amounts. While individually lower prices may be obtained from time to time, the overall cost to the County of the combined materials in the term and supply contract is increased due to lowered volume. Numerous County term and supply contracts exist for the procurement of furniture.

County policy 110.120:

All elected officials, employees, agencies, departments, boards, commissions, representatives, and authorized agents of the County involved in the procurement process shall perform their duties impartially so as to assure fair competitive access to the County's procurement process by all responsible suppliers, contractors, and providers of services. Public purchasing is a public trust balancing the objectives of procuring needed goods and services with protecting the integrity of the County. Employees shall conduct themselves in such a manner as to foster public confidence in the integrity of the County's procurement process.

County Procedure 110.160(D)(3):

The appropriate method of acquiring goods and/or services on behalf of the County is through the use of the County Purchasing Card or a purchase order. These methods are directed by specific purchasing card guidelines and purchasing policies and procedures. They also have appropriate safeguards and tracking capabilities built in for the protection of both the County and the employee.

The purchasing card guidelines and purchase order terms and conditions require receipt of goods and services before paying the vendor.

### **Department developed a Wellness Center**

The Health Education (HE) division's mission is to promote healthy behaviors and prevent disease by distributing information and providing programs, events, screenings, presentations, classes, workshops, and professional training. During a strategic planning session in 2006, JCHD management decided to develop a Wellness Center. The original plans for the Wellness Center were to provide space for the public to receive wellness programs, educational classes, and health screenings for the prevention of diabetes.

The space for the Wellness Center became available to the HE division in 2007. The space included a medical exam/massage therapy room, a reception area, a storage room, and an exercise room. HE management decided to purchase furniture for the space before any actual programs were designed.

### **Perceived cost savings were used to justify circumventing County Policy**

HE management decided to purchase furniture because they had the money, but they did not have enough money to purchase new furniture. The staff located a vendor of used furniture who was not on the county vendor list.

HE management allowed an employee to use personal funds to purchase used furniture for the Wellness Center from a vendor known to the employee. The vendor was recommended by the JCHD employee who paid cash for the furniture and was reimbursed \$5,950 through an employee reimbursement. Thirty-five furniture items were purchased consisting of the following:

Furniture purchase decision led to abnormal events

- Office chairs (16)
- Leather office chairs (4)
- Upholstered chairs (6)
- Book shelf units (3)
- End tables (4)
- Coffee table (1)
- Round Conference table (1)

The furniture ranged in age from 2 to 17 years at the time of purchase. The six upholstered chairs cost \$200 each but were in poor condition. They required \$2,969 in re-upholstering, bringing their total cost to \$4,169 or \$695 per chair. In our opinion, comparable, new furniture could have been purchased for less using the County's established vendors.

County policy was breached at each step of the process:

- The purchase was not made from a term and supply contract when one was available;
- The purchase was not made through a purchase order or P-Card;
- The relationship between the department and vendor was not impartial; and,
- Payment for the purchase was provided to the vendor prior to delivery of goods/services.

The parties to this purchase had differing recollections of the purchase. We were unable to get a clear picture of the transaction although we met with all of the parties on several occasions. There were no clearly established reasons for the rush to purchase the furniture. In our opinion, the furniture was purchased based on sales pressure and a poor understanding of the County's purchasing policies and procedures. Clear departmental policies and supervisory review practices along with a separation of duties would have made this transaction much less likely.

A rush to buy was not necessary

The employee paid the vendor the day before the furniture was delivered to JCHD. County purchase order terms and conditions and P-Card guidelines require that the county receive goods/services before paying the vendor.

Over 16 months after the time of the purchase, the furnished space is used infrequently and the programs for which it was designed have not been offered. The reception area is full of furniture with little actual space remaining. One of the bookcases is used for an entertainment center complete with a LCD HDTV, DVD player and sound system and the other two have decorative plants and wine glasses displayed on them. HE staff maintained they were striving to achieve a “less clinical” feel to the Wellness Center addition and the layout was configured based on HE’s plans for educational programs, such as, massage therapy, bariatric counseling, and obesity management. In response to questions about recent use of the space, staff said the space was primarily used for departmental meetings and training, occasional vendor meetings, and as a passageway to other parts of the building. The Wellness Center has not supported any of its own programs yet.

JCHD staff did not contact the County’s Office of Financial Management (OFM) to determine if County policies were being violated. The Purchasing division could have instructed the department in making the purchase appropriately. This transaction represents poor management, budgeting, and purchasing controls within JCHD. The environment and circumstances surrounding the purchase left the department at risk for potential fraud or abuse.

#### **4. Department Maintained Inconsistent Billing Practices and Did Not Report Required Accounts Receivables and Write Off Amounts**

The department's billing and collection practices were inconsistent, outdated, and did not treat past due accounts equitably. The department did not report accurate accounts receivable and amounts written off annually to the County's Office of Financial Management (OFM). JCHD had the following specific issues with the financial management of billing, collections and accounts receivables:

- Divisions had separate billing and collection practices making it difficult to track accurate accounts receivables.
- All divisions' billings to clients and patients were done manually.
- Accounts receivable of over \$1 million in 2006 and \$1.2 million in 2007 were not reported to OFM.
- Accounts receivable of \$368,168 in 2006 and \$308,075 in 2007 were written off and not reported to OFM.
- A total of \$66,047 in 2006 and \$54,800 in 2007 in fees were never billed to clients based on JCHD staff determination of clients' confidential status.
- No efforts were made to collect past due amounts from patients.

The department lacked complete written policies and procedures for billing, reporting accounts receivable, or determining the amount of bad debt. There was no written procedure for determining the 'confidential' status of clients to ensure equity in patient billing. Department management had not performed an objective review of existing practices when transitioning from past management. This resulted in the understatement of accounts receivable in the County's financial statements and a loss of revenue where fees for services were not billed.

#### **Recommendations**

We recommend the Director, Johnson County Health Department:

- 4.1 Comply with GAAP requirements for revenue recognition and posting of accounts receivable.
- 4.2 Accurately report accounts receivable balances to OFM at year end.
- 4.3 Develop procedures for determining amounts to include in an allowance for uncollectible accounts.
- 4.4 Accurately report accounts receivables written off to OFM at year end.
- 4.5 Set up electronic interface capabilities in INSIGHT for billing purposes.
- 4.6 Centralize billing processing and consider other mailing alternatives.
- 4.7 Develop written policies and procedures for billing and collections including, but not limited to:
  - Determination of confidential status with supervisory review,
  - Procedures for billing confidential clients, and
  - Collections activities.

4.8 Document and collect past due amounts to the extent possible.

### **Management Comments**

4.1 *We agree with the audit recommendation.*

*This is in the process of being implemented through the Office of the County Treasurer.*

4.2 *We agree with the audit recommendation.*

*We have already implemented a monthly report process which informs OFM of AR balances as reconciled with Oracle deposits.*

4.3 *We agree with the audit recommendation.*

*An allowance policy has already been developed and presented to OFM.*

4.4 *We agree with the audit recommendation.*

*This is being reported at year-end to OFM. A policy to establish levels of authorization is in progress, so that amount thresholds can help determine write-off positions.*

4.5 *We agree with the audit recommendation.*

*This project has been prioritized and is next in our que[ue] system for installation.*

4.6 *We agree with the audit recommendation.*

*We have already completed a cost study which compared county print shop charges against internal labor costs. We are also in the process of determining the return on investment with our current bad debt write-off which should decrease the cost of sending out monthly statements.*

4.7 *We agree with the audit recommendation.*

*We have already modified our intake form to provide clearer terminology and are now requesting specific address information to better achieve this recommendation.*

4.8 *We agree with the audit recommendation.*

*The development of policies and procedures on the collection of past due amounts will be developed.*

*Along with most other public agencies serving at-risk, high-need clients, our practice has been to balance the community need to serve as a vital safety-net provider and the responsibility to serve as a steward of the taxpayers' resources. Determinations of fees for programs/services are developed through a formula involving source of funding, grant program requirements, and*

*promotion of the public's health and well-being. This philosophy has been reviewed by the Board of County Commissioners and is consistent with their stated goals.*

*We are working with the Kansas Set Off Program as an added means to be pro-active in this area.*

## **Discussion**

### **County Policy and Financial Guidelines**

County Financial Policy 100.3 states all agencies, departments, elected officials, boards, commissions, representatives, and authorized agents:

...will follow accounting principles generally accepted in the United States of America applicable to government units (GAAP), as promulgated by the Governmental Accounting Standards Board (GASB), in the preparation of the County's annual audited financial statements.

OFM developed Accounts Receivable Guidelines and Year End Closing guidelines to ensure county agencies and departments are following generally accepted accounting principles for reporting financial information. These guidelines require departments or agencies that bill for services to report all accounts receivable in aggregate over \$2,000 and all amounts written off. County financial data is reported in the Comprehensive Annual Financial Report, and the Schedule of Federal Expenditures of Federal Awards (Single Audit).

### **County, State, and Federal Billing Policies and Guidelines**

County Financial Policy 120.5 requires that whenever possible, county agencies and departments will establish fees for services to attempt to reduce the County's reliance on property taxes.

Kansas Department of Health and Environment guidelines require the public health departments receiving state funds make reasonable efforts to collect client outstanding balances.

Based on HIPAA regulations, 45 CFR 164.522, health care providers allowing confidential status of patients should have policies and procedures documented for designation of 'confidential' patients. Confidential patients are required to provide an alternative billing address to the provider. 'Confidential' status of patients does not exclude the provider from pursuing payment for services through billing.

County, State, and Federal policies and guidelines require Public Health Departments to collect on fees for service, whenever possible. This is done through the billing process and should be done equitably to all patients receiving services.

## Billing processes need to be consistent and efficient

Health Education (HE), Adult and Child Care Facilities (ACCF) and Administrative Divisions performed separate billing and receivable functions using inefficient manual processes.

HE billed for the following services:

- Continuing professional education (CPE) classes for nurses
- Human sexuality classes for families
- Wellness program coordination and health screenings for businesses and the county
- Ongoing educational programs for local employers
- Education and health screening for the Senior wellness program participants

Health educators or coordinators determined fees subjectively based on their own discretion for 3 out of the 5 services above. Participants receiving services had the opportunities to register and pay in advance, register and pay at the door, or show up at the event and be billed at a later date. Staff created invoices for services manually, when necessary. The division did not have any centralized system for billing or receiving; therefore, records were incomplete and accounts receivables could not be properly reported.

Fee setting and billing practices were inconsistent

ACCF billed for the following services:

- Child care provider license and registration fees
- Child care provider education classes
- Adult care provider educations classes

Management established set fees for services. However, these fees were not determined on a cost recovery basis. ACCF division had a centralized billing and receivable function with internal written procedures. The procedures instructed staff to bill for license and registration fees and educational classes every 2 months. Staff allowed child care providers' license and registration fee renewals to lapse for up to 2 months before they were billed. ACCF billing practices were inefficient and allowed child care providers to delay paying renewal fees for up to 2 months.

Fees assessed did not amount to full cost recovery

The Administrative Division's billing practices were cumbersome and inefficient. The Administrative Division performed all the billing for clinical and immunization services, which accounted for the majority of the department's revenue. Management had not developed written policies and procedures for these billing processes. The division's billing processes were as follows:

- Billing staff printed private pay billing statements for patients and sent them to the County print shop for folding.
- JCHD paid the print shop to fold billing statements and print envelopes.
- Billing staff then manually inserted statements into printed envelopes.

- JCHD paid for metered postage for mailing billing statements.

The department paid over \$18,600 per year for processing an average of 3,000 statements per month. In addition, billing staff were manually billing accepted insurance companies and Medicaid because the Department had not set up electronic interfaces between INSIGHT and major payors. Management should consider more efficient methods for billing such as setting up electronic interfaces within INSIGHT so major payors can be billed electronically. The electronic interface capabilities would allow the department to consider other more efficient methods of billing such as the centralized billing services provided by the County Treasurer.

Management did not establish a standardized billing process for the department. Divisions' staffs billed inconsistently and inequitably through processes that were cumbersome and inefficient. Management needs to review billing processes, establish written policies and procedures, and consider centralizing the billing process so billing is equitable, efficient, and accounts receivable can be reported accurately.

**Department management did not report accounts receivable and amounts written off according to County Policy**

Management did not report accurate accounts receivable or amounts written off for more than 5 years. JCHD accounts receivable balance due was over \$1,035,799 in 2006 and \$1,154,834 in 2007. The department wrote off but did not report accounts receivable of \$368,168 in 2006 and \$308,075 in 2007.

Accounting discipline was needed

Management continued past management's practice of not reporting any accounts receivable amounts. This was a violation of Johnson County policy and GAAP accounting standards. Management's failure to report accounts receivable and amounts written off at year's end resulted in an understatement of revenue each year.

Management did not review accounting practices within the department and has not developed written policy or procedures for determining bad debt. Over 50 percent of the total accounts receivable due in 2006 and 2007, was for past due amounts over 1 year old. Management should review the department's average collection of revenue and determine the appropriate time to write off uncollectible debt.

Management should develop appropriate policies and procedures to ensure accurate accounts receivable and amounts written off are reported at the year end.

**Department did not bill clients equitably**

Staff classified 11 percent of patients as 'confidential.' 'Confidential' status patients were never billed for services. Staff provided 'confidential' status based on patients' answers to the following question, "May we (JCHD) send mail, appointment and/or immunization reminders to the above address?"

If patients answered ‘no’, they were designated ‘confidential’ and never billed for services. The question was misleading because it:

- did not include any information about billing options to the patient,
- did not include any follow up questions to help staff determine if there were valid reasons for the patient to be given a confidential status,
- did not require patients to provide an alternative billing address.
- appeared to ask about matters irrelevant to the status of ‘confidential’ as described in the HIPAA regulations.

Management continued a past practice and did not review the process. Management did not develop any written procedures or criteria for providing patients with a confidential status or develop any alternatives for collecting fees for services from these patients. The confidential status determination did not have a supervisory review and approval.

Practices led to inequitable client treatment

HIPAA regulations provide health care providers with an exception to HIPAA restrictions when the provider is billing or attempting to collect fees for services. The exception also requires that patients provide an alternative address for billing if the patient does not wish to receive a bill at the home address.

Table 4.1 illustrates the total accounts receivable amounts billed and unbilled:

**Table 4.1 – Accounts Receivable – Billed Vs Unbilled**

Year	Billed	Unbilled	Total AR
2006	\$ 969,732	\$ 66,047	\$ 1,035,779
2007	\$ 1,099,699	\$ 54,772	\$ 1,154,471

Source: Audit Services analysis

Table 4.2 combines the billed and unbilled amounts that were written off with no report to OFM:

**Table 4.2 – Accounts Receivable Written Off**

Year	Billed	Unbilled	Total Written Off
2006	\$ 320,245	\$ 47,923	\$ 368,168
2007	\$ 272,370	\$ 35,705	\$ 308,075

Source: Audit Services analysis

Management did not attempt to collect accounts receivable or bill patients equitably.

**Department did not use Kansas Set Off Program**

Management did not make any efforts to collect past due balances beyond billing. Management considered Kansas Department of Health and Education (KDHE) instructions preventing public health departments from using collection agencies for family planning patients to be applicable to all of their collection activities.

Management could not provide any documentation restricting the use of collection agencies for immunizations or other clinical services patients. Top management said the department's practice was to avoid collection efforts in order to provide the public confidence in using the department's services. Failure to bill and collect can erode public confidence in government, and creates inequities in the delivery of services. The billing and collection processes are a normal part of business practice and should not cause the consumer to lack confidence in the services provided.

Collection philosophy is unsound

There are alternative collection procedures such as the Kansas Set Off Program and collections operations managed by the County Treasurer that may not be as unpleasant as some of the commercial alternatives.

The Kansas Set Off program is available for state and local government to collect on past due accounts. Government agencies provide a list of past due accounts to the Kansas Treasurer identifying the person and the amount owed. The Treasurer compares the list with payroll, refund and other pending payment files to identify those instances where setoff procedures may be implemented. The Kansas Treasurer will withhold the amounts due to the individual and disburse them to pay the unpaid debts. Management was unaware of the Kansas Set Off Program.

Management can improve their efforts in collecting past due amounts by ensuring all patients are billed equitably, making collection efforts, where appropriate, and turning unpaid accounts over to the Kansas Set Off program or other suitable collection procedures.

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## **5. Cash Management Can Be Improved**

JCHD had weak internal controls over cash receipts. The following issues were found:

- Department passed checks from division to division before depositing.
- Adult and Child Care Facilities (ACCF) division did not make deposits on a timely basis.
- Front desk supervisor did not monitor cashier functions sufficiently or ensure cash drawers were reconciled before providing cash to the accounting department for deposit.
- Accounting staff did not maintain cash drawer reconciliation reports longer than 6 months.
- Mission office did not date cash receipts on the actual date of deposit.
- Department did not record cash deposits in the County's financial system (Oracle) on the day of deposit.
- Department could not reconcile cash deposit receipts to cash drawer records and Oracle deposit entries.

Management did not review cash management processes and continued practices established under prior management. Management did not develop written policies and procedures for cash deposits and the written guidelines for the reconciliation of daily cash drawers were incomplete.

Of the 181 deposits we tested, 14 percent had errors that either could not be reconciled to the department's records or were out of compliance with County accounting policy. Weak cash management controls increased the risk of fraud, theft, and loss.

### **Recommendation**

We recommend the Director, Johnson County Health Department:

- 5.1 Develop written policy and procedures for cash handling, reconciliation of cash drawers and daily deposits which ensures:
  - All cash and checks are received for deposit at a central location at each office within a day of receipt.
  - The front desk supervisor reviews the daily cash drawer reconciliation and documents any discrepancies in the cash drawers before providing them to accounting for deposit.
  - All records related to cash deposits, including cash drawer reconciliation, Oracle deposit entry, and remittance information for Health Education (HE) and ACCF are maintained with the deposit receipts.
  - Deposits are made daily and deposit receipts are dated on the actual day of deposit.
  - Accounting staff at both offices records the daily deposit in Oracle on the actual day of deposit.

## Management Comments

5.1 We agree with the audit recommendation.

*These issues have been addressed and have been implemented. All documentation and training has been completed for the individuals that are performing these duties.*

## Discussion

### County Financial Procedures

Based on the Johnson County's Accounts Receivable<sup>5</sup> procedures, departments are responsible for:

- Developing written policy and procedures for billing, accounts receivable and deposit processes
- Depositing funds daily when receipts are greater than \$1,000
- Entering the deposit in the County's Oracle AR financial system on the day of receipt
- Retaining accounts receivable and deposit records according to County records retention policy<sup>6</sup>

Department staff is responsible for ensuring cash receipts are properly accounted for, and developing appropriate internal controls to reduce risks of fraud, theft and loss of cash receipts.

### Department cash receipt processes

Most of the department's cash receipts come from services provided by the Clinical Services and Immunization divisions. The Administrative division receives the payments and records are kept in the INSIGHT medical information system. Payments are received through the mail as billing remittances or through the front desk as fees for services.

The front desk staff count the cash, check and credit card charges in the cash drawers at day's end and reconcile these to service receipts, called 'encounters,' and/or manual receipts. Staff store the cash and receipts in a locked drawer in a secured inventory room over night. The following morning a front desk clerk reconciles the individual cash drawers to a master cash drawer report. The master cash drawer report reflects the total payments recorded in INSIGHT for the previous day's receipts.

Internal controls  
are weak and some  
are absent

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<sup>5</sup> Johnson County Financial Policies 120.14 reserved for Accounts Receivables. Draft procedures for accounts receivables provided to County departments and agencies July 11, 2008.

<sup>6</sup> Johnson County Records Retention policy requires departments to retain accounts receivable and deposit records for the calendar year the transaction occurred in plus 3 years.

The division's informal written procedures for reconciling the daily cash drawers do not require documenting cash shortages or excess amounts. The procedures do not require supervisors to investigate discrepancies when cash drawers do not reconcile.

The department does not have written policies or procedures for preparing the daily deposits. In practice, accounting staff prepare a detail of the daily deposit on the master cash drawer report and document how the cash receipts will be distributed in the County's automated financial records, Oracle. The detail will also include deposits received from the Health Education (HE) and Adult and Child Care Facilities (ACCF) divisions.

Staff prepare a deposit slip documenting the total cash and checks included with the cash deposit. A courier service picks up the original deposit slip with the cash deposit. A copy of the deposit slip and the master cash drawer report is sent to another accounting staff who enters the deposit totals into Oracle based on cost center and account. The copy of the deposit slip and an Oracle deposit distribution print out are maintained as the deposit records. The detailed information on the master cash drawer report is kept separately and shredded after 6 months.

### **Department staff did not maintain good controls over cash receipts**

Management was not attuned to prudent cash handling practices. They did not develop appropriate procedures to guide staff in handling cash and checks. Consequently, the division staffs acted independently in cash receipt handling practices. Staff passed cash and checks between divisions as needed for individual division record keeping purposes. Some deposits were not made timely including one division accumulating volumes of cash and checks before depositing them. This caused a high risk for theft and abuse.

### **Staff did not reconcile cash drawers or maintain documentation longer than 6 months**

Front desk staff provided unreconciled cash drawers to accounting staff. The department lacked written policy and procedures requiring front desk staff to consistently document the reconciliation process between the cash drawers and INSIGHT. Accounting staff had to research and track down errors while preparing the cash deposit, slowing the deposit processes down. Without consistent policies and procedures, supervisory staff could not track shortages or excess cash in the staffs' cash drawers.

Accounting staff shredded the master cash drawer report and reconciliation records after 6 months. The master cash drawer report documented how the daily cash drawers reconciled with INSIGHT, Oracle distribution and the cash deposit. Accounting and audit staff could not trace the daily cash drawer in INSIGHT to Oracle distribution or cash deposits without the master cash drawer report. The staff should retain this documentation with deposit records for at least 3 years according to county policy.

### **Mission staff were processing deposits incorrectly**

Mission staff dated deposits incorrectly and did not record deposits in the County's financial records on the date of deposit. Staff did not reconcile the cash drawers or prepare deposits until

the day after the cash was received. Staff dated the cash deposit receipts based on the day of the cash receipts, not on the actual date of deposit. This made it difficult to track when the actual deposit was made.

Mission staff did not enter the cash deposit into Oracle on the date the deposit was made. Staff entered deposit information 1 to 3 days after the deposit was made. As a result, the County Treasurer's office could not reconcile the bank deposits for the day to the Oracle financial records.

Management did not prepare written policies or procedures for preparing deposits, or train new staff on how to process deposits after old staff terminated. Staff were not aware they were preparing the deposits incorrectly until the JCHD accounting staff and internal audit staff began auditing a sample of deposits. Management began training front desk staff as soon as the deficiencies were found. Management needs to review deposit processes and prepare written policies and procedures to ensure there are sufficient internal controls and staff.

### **Staff could not reconcile all cash deposits with receipts, INSIGHT or Oracle.**

JCHD staff could not provide a complete reconciliation of cash deposits to the underlying transaction records such as patient records. We attempted to validate the deposit amounts by tracing entries showing a payment received from the original patient record to a bank deposit and a posting to the Oracle system.

We reviewed 256<sup>7</sup> patient records with the assistance of JCHD staff. We traced payments recorded on the patient ledger to the daily cash drawers and related deposits. The 256 patient records impacted 181 of the 522 deposits made from July 2007 through June 2008. Of the 181 deposits, 26 had variances that did not correctly reflect the underlying transactions or were not properly documented as required by County policy.

- 11 either had no deposit receipt or were not entered into Oracle on the actual date of the deposit.
- 9 were missing a total of \$882.65 that was not explained in any supporting documentation,
- 6 had an excess cash amount totaling \$780.75 that could not be traced to any supporting documentation.

We could not determine whether the missing cash deposits were the result of poor documentation, fraud, theft or loss.

Management needs to tighten internal controls. The current processes provide weak internal controls that create opportunity and risk for fraud, theft, or loss of cash receipts.

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<sup>7</sup> Using statistical sampling methods, the records were randomly selected from over 8,400 patient records. These methods provide 90% assurance that the results shown can be relied on to provide an accurate description of the untested items.

## **6. Financial Reporting of Vaccines Needs Improvement**

JCHD staff did not account for and report the value of vaccines provided by the State of Kansas, at no cost to the County. The receipt of these vaccines is a “non-exchange transaction”<sup>8</sup> for financial reporting purposes. JCHD staff did not record the value of these vaccines when they were received and did not report the receipt to the County’s Office of Financial Management for inclusion in the County’s financial statements. The County’s annual financial statements were not in compliance with generally accepted accounting and reporting standards to the extent that these amounts were not included.

### **Recommendation**

We recommend the Director, Johnson County Health Department:

- 6.1 Develop and institute standard operating procedures for recording and reporting the value of vaccines provided by the State of Kansas to Office of Financial Management.

### **Management Comments**

- 6.1 *We agree with the audit recommendation.*

*When this issue was brought to our attention, Public Health began reporting it monthly to OFM. This is a non-exchange transaction and will be recognized annually per procedures.*

### **Discussion**

The Vaccine for Children (VFC) program is a federally funded program that provides vaccines at no cost to children who meet specific criteria and might not otherwise be vaccinated because of inability to pay. Funding for the VFC program is approved by the U. S. Office of Management and Budget and allocated through the Centers for Medicare & Medicaid Services to the Centers for Disease Control and Prevention (CDC). CDC buys vaccines at a discount and distributes them to grantees – state health departments and certain local and territorial public health agencies – which in turn distribute them at no charge to those private physicians' offices and public health clinics registered as VFC providers. We estimate the value of vaccines provided by the State of Kansas to JCHD could exceed \$636,000<sup>9</sup> in 2008.

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<sup>8</sup> GASB Cod.Sec.N50.104 states a “Non-Exchange Transaction” occurs when “...a government (including the federal government, as a provider) *either* gives value (benefit) to another party without directly receiving equal value in exchange *or* receives value (benefit) from another party without directly giving equal value in exchange.”

<sup>9</sup> The 2008 projection was estimated by averaging the actual vaccine prices for the first 7 months of 2008 and applying to a full 12-month period. For example, actual vaccine prices for January through July 2008 average \$53,083 per month. Applying that monthly average to a full 12- month period equates to \$636,996.

JCHD staff attended GASB 33 training provided by OFM in mid-October 2007. Additionally, JOCO Web, the employee information intranet web site, has a link to “non-exchange transaction” training documents. JCHD staff was aware of the reporting requirements and submitted an issue paper to the BOCC and County Manager in December 2007 requesting additional budget authority due to GASB 33 requirements. In spite of this, JCHD staff did not record the value of vaccines provided by the State of Kansas in 2007, or report appropriately to OFM. This reporting failure can be attributed to a lack of adequate policies and procedures that clearly identify tasks to be performed, and an adequate system of management review.

Staff did not implement training they received

## **7. Inventory Management Controls are Lacking**

JCHD management did not maintain an inventory management control system for equipment items and medications maintained in their central stores. Written policies and procedures for maintaining inventory records for these items did not exist. Staff was not able to account for the assignment, location and security of equipment, nor were they able to account for contraceptive medication usage and consumption. As a result, assets are vulnerable to misuse and theft.

### **Recommendations**

We recommend the Director, Johnson County Health Department:

- 7.1 Establish written policies and procedures to ensure compliance with County equipment policy and adequate management supervision and review, and where applicable, compliance with federal grant requirements.
- 7.2 Physically inventory items with a purchase price between \$1,000 to \$10,000 and maintain an accurate listing of these small assets in JCHD possession.
- 7.3 Physically inventory capital equipment items with a purchase price over \$10,000 and an economic life greater than 5 years and maintain an accurate listing of these assets in JCHD possession.
- 7.4 Establish an inventory management system for medications stored in and issued from central stores down to the patient level using INSIGHT.

### **Management Comments**

7.1 *We agree with the audit recommendation.*

*We will develop an internal procedure in accordance with county policy.*

7.2 *We agree with the audit recommendation.*

*A complete physical inventory of public health assets is planned utilizing an inventory software system (currently in use with preparedness services). It will be completed as soon as training on the software is done.*

7.3 *We agree with the audit recommendation.*

*This is already in progress and near completion.*

7.4 *We agree with the audit recommendation.*

*An assessment of Insight is underway to determine the appropriateness of using this system to develop an inventory management system.*

*As noted in this report, Public Health has recently implemented a new software system (INSIGHT) in an effort to assist and upgrade program operations and management. The system has been up and running for approximately nine months, and five modules have been installed.*

## Discussion

### **County policy and financial guidelines**

Johnson County Financial Policy 160.2 requires departments to record and physically inventory:

- Non-capital equipment, assets in its possession which have a cost of \$1,000 to \$10,000
- Capital equipment, assets with a cost greater than \$10,000 and economic lives exceeding 5 years (Recorded in the County’s fixed asset system.)

The policy also requires departments to consider an inventory for assets with a cost of less than \$1,000 for the prudent care of County funds and property.

JCHD staff did not maintain a complete inventory listing of these items and did not have written policies and procedures for inventory maintenance. Policies and procedures should also detail the department’s plans for maintenance and replacement of these assets. While some divisions within the department kept listings of equipment, these lists lacked important information including purchase dates, purchase price and employee assignment. Management did not create a sufficient control environment to safeguard and properly manage assets. As a result, these assets were at risk for misuse or theft.

### **Assets purchased with Federal grant funds must be inventoried**

The department receives a number of federal grants. These grants have different, and usually more restrictive, definitions of capital assets and requirements for fixed asset inventory, monitoring, and disposal reporting. Generally, fixed assets purchased with federal grant money are any equipment purchase with a cost of more than \$500 and a useful life exceeding 1 year. These assets must be inventoried, identified as purchased with federal funding, and, if sold before the end of the useful life, the proceeds must be reported to the granting agency for potential recoupment. The department did not comply with these additional requirements. Some grant funded assets were transferred to another department where inventories were not kept, assets were missing, and transferred items were not used.

Federal grant  
assets were not  
properly managed

### **JCHD needs to install inventory management procedures over family health medications**

A bulk supply of contraceptive and other Family Health medications are maintained in JCHD central stores. Central stores issues these medications to Family Health’s Clinic Supply Rooms when their inventory falls below a 3-month on-hand supply. The central stores activity and Family Health’s Clinic Supply Rooms do not use inventory management procedures and processes to control and monitor inventory levels. Without an effective inventory control system that monitors usage and inventory levels, medications are at risk for theft.

**Audit scope was limited due to inadequate record keeping**

Adequate/sufficient equipment inventory procedures do not exist in JCHD. Administrative Operations, by their own admission, does not comply with County Policy. We were not able to attest to the completeness of inventory, receipt and issue of inventory or the assignment of inventory items. We reviewed computer inventory records maintained by the department information technology manager and equipment records maintained by the Emergency Preparedness staff. Each of these lacked the essential characteristics required. Review of inventory control procedures for contraceptive medications was limited to discussions with JCHD staff responsible for them.

No assurance on  
validity of asset  
inventory

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## **8. Discretionary Fee-for-Service Programs Should Be Self-sufficient**

JCHD's Facilities monitoring programs are not generating sufficient fees to offset the costs of operating the programs. The Child Care Facilities monitoring program is performed under a contract with the State of Kansas, but the costs of operating the program significantly exceed the contract revenue. The Adult Care Facilities monitoring program is performed entirely at the discretion of JCHD management, duplicates the monitoring activities performed by the Kansas Department of Aging, and generates very little revenue in relation to the costs of providing the service. JCHD management believes the programs are important and has indicated a desire to continue operating the programs. Operating these programs at a loss shifts the burden of this monitoring activity from the State of Kansas, where state law places the responsibility, to the taxpayers of Johnson County.

### **Recommendations**

We recommend the Director, Johnson County Health Department:

- 8.1 Reconsider operating these programs.
- 8.2 Develop a full cost analysis if the programs are considered necessary, and ensure the fees charged offset the costs incurred including overhead and central service allocations.
- 8.3 Review any other discretionary programs, those not mandated by statute to JCHD, to ensure that full costs are assigned and fees reflect the cost of providing the services.

### **Management Comments**

8.1 *We disagree with this recommendation.*

*In the 2008 Budget, the Board of County Commissioners added resources to this child care facilities monitoring program. In the 2005 Budget, the BOCC added resources to the adult care facility monitoring program. This indicates their support for these programs.*

**Auditor's Comment:** In both of these budget presentations, misleading information was presented to the BOCC, as described in the audit report and Finding #11 (Page 41). The finding leads directly to a re-evaluation of the BOCC's support for these programs when it has all of the pertinent information available.

We do not believe it is correct to say the BOCC supported the program because they approved the budget. The audit position is that if the programs continue they should be cost neutral. Additionally, as the budget tightens, these type programs need to be evaluated in terms of priority of need over other programs:

- The Child Care is not fully funded by the state and the County has no obligation to continue contracting with the state, particularly when county funds are needed to accomplish the contract.
- The Adult Care Facilities program is a duplication of effort because Kansas does the required monitoring. JCHD is performing consulting services to prepare the vendors for their state monitoring visit.

We believe this warrants reconsideration of the use of tax money for these purposes in the interest of good stewardship and if continued should be fully funded by the recipients of the service.

8.2 *This recommendation is already in place.*

*This program, along with all county programs, is evaluated on an annual basis as a part of the annual budget development process.*

8.3 *We disagree with this recommendation.*

*Public Health evaluates programs consistently with how other county programs are evaluated, using a variety of factors including revenue generation. [If]The Board of County Commissioners alters it's evaluation standards for discretionary programs, Public Health will alter it's standards, accordingly.*

**Auditor's Comment:** One of the BOCC's primary goals is good stewardship of funds. Discretionary programs should be evaluated to determine if the County is appropriately accomplishing this goal. The purpose of the recommendation was to highlight that the issues found could also be present in other discretionary funds. The report accurately cites that the County should obtain fees for services to relieve the burden on the taxpayer. Fees and full cost recovery are appropriate for this type of program.

### **Discussion**

Johnson County Financial Policy – 120.5 Fees for Service – states:

It is the policy of the BOCC to attempt to reduce the County's degree of reliance on ad valorem taxes (i.e. property taxes) for annual operating revenues by pursuing appropriate fees for services rendered. The County will establish fees to recover the full cost of services rendered, subject to pricing elasticity and historical trends. When possible, fees will be adjusted annually to recover inflationary cost increases to avoid large fee increase in any single year.

Kansas law provides for licensing and regulation of Child Care facilities by the Kansas Department of Health and Environment (KDHE) and for licensing and regulation of Adult Care facilities by the Kansas Department of Aging (KDOA). Johnson County Health Department (JCHD) contracted with these agencies to perform inspections of these facilities. In 2006, KDOA did not renew the contract with JCHD indicating it was more cost effective for KDOA to perform the inspections. The contract with KDHE remains in effect and is renewed annually.

### **Costs exceed revenues for services provided under state contract**

According to the contract for Child Care facility monitoring, JCHD receives a contract fee and a portion of the facilities' licensing fees for performing the inspections. JCHD performed an

estimated 2,760 facility visits in 2006 and 3,039 facility visits in 2007. The total revenue generated by these fees does not cover JCHD’s cost of performing the inspections. The expenditures shown in Table 8.1 include only the direct costs of operating this program. Applicable additional costs, such as County and departmental overhead, are not included in Table 8.1 because they have not been calculated.

**Table 8.1 – Child Care Facilities Monitoring Revenue and Costs**

	2005	2006	2007
Federal Grant	\$ 254,473	\$ 246,179	\$ 278,476
State Grant	\$ 100,047	\$ 106,646	\$ 108,387
License Fees	\$ 186,722	\$ 178,422	\$ 195,161
Sales	\$ 5,238	\$ 9,875	\$ 21,217
Miscellaneous			\$ 406
Total Revenue	\$ 546,479	\$ 539,172	\$ 603,645
Expenditures	\$ 704,503	\$ 706,625	\$ 760,406
Excess Cost	(\$ 158,024)	(\$ 167,453)	(\$ 156,761)

Source: Johnson County General Ledger

The excess cost of performing this activity as a contractor of the State of Kansas is borne by the taxpayers of Johnson County.

### **JCHD performs fee-free services after losing contract to KDOA**

Under the contract with KDOA for Adult Care facilities monitoring, the costs of performing the facilities inspections exceeded the contract fee paid by KDOA. In 2006, KDOA cancelled the contract for the inspections and began performing the inspections using state personnel. KDOA is currently making all the required inspections. JCHD has continued to perform activities in this area.

JCHD provides consulting service for the facilities by providing some educational opportunities for the facilities’ staff and providing pre-inspection review services which allow the facilities’ management to pass the inspections made by KDOA. JCHD performed an estimated 500 facilities visits in 2006 and 515 facilities visits in 2007. These facilities are commercial enterprises operating in Johnson County either on a non-profit or for profit basis. This pre-inspection activity duplicates the inspection activity performed by KDOA.

JCHD duplicates services provided by the state

The cost of performing the continued service has increased while the revenue generated by the services has decreased and now consists of fees charged to the facilities for educational classes. The expenditures shown in Table 8.2 include only the direct costs of operating this program. Applicable additional costs, such as County and departmental overhead<sup>10</sup>, are not included in Table 8.2 because they have not been calculated.

<sup>10</sup> County general costs, such as accounting, human resources, and information technology services, are allocated to departments by the County each year. In addition, each department has similar overhead costs. All of these costs need to be charged to program areas to determine the total cost of a program.

**Table 8.2 – Adult Care Facilities Monitoring Revenue and Costs**

	<b>2005</b>	<b>2006</b>	<b>2007</b>
Fees Charged	\$ 24,882	\$ 32,310	\$ 25,691
Sales			\$ 100
Total Revenue	\$ 24,882	\$ 32,310	\$ 25,791
Expenditures	\$ 75,953	\$ 95,976	\$ 104,621
Excess Cost	(\$ 51,071)	(\$ 63,666)	(\$ 78,830)

Source: Johnson County General Ledger

The unreimbursed cost of performing this service is borne by the taxpayers of Johnson County and is a direct benefit to the commercial enterprises operating the Adult Care facilities.

## **9. JCHD Did Not Use County's Most Efficient Method of Employee Reimbursement**

JCHD staff used check requests instead of the County's automated expense reimbursement system (iExpense) to reimburse employee expenses. In 2006 and 2007, 34 percent of the checks requested by the department were for employee expenses. Department management was unaware of the automated controls and capabilities of the iExpense process and made the decision not to use iExpense based on a past accounting manager's recommendation. As a result, the department increased processing costs to the County by using the most expensive method of employee reimbursement.

### **Recommendations**

We recommend the Director, Johnson County Health Department:

- 9.1 Ensure that all staff have training and access to the County's iExpense system and use it for expense reimbursement.
- 9.2 Coordinate with Oracle staff to set up supervisory review and approval processes in iExpense for all staff.

### **Management Comments**

*9.1 We agree with the audit recommendation.*

*This is already in progress with OFM. Their implementation schedule for our department is February 2009.*

*9.2 We agree with the audit recommendation.*

*The initial meetings with Oracle staff have taken place in preparation for full implementation.*

## **Discussion**

### **County purchasing policy and goals**

County purchasing policy (110.110) prescribes the County's methods of obtaining needed goods and services at the lowest ultimate cost consistent with prevailing economic conditions, appropriate standards of quality and continuity of service, while establishing and maintaining a reputation for openness, fairness and integrity. Departments should use the most efficient means to make purchases, pay vendors and reimburse employee expenses.

Purchasing cards (P-Cards) and iExpense transactions provide efficiency in purchases and provide internal controls. Johnson County Office of Financial Management (OFM) recommends using P-Cards for employees' business related expenses. The iExpense system is designed for employee reimbursement when a P-Card cannot be used to make the payment. Check requests are only to be used when P-Cards or the iExpense system cannot be used.

### **Department did not use most efficient method of reimbursement**

The department reimbursed all employee expenses with check requests through the county's accounts payable system, the least efficient method of reimbursing employee expenses. During our 2-year audit period, the department issued 918 expense reimbursement checks. This amounted to 34 percent of all checks issued by the department during that time period. (Mileage expense reimbursement accounted for 90 percent of these reimbursements). iExpense is designed to handle mileage reimbursements and would have been the most efficient method of reimbursement.

iExpense is the County's automated reimbursement system. County employees enter their reimbursable expenses and the required supporting documentation into Oracle. The system electronically passes the reimbursement request and supporting documents through the department designated review and approval process. When the request has been approved and reviewed, the remainder of the process is automated and the employee receives the reimbursement within 3 days. The iExpense system provides the necessary layers of internal controls while still being the most efficient means of reimbursing employee expenses.

JCHD required employees to complete expense forms manually and pass these forms to the department's accounting staff where check requests were prepared for OFM's accounts payable system. The previous accounting manager recommended this process to management so accounting staff could audit employees' expenses and ensure they were paid from the correct cost centers and natural accounts. Department management did not investigate the added benefits of the iExpense process.

JCHD could reduce processing costs and time, and eliminate manual forms by using iExpense. The current management was interested in changing its employee expense reimbursement processes when informed of these benefits.

## **10. Management of Information Technology Resources Could be Improved**

JCHD management is continuing to implement a new management information system, INSIGHT, without correcting system problems identified with the initial phases of the project. Specific problems noted were:

- Assigned responsibilities within the system are too broad;
- Implementation is proceeding without a written plan; and
- No plan has been developed to correct issues and problems identified during the first implementation phase.

JCHD staff said they do not have sufficient time and resources to continue adding modules and correct problems associated with the completed portions of the system. As a result, users can access information and system functions that are not within the scope of their duties, internal controls are weakened, and the assigned system user responsibilities will require major adjustments after they have completed implementation.

### **Recommendations**

We recommend the Director, Johnson County Health Department:

- 10.1 Review access level assignments, by position, and make appropriate adjustments to reflect an individual's duties and responsibilities.
- 10.2 Review access level assignments for individuals who have been granted "full access" and restrict this access category to only individuals whose positions require it.
- 10.3 Seek advice and assistance from ITS and develop a planning document that encompasses corrective measures for existing INSIGHT problems and identifies a path for implementing the remaining INSIGHT modules.

### **Management Comments**

*10.1 We agree with the audit recommendation.*

*This recommendation has already been done.*

*10.2 We agree with the audit recommendation.*

*This recommendation has already been done.*

*10.3 We agree with the audit recommendation.*

*Planning is currently underway.*

## Discussion

JCHD's operating and capital budget was approved in 2007 to upgrade their management information system to INSIGHT. Their implementation strategy is a phased approach which began in early 2007 and is expected to be completed in December 2008. To date, four modules are implemented – Appointment, Billing, Encounter, and Inventory. The remaining three INSIGHT modules – Family Planning, Maternal Health, and Medical Records – are expected to be implemented by December 2008.

Most INSIGHT users are assigned a “Nurse” user ID category which allows system access privileges beyond the scope of their positions. The “Nurse” category was configured within INSIGHT to allow individuals extensive update/delete capabilities. Additionally, four JCHD officials have been designated as INSIGHT “System Administrators” which grants full and unlimited access to all INSIGHT modules. Information Technology Access Control Standards<sup>11</sup> require limiting system access to authorized users and the types of transactions and functions that authorized users are permitted to exercise. Three of the four JCHD officials have significant operational responsibilities in addition to their System Administrator responsibilities giving them access privileges beyond the scope of their positions. As a System Administrator, they can:

System access controls created vulnerabilities

- update and delete records within those modules,
- add, remove or update user account information,
- reset passwords,
- Update or modify INSIGHT tables.

Assigning System Administrator duties to the three individuals who have primary operational responsibilities disregards separation of duties principles within JCHD's information technology environment and should be reconsidered.<sup>12</sup> Recent implementation efforts and planning the implementation of the remaining INSIGHT modules has prevented JCHD officials from taking action to review and strengthen access controls.

As with any system upgrade or implementation, JCHD experienced problems and fallout when they implemented the modules in the first phase. Some of these problems remain uncorrected without an anticipated date when they will be corrected. For example, INSIGHT has the capability to electronically interface with Medicaid and other clearinghouses for billing purposes. However, this capability is not operable in INSIGHT because of formatting problems with Medicaid programs. As a result, these billings are prepared manually. Management did not

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<sup>11</sup>Department of Commerce, National Institute of Standards and Technology's *Federal Information Processing Standards Publication (FIPS PUB 200.)* specify minimum security requirements for federal information and information systems. These standards are being considered only as a benchmark when reviewing INSIGHT.

<sup>12</sup> Institute of Internal Auditor's *Global Technology Audit Guide, Information Technology Controls*, Chapter 5, Paragraph 5.3.3.1, states: Privileged accounts, such as the administrator group in Windows and Super User in Unix, can modify entries, access any file, and in many cases act as any user or role. It is important to restrict the number of individuals with this privilege to a minimum.

develop an action plan for correcting this deficiency due to current efforts to complete INSIGHT's implementation.

Implementation is proceeding without a detailed planning document. JCHD staff anticipates completion by the end of this calendar year. This effort is also taking precedence over developing a plan of action for correcting issues and problems that occurred with the first phase implementation. Expanding the planning effort to include JCHD user staff and ITS representation would go a long way to get "buy in" at the user level, mitigate future risks, and ensure successful system implementation. These factors are preventing JCHD from realizing the full benefit of INSIGHT and potentially leave the organization vulnerable.

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## **11. JCHD Management Can Improve the Budget Preparation Process**

The budgets prepared for the JCHD for 2007, 2008, and 2009 did not provide complete and accurate information in a number of areas:

- The Goals and Objectives presented were either not useful or did not measure performance in a meaningful way.
- Program revenue and expenditure amounts were not presented on a comparative basis from year to year and did not reflect the projected revenues or expenditures by program.
- The description of two programs, described in the budget as Facility Surveillance and Monitoring, indicated that JCHD was required by law to operate these programs when, in fact, both programs were entirely discretionary.

These inaccuracies are the result of JCHD's staff failure to review the statements made in the budget and revise the material to reflect changes in circumstances as time changed. JCHD's management did not monitor and effectively review the budget information prepared by the staff to ensure accuracy. This resulted in incomplete and inaccurate information used by the County Manager and the Budget staff in preparing these annual budgets.

### **Recommendations**

We recommend the Director, Johnson County Health Department:

- 11.1 Establish a system of review and monitoring to ensure that all information presented in the budget accurately reflects the current state of the JCHD department.
- 11.2 Re-evaluate the Goals and Measures presented in the budget to ensure that they are meaningful, timely, and useful in measuring performance.
- 11.3 Present comparative financial information and projected revenue and expenditures on a consistent basis which accurately reflects the expected outcomes for the programs.
- 11.4 Present accurate descriptions of the Facility Surveillance and Monitoring programs to allow the County Manager and the BOCC to make appropriate decisions regarding the operation of these programs. (See Finding 8 for additional discussion of these programs.)

### **Management Comments**

*11.1 We agree with this recommendation.*

*Public Health Leadership will review current practice and ensure that all information presented to the Board is accurate.*

*11.2 We agree with this recommendation.*

*Public Health Leadership will review goals and performance measures annually to make sure they reflect the outcomes for programs.*

*11.3 We agree with this recommendation.*

11.4 We agree with this recommendation.

*The statements on the requirement to provide these programs is unclear. Johnson County has a contract with the State of Kansas for Child Care Facility Monitoring, so through the requirements of the contract, Johnson County is mandated to perform the program. The Adult Care Facility Monitoring Program is discretionary. This statement will be clarified in future budget material.*

**Discussion**

The budget presentation for JCHD has three main sections – a one page budget summary for the department, a section devoted to Agency Goals and Objectives, and a section showing Major Programs including projected revenues and expenditures and program descriptions. The sections on Agency Goals and Objectives and Major Programs had inaccuracies that might make it difficult for the public and the Board of County Commissioners to make decisions about level of funding needed.

**Goals, objectives and measures need to address program outcomes**

The Goals and Objectives presented by JCHD are generally outputs<sup>13</sup> rather than outcomes.<sup>14</sup> Measuring outputs does not provide a basis for determining the success or failure of a program and does not provide management with a basis for developing plans and identifying ways to improve performance.

Staff does not understand performance measurement
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For example, a service delivery goal states: “Ensure every 5<sup>th</sup> client receives a referral/satisfaction survey card.” Customer satisfaction surveys were provided to 20 percent of those seen, thus JCHD achieved the stated goal. However, this goal is not meaningful because handing out surveys is not part of the mission of JCHD. If the result of this activity was intended to be a measure of customer satisfaction, a sufficient number of surveys would need to be returned and the results tabulated and measured against a desired rate of satisfaction (85%, 90%, etc.). The response rate was very low – 0.113 percent in 2006 and 0.125 percent in 2007 – in relation to the total number of patients seen which invalidates the survey as a useful measure. JCHD staff used these results to report a relatively high satisfaction rate 92% for 2006 and 90% for 2007.

In another example, an effectiveness measure related to educational offerings states, “# of screened individuals assessed to be out of the accepted range.” The lack of clarity in this measure

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<sup>13</sup> An output is a count of the number of times an activity is performed. Generally, the counting provides no indication of the value added by the count and no indication of whether the number of times the action is performed is good or bad. Outputs are a measure of volume.

<sup>14</sup> Outcomes show how a particular action meets established objectives or strategic plans. If the plan is to reduce the incidence of low birth rate infants, outcome measurement would show the reduction in low birth weights due to program activity. Outcomes are a measure of effectiveness.

challenges its usefulness. What is the accepted range and range of what? Why is it important to know this information? Is it meaningful that the number of reported individuals only changed by 1 in 3 consecutive years?

JCHD needs to develop a system of Goals and Measures that is meaningful for management decision making and budget setting process.

### **Accuracy and consistency were lacking in budget presentations of major programs**

The Major Programs section of the budget documents had two problems – the financial information was not presented accurately or consistently and the program description for the Facilities Surveillance and Monitoring program was inaccurate. This information is intended to be used by the County Manager in preparing the budget, the Board of County Commissioners in deciding appropriate levels of funding for programs, and the public in evaluating the quality of services the department is providing.

The financial section of the Major Programs budget pages shows the most recent completed year with comparisons to the estimated activity in the current year and a proposed budget for the upcoming year. We were unable to reconcile the relationship of the projected amounts with the actual amounts. JCHD staff reviewed the amounts presented in the budget and determined the methodology used did not accurately reflect either the expected revenue or expenditure for most programs. They attributed that to a change in the way they calculated these amounts that had not been carried forward from year to year.

JCHD staff was able to show that using the correct methodology supported the total amounts shown on the overall budget summary.

In addition, the description provided for the Facilities Surveillance and Monitoring was presented as follows:

This program ensures a safe environment for children and adults in care away from home through surveillance, monitoring, inspection and follow-up of all adult and child care facilities in Johnson County as mandated by the Kansas Department of Health & Environment (Regulations 28-4-420 through 28-4-441) and Kansas Department of Aging.

The program mandate applies to the indicated state agencies not JCHD. JCHD has no mandate, responsibility, or authority to perform these activities.

JCHD has a contract with the KDHE and, until 2006, had a contract with KDOA to perform the services. All of the activities covered under this heading in the Program Activities section are discretionary. JCHD has chosen to accept the contract with KDHE even though the contract does not provide sufficient revenue to pay the costs of performing the services.

JCHD has continued to perform services related to the Adult Care facilities although KDOA is now performing all of the required inspections of these facilities. JCHD does not have the

authority to require changes and does not have any investigative authority if issues arise. No contracts or engagement letters are obtained to limit JCHD's liability and describe the limits of their responsibility in performing these services. The full cost of these activities, aside from fees charged for training classes, is borne by the Johnson County taxpayer.

Because the nature and funding sources of these two activities are now different, the descriptions should be modified to show these are discretionary, fee-for-service activities and should be shown separately in the budget.

## **OBJECTIVES, SCOPE AND METHODOLOGY**

### **Objectives**

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. The audit tested programs for efficiency and effectiveness.

Specific objectives for this audit included:

- Determine if all Accounts Receivable were reported to the Office of Financial Management (OFM) according to GAAP.
- Determine if management of billing and fee collections for accounts receivable were done in an effective and efficient manner, this review included a review of billing practices throughout all of JCHD.
- Determine if Department administration and divisions were following all HIPAA requirements.
- Review grant receipts and expenditures for Bioterrorism, Health Education, and WIC and determine if reported expenditures were recorded in accordance with the grant requirements. Determine if grant/expenditures represented a prudent use of taxpayer dollars based on the county's fund matching requirements.
- Review the department administration internal controls and determine if sufficient internal controls were in place to effectively reduce risks. This included determining if cash handling was managed effectively with appropriate internal controls.
- Review contract management and vendors to determine if appropriate safeguards were included in contracts to protect the county and ensure that vendor selection was done in accordance with county policy and procedures.
- Review the management (inventory recording, administration, storage, and disposal procedures) of medications and determine if there were sufficient management controls to protect the patients and reduce liability and fraud risk to the department. This review included vaccines provided by the State of Kansas and whether or not the value of those should be included on the County's financial statements.
- Determine if there were appropriate ITS Security controls to protect patient/client information.
- Review the department's electronic medical record system, INSIGHT. Review strategy for implementing the system throughout all of JCHD. Determine if the program

functionality has potential application throughout other County departments and agencies.

- Review the management of employee expenses and AP checks to determine if the department was utilizing the most efficient county resources (iExpense) for payment of employee reimbursement.
- Review inventory management and determine if the department had sufficient controls to protect assets and equipment.
- Review background data and monthly report methods to determine if the Goals and Measures used to justify budgeting were practical with the department's mission and useful to department management.

## **Background**

JCHD's goal is to improve lives through the prevention of disease and the promotion of healthy behaviors. JCHD is responsible for providing public health services for Johnson County. This includes such activities as:

- Providing disease control and surveillance county-wide
- Providing basic immunization services for low income populations
- Notifying the public of health risks
- Providing services for family planning, maternity, and well child care
- Administering the County's Women Infant and Children (WIC) program
- Monitoring adult and child care facilities

In 2007, JCHD served over 122,834 clients.

In 2006, the director, accounting manager, and office manager of JCHD retired. No audit of JCHD has been done.

## **Scope and Methodology**

In order to accomplish the objectives we reviewed:

- County wide financial and purchasing policies and procedures
- Limited department written procedures for cash handling and cash reconciliation
- Statistical sample of patient ledgers and payments
- Thirty five percent of the daily deposits from July 1, 2007, through June 30, 2008
- Billing and accounts receivable processes
- Expenditures from January 1, 2006, through December 31, 2007 made through the accounts payable system and P-Card
- Computer inventory records maintained by the department information technology manager and equipment records maintained by the Emergency Preparedness staff

- Grant expenditures for the Bioterrorism Grant
- KDHE management evaluation of the Johnson County WIC program
- Background data and management reports for the budget goals and measures
- Department HIPAA policies, procedures and management reports
- Contracts for vendors and temporary contracted employees
- Information Technology security controls and procedures
- Policy and procedures for medication and vaccine storage, inventory, and dispensing

### Scope Limitations

Our scope for the review of cash handling and reconciliation was limited due to lack of written policies and procedures for cash management and deposit processes. We interviewed staff and witnessed deposit processes.

Our scope for the review of deposits was limited by the lack of supporting documentation for deposits older than 6 months due to accounting staff shredding all master cash drawer reports showing the reconciliation of the daily cash drawers after that period.

Our scope for the review of billing and accounts receivables was limited due to lack of written policies or procedures. We interviewed staff and reviewed billing and accounts receivable processes. We collected data from the INSIGHT system to review charges, payments, and adjustments and compared the total amount due by patient to the Department's Aged Accounts Receivable (AAR) report for year end 2006 and year end 2007, based on entry date. The results of our data analysis matched the amounts due in the AAR report.

We reviewed purchase orders, p-card transactions, and check requests. We found very few issues with the overall purchasing processes with the exception of the department using check requests to reimburse employee expenses instead of the use of iExpense.

Our review of purchasing transactions discovered one transaction that was outside the parameters of normal County procurement practices. We were limited in our review of this transaction to the recall of employees and the documents and evidence that we could reconstruct because of poor documentation.

The department did not have an adequate equipment inventory policy or procedures. Johnson County Health Department staff did not comply with County Policy. We were not able to attest to the completeness of equipment inventory, receipt, and issue of inventory or the assignment of inventory items. Review of inventory control procedures for contraceptive medications was limited to discussions with JCHD staff responsible for them.

We selected one grant, Bioterrorism Preparedness, to review in detail. One other grant, WIC, is audited on a regular basis by the County's external auditors. Our scope in the review of the Bioterrorism grant expenditures was limited due to lack of policies and procedures and poor documentation.

JCHD County WIC Program had a number of repeat findings in the state sub-recipient monitoring audit. We limited our review to determining what corrective action was taken to eliminate those findings.

Our period of audit included transactions from January 1, 2006, through December 31, 2007. We interviewed management and staff members to obtain an understanding of management and internal controls.

#### Computer Data

We used data from various computer systems in performing this audit including, but not limited to: The County's Oracle financial and human resources system (Oracle), the department's electronic public health information system (INSIGHT), 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 INSIGHT 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 and judgment sampling to select items for review. 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. Judgment sampling was used primarily for attribute testing – procedural compliance.

We did not use statistical sampling in the review of employee expenses. We based our examination on the entire population of checks written during our audit period.

We did not use statistical sampling for our review of accounts receivable. We reviewed the entire data available of charges, payments, and adjustments to determine the total amount owed by patient. This was compared to the department's AAR report and tested during our review of patient ledgers.

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