

***DOUGLAS COUNTY, KANSAS***  
OMB *CIRCULAR A-133*, SINGLE AUDIT REPORT  
YEAR ENDED DECEMBER 31, 2010  
WITH  
INDEPENDENT AUDITORS' REPORT

DOUGLAS COUNTY, KANSAS  
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**DOUGLAS COUNTY, KANSAS**

OMB *CIRCULAR A-133*, SINGLE AUDIT REPORT

Year Ended December 31, 2010

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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Board of County Commissioners  
**Douglas County, Kansas**

We have audited the summary of cash receipts, expenditures, and unencumbered cash balances of the primary government of Douglas County, Kansas, the Douglas County Extension Council, the Lawrence-Douglas County Health Department, and the Douglas County Free Fair (collectively "the County") as of and for the year ended December 31, 2010 which collectively comprise the County's special purpose financial statements, and have issued our report thereon dated August 4, 2011. The County prepared these special purpose financial statements using accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as items 2010-1, 2010-2, 2010-3 and 2010-4 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County's responses, and accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of County Commissioners, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Allen, Gibbs & Houlik, L.C.*  
CERTIFIED PUBLIC ACCOUNTANTS

August 4, 2011  
Wichita, Kansas

INDEPENDENT AUDITORS' REPORT ON  
COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT  
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH *OMB CIRCULAR A-133* AND  
REPORT ON SUPPLEMENTARY INFORMATION – SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS

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Board of County Commissioners  
**Douglas County, Kansas**

Compliance

We have audited the Douglas County, Kansas' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2010. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to

test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### Schedule of Expenditures of Federal Awards

We have audited the summary of cash receipts, expenditures, and unencumbered cash balances of the primary government of Douglas County, Kansas, the Douglas County Extension Council, the Lawrence-Douglas County Health Department, and the Douglas County Free Fair (collectively "the County") as of and for the year ended, December 31, 2010 which collectively comprise the County's special purpose financial statements, and have issued our report thereon dated August 4, 2011. The County prepared these special purpose financial statements using accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. Our audit was performed for the purpose of forming our opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the special purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the special purpose financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of County Commissioners, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Allen, Gibbs & Houlik, L.C.*  
CERTIFIED PUBLIC ACCOUNTANTS

August 4, 2011  
Wichita, Kansas

**DOUGLAS COUNTY, KANSAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2010

SECTION I – SUMMARY OF AUDITORS’ RESULTS

FINANCIAL STATEMENTS

Type of auditors’ report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified?        Yes   X   No
- Significant deficiencies identified that are not considered to be material weaknesses?   X   Yes        None reported
- Noncompliance material to financial statements noted?        Yes   X   No

FEDERAL AWARDS

Internal control over major programs:

- Material weaknesses identified?        Yes   X   No
- Significant deficiencies identified that are not considered to be material weaknesses?        Yes   X   No

Type of auditors’ report issued on compliance for major programs: See below

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB *Circular A-133*?        Yes   X   No

Identification of major programs:

<u>CFDA NUMBER</u>	<u>NAME OF FEDERAL PROGRAM</u>	<u>MAJOR PROGRAM OPINION</u>
10.557	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	Unqualified
93.217	Family Planning Services	Unqualified

**DOUGLAS COUNTY, KANSAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2010

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SECTION I – SUMMARY OF AUDITORS’ RESULTS (Continued)

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Dollar threshold used to distinguish  
between type A and type B programs:           \$300,000          

Auditee qualified as low-risk auditee?        Yes   X   No

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SECTION II – FINANCIAL STATEMENT FINDINGS

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**Finding 2010-1 (Significant Deficiency):**

**Condition:** The County was not able to provide a schedule of expenditures of federal awards (SEFA) for the County. A SEFA was provided for the Lawrence-Douglas County Health Department (a component unit of the County), but a SEFA including the federal programs for only the County was not provided.

**Criteria:** An entity that expends federal awards must have controls in place that would enable the entity to compile a SEFA. A SEFA identifies and tracks all federal awards and their related information, including but not limited to the Catalog of Federal Domestic Assistance (CFDA No.), grant award title, grant award amount and federal expenditures.

**Cause:** The County does not have controls in place to centrally track all federal awards related only to the County. The County does not have an individual or a department with the necessary knowledge to administer and track the expenditures for the County’s federal programs. However, there were controls in place to centrally track all federal awards related to the Lawrence-Douglas County Health Department federal awards.

**Effect:** A SEFA allows for increased knowledge of all federal grant activity at the County level. The lack of a SEFA hinders this knowledge and could lead to grant noncompliance in the event of individual grant administrator turnover.

**Recommendation:** We recommend that all federal grants at the County be tracked by a central grant administrator or department that would prepare the SEFA and oversee expenditures of and compliance with the federal grant programs.

**Management’s Response (unaudited):** We concur with this finding. The County acknowledges that centralized grant tracking and reporting is needed. Administrative Services will improve the tracking of grants and will work with the Auditor to establish processes and systems to prepare SEFA, and work with departments to monitor expenditures and ensure compliance with federal grant programs.

**DOUGLAS COUNTY, KANSAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2010

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SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

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**Finding 2010-2 Douglas County Segregation of Duties (Significant Deficiency):**

**Condition:** There is a lack of adequate segregation of duties in the payroll function and in the posting of journal entries.

**Cause:** The payroll clerk has access to add employees, modify master file information, process payroll and post to the general ledger. The clerk also has access to blank checks and the signature stamp software. Additionally, there is no reconciliation currently performed between the data in the payroll system and what is posted to the general ledger. Journal entries can be created and posted to the general ledger by the same person. There is no review or approval process of journal entries made, prior to the time they are released.

**Effect:** A lack of controls and procedures could result in a misstatement to the financial statements.

**Recommendation:** We recommend that human resources set up and maintain employee master records and implement an authorization or approval process for changes made to the payroll system through review of the audit tables created when changes are made. We also recommend that there be a separation of the creating function and the posting function for journal entries within the system, or at a minimum, a procedure for conducting a secondary review of journal entries to ensure that undetected manipulation of data on the system does not occur.

**Management's Response (unaudited):** The County will review the controls, policies and procedures currently in place to assess the ability of existing staff and systems to perform the recommended segregation of duties.

**Finding 2010-3 Lawrence-Douglas County Health Department Segregation of Duties (Significant Deficiency):**

**Condition:** There is a lack of adequate segregation of duties and or controls missing over the accounting processes.

**Cause:** The Director, Director of Administrative Services and the Accountant have access to all areas of QuickBooks. The Accountant processes accounts payable and payroll, with complete access to master files, which would allow for changes in employee and vendor information. The Director of Administrative Services and the Accountant can also post journal entries.

**Effect:** A lack of controls and procedures could result in a misstatement to the financial statements.

**Recommendation:** We recommend that policies and procedures be implemented for segregation of certain functions within the accounts payable and payroll processes to avoid conflicts between incompatible functions. We also recommend that there be a separation of the creating function and the posting function for journal entries within the system, or at a minimum, a procedure for conducting a secondary review of journal entries to ensure that undetected manipulation of data on the system does not occur.

**DOUGLAS COUNTY, KANSAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year Ended December 31, 2010

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**SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)**

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**Management's Response (unaudited):** We acknowledge that three users, the Director, Director of Administrative Services and the Accountant have access to all areas of QuickBooks. QuickBooks has no audit trail. As part of our long term plan to improve accounting processes, we have purchased and implemented a new fund accounting software, CYMA as of January 1, 2011. CYMA has an audit trail and can track changes and limit access to areas by user. For example, in CYMA, the Accountant does not have access to change funds or bank account information within the accounts payable or payroll modules. The Accountant does not have access to the bank reconciliation module within CYMA and cannot create after the fact journal entries within the General Ledger module.

Within QuickBooks, the creation and posting of journal entries is one step. Within CYMA, there are separate steps for creating and posting journal entries. The Accountant creates most of the journal entries and the Director of Administrative Services reviews those journal entries throughout the month and during the month end and bank reconciliation processes.

**Finding 2010-4 Financial Statement Preparation (Significant Deficiency):**

**Condition:** There is a lack of controls and/or policies and procedures related to the year-end closing and reconciliation process for the preparation of the financial statements. The primary areas pertain to encumbrances/commitments, accrued liabilities, self-insurance accruals, other post-employment benefits, cash receipts and the summary of agency fund cash receipts.

**Cause:** A) The County does not have a formal purchase order system to ensure that all purchase commitments are recorded at year end. B) In order to ensure that expenditures are reflected in the correct budget year, the County leaves the books open for two months after year end, and posts expenditures back to the prior year if the goods or services were received in that year. When such amounts are recorded, they reduce cash, rather than being recorded as a payable at December 31. The overall approach being used to assist in capturing expenditures in the appropriate year is correct; only a minor adjustment to record the amounts as accounts payable rather than as a reduction to cash is needed. A similar process is also used to capture receipts in the new year that apply to the prior year. These receipts are also recorded in the prior year as increases to cash. Under the County's basis of accounting, cash receipts are recognized only as the cash is received. C) Certain data required for financial reporting or disclosure purposes is not captured or calculated as part of the year-end financial reporting process. This includes the reconciliation of activity in various cash accounts that are not maintained by the Treasurer's Office, including various accounts for the sheriff, district attorney and the employee benefit trust account used to pay health claims. Additionally, obligations for incurred-but-not-reported health claims and other post-employment benefits (OPEB) are not calculated for recording in the financial statements or disclosure in the footnotes. We noted that, for the cash accounts, there are generally reviews done of the activity during the year, including monthly bank reconciliations. Additionally, health claims paid are monitored throughout the year. OPEB amounts are based primarily on data provided by an external actuary.

**Effect:** A lack of controls and procedures could result in a misstatement to the financial statements.

**DOUGLAS COUNTY, KANSAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year Ended December 31, 2010

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**SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)**

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**Recommendation:** We recommend that management implement a systematic method of gathering purchase commitments. We recommend that controls and systems be put in place and adhered to and reviewed for accuracy and compliance, which would allow for proper and timely closing and reconciling procedures to be performed. We also recommend that management develop procedures for summarizing the data needed for year-end accounting and financial reporting purposes.

**Management's Response (unaudited):** We concur with this finding. A new financial system, as recommended, will allow staff to systematically gather purchase commitments and establish controls and mechanisms for monitoring accuracy and compliance. Staff looks forward to working with the Auditor as a part of a separate consulting project to develop new year end closing procedures and systems for 2011.

**DOUGLAS COUNTY, KANSAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year Ended December 31, 2010

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

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None were reported.

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**SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

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2009	2009-1	Generally accepted accounting principles (GAAP) reporting - The County does not have internal resources available to prepare or apply controls over the preparation of financial statements in accordance with GAAP.	The County prepared special purpose financial statements using accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which differ from accounting principles generally accepted in the United States of America. The County is in the process of implementing policies and procedures for future GAAP reporting.	Ongoing
2009	2009-2	Year-end closing and reconciling procedures for reporting - The County's formal period-end or year-end closing and reconciling procedures that are currently in use are not producing accurate and complete financial information in the general ledger for proper reporting.	The County prepared special purpose financial statements using accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which differ from accounting principles generally accepted in the United States of America. The County is in the process of implementing policies and procedures for future GAAP reporting.	Ongoing
2009	2009-3	Capital asset records - Capital asset records are not properly maintained and reconciled to supporting data in a timely manner.	The County prepared special purpose financial statements using accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which differ from accounting principles generally accepted in the United States of America, and capital assets are not reported using the cash basis and budget laws of the State of Kansas. The County is in the process of implementing policies and procedures for future GAAP reporting.	Ongoing
2009	2009-4	Custody over various cash accounts - Custody over various cash accounts is not maintained by a central department or group of management, such as the Treasurers' Office. In addition, proper controls over deposited funds, cash disbursements and the year-end close and reconciliation processes for cash are not properly segregated or not properly designed.	The County reviewed processes and controls. Additional segregation was implemented in the year-end close and reconciliation processes	Completed
2009	2009-5	Lack of segregation of duties for accruals - There is a lack of segregation of duties and or controls missing over the policies and procedures related to self-insurance accruals, wage accruals, other post-employment benefits liability and the expenditures relating to each.	The County reviewed processes and controls. Additional segregation was implemented over accruals and liabilities.	Completed
2009	2009-6	Comprehensive schedule of expenditures of federal awards (SEFA) - The County was not able to provide a comprehensive listing of federal expenditures for the County as a whole.		In process

**DOUGLAS COUNTY, KANSAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended December 31, 2010

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grant Expenditures
<b>U.S. Department of Agriculture:</b>		
<b>Passed through Kansas Department of Health and Environment:</b>		
Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	10.557	\$ 300,772
<b>U.S. Department of Justice:</b>		
<b>Passed through Kansas Office of the Governor:</b>		
Edward Byrne Memorial Justice Assistance Grant Program	16.575	23,937
<b>U.S. Department of Transportation:</b>		
<b>Passed through Kansas Department of Transportation:</b>		
Interagency Hazardous Materials Public Sector Training and Planning	20.703	49,950
<b>U.S. Department of Health and Human Services:</b>		
<b>Passed through National Association of County and City Health Officials:</b>		
Medical Reserve Corps Small Grant Program	93.008	5,000
<b>Passed through Kansas Department of Health and Environment:</b>		
Public Health Emergency Preparedness	93.069	80,161
Directly Observed Therapy TB Medications	93.116	1,305
HIV Counseling and Testing	93.940	7,218
Family Planning Services	93.217	177,636
Migrant Workers	93.224	19
Immunizations	1 93.268	35,327
Immunizations - ARRA	1 93.712	1,245
Refugee Assessments	93.566	6,375
Child Care Licensing	93.575	71,086
Ryan White Title II	93.917	274
Preventive Health Services -Sexually Transmitted Diseases Control Grants	93.977	11,727
Preventive Health and Health Services Block Grant	93.991	17,756
Maternal & Child Health Services Block Grant	93.994	57,630
<b>Passed through State of Kansas Office of Judicial Administration:</b>		
State court improvement program	93.586	3,000
<i>Total U.S. Department of Health and Human Services</i>		<u>475,759</u>
<b>U.S. Department of Homeland Security</b>		
<b>Passed through Kansas Adjutant General:</b>		
Emergency Management Performance Grants	97.042	84,602
Emergency Management	97.053	4,567
<i>Total U.S. Department of Homeland Security</i>		<u>89,169</u>
<i>Total Federal Awards Expenditures</i>		<u>\$ 939,587</u>

*See accompanying notes to the Schedule of Expenditures of Federal Awards*

1 - Immunization Cluster total = \$36,572

**DOUGLAS COUNTY, KANSAS**

**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended December 31, 2010

**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Douglas County, Kansas and the Lawrence-Douglas County Health Department, and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.