



DOUGLAS COUNTY, KANSAS

OMB *CIRCULAR A-133*, SINGLE AUDIT REPORT

YEAR ENDED DECEMBER 31, 2011

WITH

INDEPENDENT AUDITORS' REPORT

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DOUGLAS COUNTY, KANSAS

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Year Ended December 31, 2011

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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

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, 2011 which collectively comprise the County's special purpose financial statements, and have issued our report thereon dated August 21, 2012. 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

Management of the County is responsible for establishing and maintaining effective 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 opinions 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 2011-1, 2011-2, and 2011-3 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 21, 2012
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

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, 2011. 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, 2011.

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, 2011 which collectively comprise the County's special purpose financial statements, and have issued our report thereon dated August 21, 2012. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic 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 21, 2012
Wichita, Kansas

DOUGLAS COUNTY, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2011

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, 2011

SECTION I – SUMMARY OF AUDITORS’ RESULTS (Continued)

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

Auditee qualified as low-risk auditee? Yes X No

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2011-1 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. Limited staff and limitations of the current financial system present obstacles to current segregation of duties best practices.

Finding 2011-2 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 and Director of Administrative Services have access to all areas of CYMA and the Accountant has access to most areas of CYMA. The Accountant processes accounts payable and payroll, with complete access to master files, which would allow for changes in employee and vendor information. The Accountant also has access to enter cash receipts and adjust accounts receivable balances. The Director of Administrative Services and the Accountant can also post journal entries.

DOUGLAS COUNTY, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

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.

Management's Response (unaudited): We acknowledge that the Director and the Director of Administrative Services have access to all functions in CYMA and the Accountant has access to most areas of CYMA, our new fund accounting software, as of January 1, 2011. CYMA has an audit trail and can track changes and limit access to areas by user. 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. The Accountant does create and post 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. Without additional staffing, these functions are difficult to segregate further.

Finding 2011-3 Financial Statement Preparation (Significant Deficiency):

Condition: There is a lack of controls and/or policies and procedures related to encumbrances/commitments.

Cause: The County does not have a formal purchase order system to ensure that all purchase commitments are recorded at year end.

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

Recommendation: We recommend that management implement a systematic method of gathering purchase commitments.

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. In 2011, Staff worked with the Auditor as a part of a separate consulting project to develop new-year end closing procedures and systems. While this improved practice doesn't completely address the concerns expressed in the Finding, it has accomplished what is possible until a new financial system is implemented.

DOUGLAS COUNTY, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2011

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None were reported.

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

		<u>Summary of Findings</u>	<u>Corrective Action</u>	<u>Status</u>
2010	2010-1	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.	The County provided a SEFA for 2011.	Completed
2010	2010-2	Payroll – There is a lack of adequate segregation of duties in the payroll function and posting of journal entries.	The County will review the controls, policies and procedures currently in place to assess the ability of existing staff and systems to perform recommended segregation of duties.	Ongoing. See Finding 2011-1.
2010	2010-3	Lawrence-Douglas County Health Department – There is a lack of adequate segregation of duties and or controls missing over the accounting processes, payroll, accounts payable and accounts receivable.	The County began using a new fund accounting software CYMA as of January 1, 2011. CYMA has an audit trail and can track changes and limits access to areas by user. The Director of Administrative Services has access to all areas and the Accountant has access to all areas except for the bank reconciliation module and cannot create after the fact journal entries.	Ongoing. See Finding 2011-2.
2010	2010-4	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 reviewed processes and controls and updated the year end closing procedures. However, part A of the prior year finding regarding lack of a formal purchase order system was re-evaluated. The County does track expenditures and communicates with other departments regarding possible commitments.	Partially completed. See Finding 2011-3.

DOUGLAS COUNTY, KANSAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2011

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grant Expenditures
U.S. Department of Agriculture:		
Passed through Kansas Department of Health and Environment:		
Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	10.557	\$ 309,273
U.S. Department of Housing and Urban Development:		
Passed through Kansas Department of Commerce:		
CDBG Small Cities and Counties Rural Development Div. DG Co Economic	14.228	4,080
U.S. Department of Justice:		
Passed through Kansas Office of the Governor:		
Victims of Crime Act - 2011	16.575	32,089
STOP Violence Against Women - 2011	16.588	42,310
Passed through Kansas Department of Transportation:		
Enforcing Underage Drinking Laws Program	16.727	824
<i>Total U.S. Department of Justice</i>		<u>75,223</u>
U.S. Department of Transportation:		
Passed through Kansas Department of Transportation:		
State and Community Highway Safety	20.600	2,591
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant	20.601	3,833
<i>Total U.S. Department of Justice</i>		<u>6,424</u>
Environmental Protection Agency:		
Passed through Kansas Department of Health and Environment:		
Non Point Source Sec 319	66.460	5,440
U.S. Department of Health and Human Services:		
Passed through National Association of County and City Health Officials:		
Medical Reserve Corps Small Grant Program	93.008	5,000
Passed through Kansas Department of Health and Environment:		
Public Health Emergency Preparedness - FFY2011	93.069	101,056
Directly Observed Therapy TB Meds	93.116	125
Family Planning-2011	93.217	84,769
Family Planning-2012	93.217	96,634
Migrant Workers-2011	93.224	33
Immunization Cluster:		
Immunization Action Plan-2012	93.268	17,698
ARRA - Immunization Action Plan - 2010	93.712	5,025
Collaborative Application for Chronic Disease - Tobacco	93.283	9,664
Refugee Assessments - 2011	93.566	5,400
Refugee Assessments - 2011	93.576	2,400
Child Care Licensing - 2011	93.575	17,521
Child Care Licensing - 2012	93.575	38,670
HIV Prevention Projects	93.940	2,405
STD Control Programs-2011	93.977	5,354
STD Control Programs-2012	93.977	2,900
Chronic Disease Risk Reduction - 2012	93.991	10,000
Maternal & Child Health - Block Grant - 2012	93.994	28,815
Passed through the Unified Government of Wyandotte County:		
Public Health Emergency Preparedness	93.069	8,195
<i>Total U.S. Department of Health and Human Services</i>		<u>441,664</u>
U.S. Department of Homeland Security:		
Passed through Kansas Adjutant General:		
Emergency Management Performance Grants	97.042	72,416
Emergency Management	97.053	5,850
Hazard Mitigation Grant	97.039	60,000
<i>Total U.S. Department of Homeland Security</i>		<u>138,266</u>
<i>Total Federal Awards Expenditures</i>		<u>\$ 980,370</u>

1 - Immunization Cluster total = \$22,723

See accompanying note to the
Schedule of Expenditures of Federal Awards.

DOUGLAS COUNTY, KANSAS

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2011

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.