Board of County Commissioners
Douglas County

We are pleased to present this report related to our audit of the regulatory basis financial statements of Douglas County, Kansas (County) as of and for the year ended December 31, 2018. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the County's financial reporting process.

This report is intended solely for the information and use of the Board of County Commissioners and management and is not intended to be, and should not be, used by anyone other than these specified parties.

This letter includes other comments and suggestions with respect to matters that came to our attention in connection with our audit of the County's financial statements. These items are offered as constructive suggestions to be considered part of the ongoing process of modifying and improving the County's practices and procedures.

Generally accepted auditing standards require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the regulatory basis financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

The Responsibilities of the Auditor and Management
Our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States and the *Kansas Municipal Audit and Accounting Guide* has been described to you in our arrangement letter dated September 10, 2018. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

Overview of the Planned Scope and Timing of the Financial Statement Audit
We have issued a separate communication dated December 12, 2018 regarding the planned scope and timing of our audit and have discussed with you our identification of, and planned audit response to, significant risks of material misstatement. We made no significant changes to the scope or timing of our procedures.

Significant Accounting Practices, Including Policies, Estimates and Disclosures
Our views about the qualitative aspects of the County's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures are indicated herein, which you may wish to monitor for your oversight responsibilities of the financial reporting process:

<u>Adoption of, or Change in, Accounting Policies</u> - Management has the ultimate responsibility for the appropriateness of the accounting policies used by the County, and management may select among alternative accounting practices in certain circumstances. The County has elected to follow the regulatory basis of accounting as described in the *Kansas Municipal Audit and Accounting Guide* (KMAAG). This is in accordance with the County's Resolution No. 18-06, which waived compliance with generally accepted accounting principles, as allowed by K.S.A. 75-1120a(c). See 1.B.2 to the financial statement for a detailed description of the KMAAG regulatory basis of accounting, along with a description of all the County's significant accounting policies.

Significant or Unusual Transactions - We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Management's Judgments and Accounting Estimates - Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the County's financial statements.

- Compensated absences: It is the County's policy to permit employees to accumulate certain amounts of vacation and sick leave. The County's policies are discussed in Note III.C.1. As a basis for our conclusions, we obtained a list of accumulated vacation and sick time through December 31, 2018 from the County's payroll system, and recalculated vacation and sick time per County policies for a sample of County employees. In addition, we reviewed total compensated absences by analytically comparing the current year results to prior year history.

- Incurred but not reported claims for health insurance: The County is self-insured for these risks. Estimates related to health insurance claims are based on a past history of claims incurred, and estimates of the lag time between when a claim is filed and paid. As a basis for our conclusions, we reviewed the County's health insurance liability for claims incurred but not paid at December 31, 2018, in comparison to the historical lag time for claim payments, to ensure amounts projected to be paid after year-end were proper.

- Net pension liability: The County followed guidelines as prescribed in the KMAAG for disclosing its KPERS net pension liability. The County utilized information provided in KPERS' report on Schedules of Employer and Nonemployer Allocations and Schedules of Pension Amounts by Employer and Nonemployer as of June 30, 2018, which was audited by KPERS' auditors. The County compared contributions made by the County to amounts included in this report. As a basis for our conclusions, we reviewed the KPERS report for reasonableness and verified and recalculated the County's information provided in the report.

Audit Adjustments
There were 3 types of audit adjustments to the original trial balance presented to us to begin our audit: 1) to adjust beginning fund balance to match the prior year report, 2) to adjust accounts payable in the Employee Benefits Trust and Workers' Compensation Funds for estimated claims incurred but not yet paid, and 3) to adjust various Health Department accounts to agree to supporting documentation.

Uncorrected Misstatements
During the course of our audit, we accumulated uncorrected misstatements that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements.Therefore, the adjustments to correct these misstatements were not made to the financial statements. These items are summarized in the attached Summary of Adjustments Passed.

Management Representations
In connection with our audit procedures, we have obtained a written management representation letter. This representation letter constitutes written acknowledgments by management that it has the primary responsibility for the fair presentation of the financial statements in conformity with generally accepted accounting principles and also includes the more significant and specific oral representations made by officers and employees during the course of the audit. The letter is intended to reduce the possibility of misunderstandings between us and the County and reminds the signing officers to consider seriously whether all material liabilities, commitments and contingencies or other important financial information have been brought to our attention.

Other Disclosures
We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit year; we encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements; we are not aware of any consultations management had with other accountants about accounting or auditing matters; no major issues were discussed with management prior to our appointment; and we did not encounter any difficulties in dealing with management relating to the performance of the audit.

Internal Controls
In planning and performing our audit of the regulatory basis financial statements of Douglas County as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that were not identified. However, as disclosed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 financial statements will not be prevented, or detected and corrected on a timely basis.

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. We consider the following control deficiencies to be significant deficiencies.

Segregation of Duties:

- *Payroll Processing*: There is lack of adequate segregation of duties in the payroll function. 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.

  Mitigating controls include the fact that department heads, the County Treasurer and Assistant County Administrator receive copies of payroll reports for review. Department heads also review timesheets. Additionally, new hires and terminations are approved by the department heads and County Administrator where applicable. Beginning in July 2018, the County implemented an additional mitigating control to address this significant deficiency. The new mitigating control consists of an individual outside of the payroll department reviewing audit tables and any changes made by payroll personnel against supporting documentation quarterly. With the addition of this mitigating control, the significant deficiency was addressed beginning July 2018.

- *Purchase Orders*: Purchase orders under $20,000 can be created and approved by the same person. The ERP system implemented in 2015 allows for the same person to both enter and approve the purchase orders they have entered, primarily in those departments that small, though all purchase orders over $20,000 require an additional approval from at least the department making the purchase. There should be a separation between the entry function and the approval function to ensure that no fraudulent purchase orders are entered. Accounts payable is responsible for reviewing and approving setup of all new vendors in the system.

Other Matters

<u>Information Security Governance</u>

Executive managers and those charged with governance must be confident that the entity is protecting your information and the systems that process it. The potential impacts of a failure in the availability, confidentiality or integrity of your critical information assets is monumental in today's environment of cybersecurity breaches.

Many organizations believe their information security practices are adequately mitigating their risks. Unfortunately, they are often surprised to discover those practices are failing to perform as expected and the consequences are usually severe.

Information security is more than a technology issue. It is a governance and management challenge that involves risk management, accountability and reporting. And it requires executive stewardship to ensure the timely assessment of emerging threats and your organization's effective response to them.

Additional information on "Information Risk is Business Risk" can be accessed through our AGH University website located at http://www.aghuniversity.com/webinars/archived/archived-webinars.aspx (from the "select a topic" drop-down box, select Information Technology). Additionally, we encourage your management team to take advantage of peer networking groups, trade associations or other resources relating to IT and information risk and the most recent best practices as the constant risk evolves.

Additionally, a structured assessment can help you develop stronger, better and more systematic approaches to your information security. It will help you clearly and objectively understand the strengths and weaknesses in your current information security processes and the extent to which those processes are meeting your needs. Most important, it will guide you with recommendations to help you protect your information, facilities, people and technology.

We believe a review or assessment must be completed on a periodic basis; this assessment can be completed internally or by using an outsourced service provider. Executive managers should be involved with the review and summary reports should also be shared with those charged with governance.

<u>Vulnerability Assessment</u>

In addition to a periodic information system governance review, the entity should also conduct periodic (at least annually or semi-annually) vulnerability assessments. There are more than 100,000 known network vulnerabilities that can leave organizations open to significant risk. High-profile security breaches have become commonplace and many companies are susceptible to the same failures.

Network vulnerability assessments can help you identify and resolve your vulnerabilities before they are exploited by cybercriminals. AGH's experienced security professionals use network vulnerability assessments to discover and analyze known flaws and weaknesses.

Using automated scanners – along with their experience and judgment – our security professionals will identify existing vulnerabilities, evaluate their severity and recommend steps for fixing the underlying problems.

Comprehensive Policy and Procedure Review

Given the broad and deep scope of your operations, you should consider completing a comprehensive evaluation of the adequacy and effectiveness of the entity's internal financial policies, processes and procedures, including a comparison to best practices among organizations the same size.

For entities that have experienced budget cuts in the finance area or those that have experienced turnover, a periodic review of controls is imperative. Even if your finance team has been stable over the years, we remind you that even the best design of controls is only as good as the people who carry out and execute such controls.

Financial policies, procedures and processes are a key element of sound fiscal administration. When policies are effective, they can preserve or enhance the fiscal health and wealth of the organization and create efficiencies for staff members.

This comprehensive evaluation could include:

1. Evaluation of existing controls
2. Identification of financial policies that could lead to vulnerability to fraud and/or abuse
3. For those identified weaknesses and risks, recommendations for improvements

Closing
We will be pleased to respond to any questions you have about this report or set up an introductory meeting to discuss the other recommendations at no charge. We appreciate the opportunity to continue to be of service to Douglas County.

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

July 30, 2019
Wichita, KS

Douglas County
Summary of Adjustments Passed
12/31/2018

Description	Debit (Credit) to Assets	Liabilities / Encumbrances	Beg. Equity	Revenues	Expenditures
Effect of reversing prior year's entries in current year:					
To record payables in non-budgeted funds	$ -	$ -	$ 87,346	$ -	$ (87,346)
Current year adjustments passed:					
To record payables in non-budgeted funds	-	(255,199)	-	-	255,199
To record accrued payroll	-	(158,842)	-	-	158,842
	$ -	$ (414,041)	$ 87,346	$ -	$ 326,695

Current year effect	$ 326,695
Cumulative effect	$ 414,041