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June 10, 2014

County Commission
Atchison County, Kansas

We have audited the regulatory basis financial statement of Atchison County, Kansas for the year ended December 31, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 6, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Atchison County, Kansas are described in Note A to the financial statement. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statement in the proper period.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements
Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statement taken as a whole.

Disagreements with Management
For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statement or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations
We have requested certain representations from management that are included in the management representation letter dated June 10, 2014.

Management Consultations with Other Independent Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Communication of Significant Deficiencies and/or Material Weaknesses
See the attached Appendix A for our discussion regarding significant deficiencies and material weaknesses.

Other Audit Findings or Issues
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Appendix B has been provided as additional recommendations and discussion to assist in improving accounting, administrative, and operation controls and procedures. Cost effectiveness may not warrant the implementation of any or all of the items, but the County should consider the suggestions and prioritize as needed.

Other Matters

With respect to the supplementary information accompanying the financial statement, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with the accounting principles accepted in the *Kansas Municipal Audit and Accounting Guide* for regulatory basis reporting. The method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statement. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statement or to the financial statement itself.

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

Very truly yours,
Reese & Novelly PA
Reese & Novelly, PA CPA's

APPENDIX A: SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES

In planning and performing our audit of the regulatory basis financial statement of Atchison County, Kansas as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*, we considered Atchison County, Kansas's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, 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 Atchison County, Kansas'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 material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies 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 a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement 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 deficiencies in Atchison County, Kansas's internal control to be significant deficiencies.

1. Preparation of Financial Statement and Note Disclosures (Required per audit standards):

   The County prepares its financial statement in accordance with accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, in accordance with the reporting and formatting requirements displayed in the *Kansas Municipal Audit and Accounting Guide (KMAAG)*.

   Our firm has been asked to assist in the preparation of the financial statement and related note disclosures for the County. Current auditing standards require us to discuss our assistance with the governing body in order to address management's ability to prepare and understand the financial statement and related notes. County personnel do have the skill and knowledge to process all of the basic financial transactions and the ability to issue the internal financial statements needed to provide appropriate budget and operating information to the County Commission on an as needed basis. The County does not have a policy implemented as it relates to the preparation of external financial statements to ensure accuracy and completeness of the external financial statements, which in accordance with required audit standards is considered to be a significant deficiency.

Recommendations: We understand that it may not be cost effective to hire full-time professional staff with the knowledge and expertise to prepare the external financial reports, including the note disclosures as required per KMAAG. There are, however, some procedures the County can consider implementing to mitigate the County's risk associated with external financial reporting:

a. Maintain a current copy of the Kansas Municipal Audit and Accounting Guide (KMAAG), prescribed by Director of Accounts and Reports Department of Administration. The KMAAG can be purchased through the Kansas Society of Certified Public Accountants at www.kscpa.org
b. Use the checklist provided in the KMAAG to compare to the County's policies and procedures and review the draft of all audit reports provided by auditor prior to completion.
c. Participate in training on financial statement presentation.
d. Adopt a policy in which the governing body and management will review annual financial statements prior to being subjected to audit. This should include a reconciliation of the beginning balances to the prior year ending audited balances.

2. Violations of Kansas Statutes:

a. *K.S.A. 79-2935*, establishes that expenditures, including encumbrances, in any lawfully budgeted fund should not exceed the adopted budget of expenditures plus any reimbursement (budget credits) of current year expenditures for such fund for that budget year.

We noted four funds in violation of K.S.A. 79-2935 as follows:

- Road & Bridge, general government special purpose fund, exceeded its legal budget by $122,000 due to the transfer of funds for closing the fund.
- Law Enforcement, general government special purpose fund, exceeded its legal budget by $53,406 due to the transfer of funds for closing the fund.
- Solid Waste, general government special purpose fund, exceeded its legal budget by $90,177 due to the transfer of funds for closing the fund.
- Atchison Senior Village, business fund, exceeded its legal budget by $140,350.

3. Bank Reconciliations:

We have noted during testing this year and in the previous year that there have been unlocated variances between the reconciled cash to the bank and what is reported in the County's general ledger system. These variances are often timing differences due to the warrant system that is currently used. This system maintains dual records by the Treasurer and Clerk: the County Treasurer reconciles the actual warrants and checks as they are clearing the bank, and the County Clerk's records are reconciling the warrants approved for issuance and the warrants that have cleared the Treasurer's records. This process, while it may duplicate some work, creates an extra layer of control or protection that the cash and fund balances are being reconciled properly. However, we have noted that there is a gap between the Treasurer's reconciliation and the County Clerk's reconciliation. It appears that the Commission had approved to void several warrants at year end and those warrants were voided by the Clerk's office from the warrants payable account therefore crediting the original expenditures account and debiting the liability account. However, the warrants were not voided out of the cash balances in the same period and therefore it resulted in the cash

accounts to be understated in two funds by approximately $66,800 in the general fund and $48,360 in the Atchison Senior Village. In addition, when reviewing the end of year bank reconciliation staff were unable to provide us with an accurate outstanding check list to determine whether those checks had been included in the year end reconciliation for the accounts payable bank account.

We understand that the county has been transitioning to a new accounting system and we want to emphasize the importance during that transition of ensuring that the bank balances as well as the individual fund balances are properly converted and reconciled back to the old system to ensure that there are no missed outstanding items. In addition, we recommend that any unlocated variances be researched and determined if an adjustment is required to correct any balances. We further recommend a more streamlined approach to reconciling the bank balances to the general ledger accounting system to ensure that going forward all variances, whether due to timing differences or other, are documented and properly accounted for.

4. Grants Management (noted in prior year): We noted the following with regards to the County's policy and procedures related to the Grants management. The County does not have an overall process which oversees **all** of the grants applied for, awarded and received and expenditures throughout the year.

   a. There is no process for the County to track grant expenditures County-wide to ensure the County's compliance with audit requirements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States under provisions of OMB Circular A-133 Single Audit Act. Standards require a Single Audit to be performed in any year in which the County expends more then $500,000 in federal funds. The County is responsible for the determination of the audit requirements as well as the preparation of the Schedule of Expenditures of Federal Awards which can be used to determine single audit requirements, and should include (1) federal agency awarding grant; (2) pass-through agency (if applicable); (3) Federal CFDA program; (4) amount of award; (5) current year expenditures; and (6) current year grants revenue.
   b. There is no process to ensure, regardless of Single audit requirements, that the County remains in compliance with **all** grant requirements, including proper use of the funds and reporting of the grant expenditures.
   c. There is no standard for recording of grants receipts and their related expenditures. Some grants are accounted for in a separate fund, some are accounted for within the department's fund, there is no consistency as to which is applied. As well, most grant expenditures are expended out of a budgeted fund, and then a reimbursement from the grant fund (if used) is made to reimburse the budgeted fund when the grant revenue is received. This is all done using adjusting journal entries, which do not provide much support as to why the adjustment is made and is difficult to trace to the actual expenditures. Federal requirements under the *American Reinvestment and Recovery Act* require that grants be accounted for in a separate fund (not necessarily separate bank account) so that the receipts and expenditures for the entire grant (including matching requirements) can be easily tracked in the grantee's accounting system.

Recommendations: We recommend that a County-wide policy be established setting the protocol of applying for grants, notification of awards, financial reporting of the grant receipts and grant expenditures and all required reporting to federal and state agencies, and grant compliance. In

addition, the County should consider assigning staff or department with responsibility for accumulating centralized grant records. The individual does not have to be the one to prepare the grant applications or even maintain the grants as it relates to reporting, however they should be responsible for ensuring that adequate records are being maintained and tracked in order to ensure compliance with all federal and state grant requirements, including the County's responsibility for preparation of the Schedule of Federal Expenditures as well as determining when the County has met the threshold for Single Audit requirements. It is imperative that the County Commission is aware of all grants applied for, awarded, received and expended as it is their overall responsibility for the County to maintain compliance with the granting agencies.

Lastly, it is also imperative that the County's general ledger system easily track all grant related expenditures, including matching requirements. We recommend the use of separate funds continue to be used for all grants. We further recommend that at the time expenditures are turned in to the Clerk's office the department head be responsible for coding all grant expenditures to the appropriate grant fund, rather then the department's general fund. With that said we understand there are situations in which this may not be feasible or it would be too cumbersome to account for the grant expenditure in this manner at the time of occurrence. For example, the County's payroll system may not allow for the allocation of employee time and benefits to the grant fund. In a situation where it is more feasible for journal entries to be used we recommend the reallocation of expenditures be done in the following manner: (1) record an adjusting journal entry which reclassifies the expenditures to the grant fund, reducing the expenditures in the fund originally expensed, rather then recording a reimbursement; (2) the entry must be initiated by the individual responsible for the grant and also include the supporting documentation for the request to reclassify grant expenditures; (3) the request should include the approval of the department head; and (4) the adjustments should be recorded on a monthly or quarterly basis. Recording expenditures to the appropriate grant at the time of occurrence reduces the number of journal entries required which helps to ensure accurate grant reporting, expenditures are less likely to be counted twice or charged to multiple funding sources in error and allows for the ease of tracking the grants receipts and expenditures.

5. Adjusting Journal Entries: We noted there are no formal policies with regards to the posting of nonstandard adjusting journal entries. Nonstandard journal entries are generally those adjustments for corrections of posting or account reclassifications, for example the reclassification of grant receipts and expenditures.

   Recommendation: We recommend a policy be developed for the posting of nonstandard journal entries. The policy should include the following: (1) definition of nonstandard journal entries; (2) procedures for processing journal entries. At a minimum we recommend the policy include:

   a. Process for initiating the adjustment: Standard documentation for request from department heads for initiating the adjustment, as well as including at a minimum a description for the reason for adjustment, and signature or initials by the department head approving the adjustment. If supporting documentation is not required to be maintained with the individual recording the adjustment, the departments should be instructed to have supporting documentation on file to support the reason for the adjustment.
   b. Processing of adjustments should be assigned to management only. After processing, the documentation should indicate whom made the adjustment and date it was processed. If at all possible, the adjustments should be entered by one individual and the final posting

reviewed and completed by a second individual. This can typically be established in computer systems through password verification.

c. A file of all adjustments should be maintained and periodically reviewed to ensure all significant adjustments are adequately supported.

APPENDIX B: OTHER CONTROL MATTERS

The following recommendations are submitted to assist in improving accounting, administrative and operational controls and procedures. Cost effectiveness may not warrant the implementation of the items listed, but the County should consider the suggestions and prioritize as needed.

B.1 Internal controls (discussed in prior year): We have discussed in previous years the importance of having effective internal controls established and properly implemented in order to provide reasonable assurance that specific objectives related to the maintenance of County assets and the financial reporting are reliable.

We have noted in previous years also that there are no standard County wide operating procedures addressing cash receipts functions, accounting for separate bank accounts, and reporting to the County Clerk's and Treasurer's office and/or the County Commission, as well as reconciling departmental records to the County's general ledger. Therefore, we have noted that inconsistencies do exist in how each of the departments operates and maintains accounting records. We have identified the following areas we consider in need of minor improvements to increase controls over the cash receipts and financial reporting processes:

a. *Decentralized Receipts*: Several departments collect cash receipts outside of the Treasurer's office (example: Sheriff, Appraisers Office, Senior Living Center, etc) to which they turn in their receipts to the County Treasurer. The Treasurer's office deposits the receipts into the County's bank and records in the County's financial records. Due to the lack of standard policies and procedures the information that is provided to the Treasurer is done on an inconsistent basis, and therefore often times receipts are not posted properly (see discussion on posting of reimbursements, transfers, and adjustments). The lack of standardization for posting to general ledger accounts leads to errors in posting, inconsistencies, and erroneous financial statements. In some cases where a separate bank account is maintained, independent bank reconciliations are not being performed.

b. *Segregation of Duties*: We noted in some departments in which cash is collected, the limited staff could perform all functions of the cash receipts process. Staff collects cash, records the activity in department records, and deposits the funds with the County Treasurer. In addition, as mentioned in a. above, there are no reconciliations performed, which further exposes the County to additional risk due to errors or theft.

c. We identified the following accounts, maintained outside of the County's normal operating procedures, as lacking the appropriate segregation of duties and/or oversight:

   i. Sheriff's Inmate Funds: The same individual is responsible for receiving, depositing and recording inmate fund receipts, as well as issuing payments and reconciling the account. Per discussion with staff there is little oversight over the bank account. We noted that there are several outstanding checks and/or account balances that are more then two years old. In addition there are no formal procedures in place as it relates to the return of funds to the inmate, or the use of those funds for outstanding balances owed by the inmate to the County (assessed court costs, medical expenses, etc).

Recommendations: We understand that due to the size of the departments and limited staff that optimal segregation is not always feasible or cost effective; however we have provided the following recommendations to consider in relation to the County's overall general controls over financial reporting and asset safeguarding.

Segregation of duties and Decentralized Receipts: Financial transactions should not be handled from start to finish by one staff member, to help reduce the risk that an error can be made and concealed. In small departments with limited staff, accounting duties can be effectively segregated by involving other staff outside the department (clerk's office staff or other staff outside the function of receiving the funds) in the accounting function and assigning accounting tasks to non-accounting personnel. In addition, a closer involvement in the day-to-day affairs by management often compensates for having a small staff. Regardless of size of staff, it is imperative that the County and all its Departments have controls in place to help deter, detect and/or prevent fraud. The following are minimum controls that should be considered:

a. It is imperative that all management, department heads and Commission have a good understanding of the financial reports distributed in order to have an understanding of how their department and/or County as a whole have been operating and be able to effectively budget the departments. If there is not a clear understanding this can lead to budget overruns, budget violations, cash violations, in addition to other risks of material misstatements in the financial statements whether due to error or fraud. We recommend that all department heads and Commissioners receive training on the County's general ledger system and how to read and understand the reports that are generated from the system. This would also open the lines of further communication between the departments and allow for discussion and sharing of ideas on how each department operates and potentially implement changes to allow the County as a whole to operate more efficiently.
b. All cash should be kept secure at all times, only allowing access to those that need access to perform their duties.
c. Develop a policy as to when receipts are deposited, including setting a threshold amount of when funds must be deposited daily. Deposits should be made weekly at a minimum, regardless of the threshold that is set. These measures will help to reduce the risk of loss of cash by reducing the time between receiving and depositing cash.
d. A daily reconciliation of the cash drawer should be required which should include two individuals (if possible), one to count the receipts immediately at days end and the second to compare the cash collected to the amount of sales for the day.
e. Timely reconciliations should be performed by departments to reconcile their documentation and receipts to what is recorded in the County's general ledger system. This reconciliation should be maintained with the receipt of deposit received from the County Treasurer and should be signed and dated by the individual who performed the reconciliation.
f. We further recommend that standard operating procedures be developed and implemented across all departments with regards to how the receipts are turned into the County Treasurer, including a standard form that indicates the total amounts being deposited and the proper accounting codes for ensuring accurate reporting for each department.
g. For bank accounts maintained outside of the County Treasurer's office, the bank reconciliation must be performed on a timely basis. If the same individual is responsible for receiving money, depositing the receipts, and reconciling the bank account then an

independent review by management and/or another department should be performed on a periodic basis in addition to the review of reports by management as discussed in f. above.

Cross-training and rotation of duties: Anytime there is an opportunity to train more than one County staff member on certain duties, generally duties that can be rotated, a reduction in risk of errors can be achieved. This also helps operations continue to run smoothly in the event that there is an emergency and the responsibilities can not be performed by the normal staff person assigned to the duties.