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Certified Public Accountants

December 4, 2018

County Commission
Atchison County, Kansas

We have audited the regulatory basis financial statement of Atchison County, Kansas for the year ended December 31, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), 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 February 7, 2018. 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 2017. While there was no new accounting policies adopted in 2017, we have provided information with regards to the County's overall policy and procedures over financial reporting in Appendix A and B. 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. Enclosed is listing of the all adjustments approved and corrected by management of which some were material adjustments.

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 December 4, 2018. The letter also includes approval of the above mentioned corrected and uncorrected misstatements.

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 statement or a determination of the type of auditor's opinion that may be expressed on that statement, 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 or 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 regulatory-required supplementary information (RRSI) accompanying the financial statement, (Schedules 1-3) we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with 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 regulatory-required supplementary information to the underlying accounting records used to prepare the financial statement or to the financial statement itself.

We were also engaged to report and provide Schedules 4-6, which accompany the financial statement but are not RRSI. With respect to this supplementary information, 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 method of accounting adopted by the County. 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.

Restriction on Use

This information is intended solely for the information and 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, P.A.

Reese & Novelly, PA

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, 2017, 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 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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 deficiency in internal control to be a significant deficiency.

We would like to point out that in previous years we have noted more significant deficiencies and material weaknesses, of which many of our suggestions have been taken into account and new procedures have been implemented in order to mitigate those deficiencies noted. In many instances the deficiencies and material weaknesses were considered to be eliminated or reduced to a level of acceptable risk. We commend the management and the staff for their efforts.

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. Based upon our audit and discussion with management, county personnel do have the skill and knowledge to process all of the basic financial transactions and the ability to issue the internal financial statement 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 statement to ensure accuracy and completeness of the external financial statement, 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 financial reports, including the note disclosures as required per KMAAG. There are, however, some procedures the County should consider implementing to mitigate the County's risk associated with financial reporting:

a. It is imperative that the Commission assign to specific individual(s) and/or departments the appropriate authority and responsibility to oversee the financial reporting process for the overall financial statement for the County. The individual(s) must possess suitable skill, knowledge, or experience in order evaluate the financial statement and accept responsibility for them. While departments should also be held accountable for reviewing and approving their department's financial information, it is imperative that the overall financial statement be maintained. Management cannot rely on the audit to assist in detecting and correcting misstatements, and if they are detected in the audit process this is not considered to be timely.

b. A policy must be established with regards to the controls over accounting and financial reporting and review and acceptance of the financial statement. This includes procedures for which the governing body and management will review periodic (monthly, quarterly, annual) prior to being subject to the audit. The annual review should include a reconciliation of balances to prior year ending audited balances and a review of all balance sheet liability accounts for reasonableness. When developing the County's internal controls over financial reporting, policies should take into consideration the following general rules in establishing and implementing effective internal controls:

i. Establish a control environment conducive for accurate financial reporting. The control environment is the attitudes, awareness, and actions of management and those charged with governance, that demonstrate its commitment to accurate accounting and financial reporting, compliance with provisions of laws, regulations, contracts, and grants agreements. This includes (a) management has created and maintained an culture of honesty and ethical behavior; (b) control environment provides an appropriate foundation for the other components of internal control; and (c) the other components are not undermined by deficiencies in the control environment. Equally as important to establishing the control environment is the implementation of the controls as well. Controls are not only designed but must be effectively implemented and achieving the appropriate goals of the objectives.

ii. Establish a risk assessment process which identifies what management does to identify and respond to risks that may affect accounting or financial reporting. This involved identifying risk of misstatement in the financial statement or material noncompliance, estimating their significant, assessing the likelihood of their occurrence, and implementing controls activities or taking other steps to address those risks. This can be done informally.

iii. Establish an environment in which communication is the key to obtaining overall availability and timeliness of information necessary for internal controls and financial reporting system to function properly. This involves determining how the information should be made available to the right people at the right time. The policy should include how management is to communicate financial reporting roles and responsibilities and significant reporting matters to employees, those charged with governance, and appropriate external parties and how exceptions are brought to the attention of persons at the appropriate level to take corrective action.

iv. Establish an understanding of how management and/or governing body will monitor the operations of the County's components of internal control to ensure (a) controls are operating as intended; and (b) changes to controls are made when necessary.

c. It is vital that those responsible for the financial reporting process are adequately trained in financial statement preparation for municipalities including the regulatory accounting and reporting requirements of Kansas governments. This includes:

i. Maintaining 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

ii. 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.

iii. Participate in live or online training in accounting and financial reporting.

APPENDIX B: OTHER CONTROL MATTERS

Another audit year has been concluded and we would like to comment on our observations. Over the last few years, the staff has greatly improved their internal control processes and the monitoring, and supervision over these controls. This is evidenced by the reduction in audit adjustments for the year. We are able to detect that staff are using critical thinking and analysis by the questions we are getting throughout the year. Their continued forward thinking of how events or transactions may affect the financial accountability of the County to their citizens is very progressive and will surely produce better outcomes. Both staff and Commissioners appear to be cognizant of their roles in making the Atchison County accountable and sustaining to future generations. We find the major challenge to small municipalities is to use the resources available to the maximum benefit while continuing to find other resources to fund everyday needs, improve infrastructure, and continue to grow their communities. These challenges become even more significant when the potential that current resources may be impeded by other government entities or the costs of major infrastructure repairs may exceed current resources or reserves. We are encouraged to see both staff and the governing body continually analyzing these issues and seeking the means to be able finance the costs. We did not note any material weaknesses during the 2017 audit.

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.

1. <u>Internal Controls Specific to Accounting Functions - (parts are repeat from prior years)</u>

   Previous year comments: In January 2014 the County began a conversion process to new accounting software which included conversion of all functions of accounting process (AP, tax collections, payroll, etc.). Each module was converted over the course of the 2014 year with the final conversion completed in September 2014. During our discussion with staff and management, it became evident that there was a lack of communication during the conversion process that was further hampered by what appeared to be a lack of willingness of key department's heads to participate. Many of the County's key controls and procedures were changed, without a protocol established to facilitate and communicate the procedural changes. The result compromised adequate internal controls to remain in place and in some cases resulted in a severe lack of appropriate internal controls over certain accounting procedures and financial reporting. Additionally, the changes in responsibilities of certain departments were made, but these changes were not identified and communicated. The governing body made the changes in the job roles and responsibilities to be able to identify oversight over the accounting and financial reporting process. However, the process of the change was not communicated and monitored adequately and resulted in the year end financial statement being materially misstated due to deficiencies in the system.

   It was noted in 2015 that changes were made in the procedures and it appears that there are more controls over the expenditures and departments have a much better understanding of how to post expenditures and to check the reports against their records. We noted some reconciling differences which we had determined were significant enough to merit attention by those charged with governance, we have not identified any to be material weaknesses.

In 2016, we noted some of the same issues as a result of change in personnel and additional learning of the software implemented.

In 2017, we have noted improvement in the controls and posting over expenditures. However, we did note that department heads are not coding or initialing the invoices before it goes to the accounts payable clerk. With discussion with management, we did note that these are happening orally between the department head and accounts payable clerk.

Recommendation: The County should implement a process in which the department head reviews, initials, and codes the invoice before it goes to the accounts payable clerk for payment.

2. Bank Reconciliations

The bank reconciliation process improved greatly during 2017, however some adjustments were made that were not supported with a clear explanation in writing. We were able to discuss with the Treasurer and Clerk's office these adjustments and reconciling differences. The County doesn't have a process for oversight of these types of issues.

***Recommendation*:** The County should implement a process whereby a final review of adjustments should be oversighted. This could be obtained by having a final review within administration of all adjustments. Adjustments must be better documented as to the purpose of the adjustment and its correcting effect. A standardized adjustment sheet should be considered and all adjustments should be approved by department heads.

3. Collection and reporting of Tax Receipts and Tax Disbursements and Other Receipts

We noted during the audit that certain Tax Receipts in funds such as 897 County Wide Sales Tax, that there is an inconsistent recording of the transactions. The reporting is such that receipts and disbursements are all reported in the same account. This results in not reporting receipts and disbursements properly. As noted in previous years the County's operating procedures are not standardized with regards to the cash receipts functions, accounting for separate bank accounts, reporting to the County Clerk's and Treasurer's office and/or the County Commission, and the reconciliation of departmental records to the County's general ledger. Our testing and discussion with staff and management in 2017 noted the process for recording of receipts has been significantly improved. While the County has not established county-wide policies and procedure with regards to receipts, the procedures in place appear to be more effective and revenues are more consistently posted.

Recommendation: We continue to emphasize the importance of having written County-wide standard procedures, to be used by all departments as to when and how receipts should be entered and requirements for depositing with the Treasurer. There may be special circumstances in which the standard operating procedure must be altered; this deviation will be the exception and not the rule.

4. Violations of Kansas Statutes

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 the following funds were in violation of K.S.A. 79-2935 as follows:

- Atchison Senior Village

K.S.A. 75-1120a(c) requires the County to approve a resolution annually that waives the requirement for application of generally accepted accounting principles and allows the County to use the *KMAAG* regulatory basis of accounting.

5. Inmate Funds

We noted during discussion with staff and management that in 2017, the Sheriff's office made changes to the accounting software. Due to these changes, some information was difficult to obtain. Due to this, here are funds being held for inmates that are no longer in the system and need to be returned or submitted to the State for refunds.

Recommendation: We recommend written policies and procedures be established which identify clear job duties and responsibilities for maintaining the account and proper reconciliation procedures. The policy should also include discussion on how to handle old detainee balances for accounts in which inmates are no longer incarcerated at the County jail. Any funds remaining in the account upon the release of the individual should be reviewed as to whether the funds should be returned to the owner, paid to the Sheriff or Court for unpaid fees, turned over to the state for unclaimed property or transferred to the general fund.

6. Grants Management (noted in prior year and repeated)

We continue to recommend the County consider implementation of a County-wide policy establishing protocol for applying for grants, notification of awards, financial reporting of the grant receipts and grant expenditures all required reporting to federal and state agencies, and applicable grant compliance requirements. It is imperative that the County Commission is made 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.

We continue to stress the importance of having 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 and ensuring whenever possible that expenditures and receipts are coded directly 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.

Implementation of an overall policy for grants management should also allow for the accumulation of grant records in a centralized office to assist in determining the County's overall compliance requirements for *Government Auditing Standards*, issued by the Comptroller General of the United States under provisions of the Uniform Guidance. Standards require a Single Audit to be performed in any year in which the County expends more then $750,000 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.

Overall recommendations with regards to the other matters noted above. The following is a repeat comment from prior year to improve overall policies and procedures. We have continued to stress the importance of having County-wide policies for all departments to follow. Those policies established must be within the boundaries and requirements of the state statutes that govern certain public and/or elected officials and their offices. We have identified three areas that we believe need strengthened in order to no only establish the policies but effectively implement.

A. Tone at the Top and Communication: It is imperative to have open lines of communication in order for all departments to work together and achieve the goals and needs of the County, which most importantly is to be good stewards of the county funds, and provide for accurate and timely financial information. This starts at the top of any organization and carries down. Creating an environment in which information can freely flow and questions can be asked is a key element. We understand that there is a different dynamic with County entities and that state statute governs much of the operations, but communication is imperative in any organization.
B. Oversight and Review: The responsibility of financial statement oversight has not been laid out. It is still imperative that there be accountability at all levels, however without County wide policy and clear assignment of authority it is going to be difficult to achieve. Duties and roles can be assigned or delegated but those roles must be defined, and proper authority (within statutory authority) given to do the job.

C. Training: Departments need to be trained on what to look for and why it is important if they are going to be held accountable. It is important that they can read them and understand the financial statement. It is even more important that those responsible for financial statement oversight (whether by statute or delegated) understand the financial statement and how every transaction impacts cash and fund balances, as well as budget. This is where the oversight comes from and if those responsible for oversight do not have this understanding then they cannot give proper guidance to the department heads and staff who rely on them to make the final decisions.

D. Reports: Some reports in the CIC system change as new transactions are recorded. It is extremely important for staff to understand the reporting system and print reports immediately that support activities. Staff needs to make sure they either print to paper or to file each time they do a closing of an accounting record whether that is on a daily, monthly, or annual basis.

E. Grants: We urge the County to consider implementing additional procedures to address Grants Management. We noted when testing grant revenue we had difficulty identifying these payments in the general ledger. It would be helpful to be more specific in recording the payments in the accounting system.

F. Lastly, we understand the change in the personnel during the year have created additional procedurally challenges. We encourage the Commission to engage with staff and discuss issues as well as urging staff to discuss and train with the software provider on the Accounting System to fully understand the recording of transactions and how those postings are reporting in the financial system.