



Berberich Trahan & Co.

SHAWNEE COUNTY HEALTH AGENCY

(A SPECIAL REVENUE FUND OF SHAWNEE COUNTY, KANSAS)

BASIC FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2006 AND 2005

SHAWNEE COUNTY HEALTH AGENCY
(A SPECIAL REVENUE FUND OF SHAWNEE COUNTY, KANSAS)

BASIC FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

Years Ended December 31, 2006 and 2005

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Berberich Trahan & Co.

Certified Public Accountants

3630 SW Burlingame Road
Topeka, KS 66611-2050

Telephone 785 234 3427
Toll Free 800 530 5526
Facsimile 785 233 1768
www.cpakansas.com

INDEPENDENT AUDITORS' REPORT

Members of the Shawnee County Health Agency Community Health Center
Board and Shawnee County Board of Commissioners
Shawnee County Health Agency:

We have audited the accompanying financial statements of the governmental activities of Shawnee County Health Agency (the Agency) (a special revenue fund of Shawnee County, Kansas) as of and for the years ended December 31, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Agency (a special revenue fund of Shawnee County, Kansas) are intended to present the financial position and the changes in financial position of only the portion of the governmental activities of Shawnee County that is attributable to the transactions of the Agency. They do not purport to, and do not, present fairly the financial position of Shawnee County, Kansas as of December 31, 2006 and 2005 and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of Shawnee County Health Agency (a special revenue fund of Shawnee County, Kansas) as of December 31, 2006 and 2005, and the changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2007 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require the presentation of Management's Discussion and Analysis. Because the financial statements represent one fund of Shawnee County, Kansas, the Management's Discussion and Analysis has not been presented.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information, including the schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements of Shawnee County Health Agency. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Berberich Trahan & Co., P.A.

August 16, 2007

SHAWNEE COUNTY HEALTH AGENCY
(A SPECIAL REVENUE FUND OF SHAWNEE COUNTY, KANSAS)

BALANCE SHEETS

December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Assets:		
Cash and short-term investments	\$ 2,323,916	\$ 1,926,370
Accounts receivable-patients, net of allowance of \$241,402 and \$ 212,131 in 2006 and 2005, respectively	253,747	370,678
Due from other governments	382,669	399,987
Inventory	13,189	69,289
	<hr/>	<hr/>
Total assets	<u>\$ 2,973,521</u>	<u>\$ 2,766,324</u>
 <u>LIABILITIES AND FUND BALANCES</u>		
Liabilities:		
Accrued liabilities	\$ 165,120	\$ 137,475
Unearned revenue	225,341	214,361
	<hr/>	<hr/>
Total liabilities	<u>390,461</u>	<u>351,836</u>
Fund balances:		
Reserved for encumbrances	3,193	27,037
Reserved for inventory	13,189	69,289
Unreserved	2,566,678	2,318,162
	<hr/>	<hr/>
	<u>2,583,060</u>	<u>2,414,488</u>
	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 2,973,521</u>	<u>\$ 2,766,324</u>

See accompanying notes to financial statements.

SHAWNEE COUNTY HEALTH AGENCY
(A SPECIAL REVENUE FUND OF SHAWNEE COUNTY, KANSAS)

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES

Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Revenues:		
Taxes and assessments	\$ 3,901,444	\$ 3,901,344
Intergovernmental	3,196,605	3,166,211
Net patient service revenue	2,321,698	1,997,774
Charges for service	180,966	190,406
Other agency revenue	391,589	256,043
Other	60,861	31,942
	<u>10,053,163</u>	<u>9,543,720</u>
Total revenues		
Expenditures (Schedule 1):		
Health and welfare:		
Personal services	7,504,228	7,093,075
Contractual services	1,004,993	912,140
Commodities	676,446	604,973
Capital outlay	38,816	69,190
Bad debt expense	406,606	421,066
Indirect cost allocation	253,502	251,299
	<u>9,884,591</u>	<u>9,351,743</u>
Total expenditures		
Change in fund balances	168,572	191,977
Fund balances, beginning of year	<u>2,414,488</u>	<u>2,222,511</u>
Fund balances, end of year	<u>\$ 2,583,060</u>	<u>\$ 2,414,488</u>

See accompanying notes to financial statements.

SHAWNEE COUNTY HEALTH AGENCY
(A SPECIAL REVENUE FUND OF SHAWNEE COUNTY, KANSAS)

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

1 - Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization

The Shawnee County Health Agency (the Agency) is funded by and operates as a special revenue fund of Shawnee County, Kansas (the County). The financial statements of the County have been audited and reported on separately.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The accounting and financial reporting treatment applied is determined by its measurement focus. The Agency is accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The operating statement presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The Agency utilizes the modified accrual basis of accounting. Under this basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter (typically 60 days) to be used to pay liabilities. Expenditures are recorded when a liability is incurred.

SHAWNEE COUNTY HEALTH AGENCY
(A SPECIAL REVENUE FUND OF SHAWNEE COUNTY, KANSAS)

NOTES TO FINANCIAL STATEMENTS
(Continued)

1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the Financial Administrator for the purpose of increasing earnings through investment activities. These pooled investments consist primarily of operating accounts, nonnegotiable certificates of deposit and money market instruments, such as U.S. Treasury and Agency obligations. GASB Statement No. 31 also provides that governmental entities may report all other investments at fair value or they may elect to report certain money market investments at amortized cost. Certificates of deposit are carried at cost because they are not affected by market rate changes. U.S. Treasury and Agency obligations are carried at amortized cost. The U.S. Treasury and Agency obligations are held at the Federal Reserve on account in the County's name. The County also invests in the State of Kansas Municipal Investment Pool (MIP). The MIP is overseen by the State of Kansas. The fair value of the County's position in the MIP is the same as the value of the pool shares. The individual funds' portions of the pool's fair value are presented as "cash and short-term investments". Earnings on the pooled funds are apportioned and paid or credited to the funds required to accumulate earnings based on their average monthly balances. If the fund is not required to account for its own earnings by law or regulation, the earnings are allocated to the General Fund.

Accounts Receivable-Patients

Patient receivables, where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the service provided, less an estimate for contractual adjustments or discounts provided to third-party payors.

Patient receivables due directly from the patients are carried at the original charge for the service provided less amounts covered by third-party payors and less an estimated allowance for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts, by historical experience applied to an aging of accounts and by considering the patient's financial history, credit history and current economic conditions. Patient receivables are written off to bad debt when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt when received.

SHAWNEE COUNTY HEALTH AGENCY
(A SPECIAL REVENUE FUND OF SHAWNEE COUNTY, KANSAS)

NOTES TO FINANCIAL STATEMENTS
(Continued)

1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Inventory

Inventory consists of medical supplies carried at cost, which is determined using the first-in first-out (FIFO) method. The inventory is considered expended when consumed by the various departments.

Unearned Revenue

Unearned revenue represents grant monies received in advance of the period earned.

Reserves

Reserves of fund balances are reported to indicate that a portion of the fund balance is set aside for a specific purpose.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Use of Estimates

The preparation of financial statements in conformity with the modified accrual basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SHAWNEE COUNTY HEALTH AGENCY
(A SPECIAL REVENUE FUND OF SHAWNEE COUNTY, KANSAS)

NOTES TO FINANCIAL STATEMENTS
(Continued)

1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Pending Governmental Accounting Standards Board Statements

At December 31, 2006, the Governmental Accounting Standards Board (GASB) had issued a statement not yet implemented by the Agency. The statement that might impact the Agency is as follows:

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was issued in June 2004. This statement establishes standards for the measurement, recognition and display of other postemployment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The term "other postemployment benefits" refers to postemployment benefits other than pension benefits and includes (a) postemployment healthcare benefits and, (b) other types of postemployment benefits (i.e., life insurance) if provided separately from a pension plan. The provisions of this statement are effective for periods beginning after December 15, 2007.

2 - Related Party Transactions

The County allocates a portion of its ad valorem taxes and assessments to the Agency. For the years ended December 31, 2006 and 2005, the County transferred \$ 3,901,444 and \$ 3,901,344, respectively, to the Agency.

The Agency reimburses the County for its portion of indirect costs incurred by the County. The amounts reimbursed to the County were \$ 253,002 and \$ 251,299 for the years ended December 31, 2006 and 2005, respectively.

SHAWNEE COUNTY HEALTH AGENCY
(A SPECIAL REVENUE FUND OF SHAWNEE COUNTY, KANSAS)

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - Employee's Retirement System

Shawnee County participates in the Kansas Public Employees Retirement System (KPERS) which is a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Avenue, Suite 100; Topeka, KS 66603-3803) or by calling 1-888-275-5737.

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the employer contribution rates. The KPERS employer rate established by statute from January 1, 2006 through June 30, 2006 was 4.61% and from July 1, 2006 through December 31, 2006 was 4.81%. Shawnee County's employer contributions to KPERS for the years ending December 31, 2006, 2005, and 2004 were approximately \$ 1,479,000, \$ 1,238,000, and \$ 1,083,000, respectively, equal to the statutorily required contributions for each year.

4 - Operating Leases

The Agency has a month-to-month lease agreement for office space which is paid twice a year in March and in September.

The Agency also entered into a two-year lease agreement in March 2006 for office space. Future annual minimum lease payments related to this lease are:

2007	\$ 9,010
2008	1,508
	<hr/>
	\$ 10,518
	<hr/>

Rent expense was \$ 45,007 and \$ 43,097 for years ending December 31, 2006 and 2005, respectively.

SUPPLEMENTARY INFORMATION

SHAWNEE COUNTY HEALTH AGENCY
(A SPECIAL REVENUE FUND OF SHAWNEE COUNTY, KANSAS)

SCHEDULES OF EXPENDITURES BY PROGRAM

Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Administrative Services:		
Personal services	\$ 1,446,346	\$ 1,354,045
Contractual services	386,053	359,781
Commodities	198,332	163,166
Capital outlay	28,400	64,662
Indirect cost allocation	253,502	251,299
	<u>2,312,633</u>	<u>2,192,953</u>
Environmental Health:		
Personal services	557,767	522,299
Contractual services	17,134	14,234
Commodities	26,635	24,160
	<u>601,536</u>	<u>560,693</u>
Adult Field Services:		
Personal services	979,291	917,814
Contractual services	81,332	76,944
Commodities	16,312	15,293
Non-cash expenditures	72,473	74,528
	<u>1,149,408</u>	<u>1,084,579</u>
Communicable Disease Control:		
Personal services	100,879	110,388
Contractual services	17,869	10,148
Commodities	1,719	1,361
Non-cash expenditures	9,442	11,705
	<u>\$ 129,909</u>	<u>\$ 133,602</u>

(Continued)

SHAWNEE COUNTY HEALTH AGENCY
(A SPECIAL REVENUE FUND OF SHAWNEE COUNTY, KANSAS)

SCHEDULES OF EXPENDITURES BY PROGRAM
(Continued)

Years Ended December 31, 2006 and 2005

	2006	2005
Primary Care:		
Personal services	\$ 2,874,113	\$ 2,614,687
Contractual services	255,923	221,465
Commodities	182,925	75,978
Capital outlay	8,850	2,995
Non-cash expenditures	282,772	291,444
	<u>3,604,583</u>	<u>3,206,569</u>
Public Health:		
Personal services	1,529,386	1,562,153
Contractual services	206,260	195,539
Commodities	249,289	323,482
Capital outlay	1,566	1,533
Non-cash expenditures	41,919	43,389
	<u>2,028,420</u>	<u>2,126,096</u>
Adult Health:		
Personal services	16,446	11,689
Contractual services	40,422	34,029
Commodities	1,234	1,533
	<u>58,102</u>	<u>47,251</u>
Total expenditures	<u>\$ 9,884,591</u>	<u>\$ 9,351,743</u>

See accompanying independent auditors' report.

SHAWNEE COUNTY HEALTH AGENCY
(A SPECIAL REVENUE FUND OF SHAWNEE COUNTY, KANSAS)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2006

Federal Grantor/Pass-Through Grantor/Program Title	Federal C.F.D.A. Number	Pass-Through Grantor's Number	Program or Award Amount	New Award or Unexpended Grant Amount at January 1, 2006	Grant Expenditures	Amount Forfeited	Unexpended Grant Amount at December 31, 2006
Environmental Protection Agency: Passed through Kansas Department of Health and Environment:							
Air Pollution Control - 105	66.001		\$ 26,953	\$ 25,458	\$ 1,473	\$ 23,985	\$ -
Air Pollution Control - 105	66.001		23,867	23,867	6,951	-	16,916
Air Pollution Control - 105	66.001		27,459	26,114	10,666	15,449	-
Total Environmental Protection Agency				75,439	19,089	39,434	16,916
U.S. Department of Health and Human Services:							
Community Health Center	93.224	5H80CS00522-05-00	446,272	155,716	155,716	-	-
Community Health Center	93.224	6H80CS00522-05-01	527,201	527,201	388,729	-	138,472
Medical Reserve Corp	93.008		50,000	28,886	-	28,886	-
Passed through Kansas Department of Health and Environment:							
Counseling & Testing	93.118		10,259	5,129	4,165	964	-
Counseling & Testing	93.118		10,259	10,259	5,130	-	5,129
Pandemic Flu	93.185		40,153	40,153	40,153	-	-
Lead Nurse	93.197		50,000	50,000	42,016	-	7,984
Family Planning	93.217		117,054	61,610	61,610	-	-
Family Planning	93.217		109,530	109,530	55,243	-	54,287
Immunization Action Plan	93.268		14,757	7,378	7,378	-	-
Immunization Action Plan	93.268		14,757	14,757	-	-	14,757
Child Care Licensing	93.575		88,323	44,162	44,162	-	-
Child Care Licensing	93.575		88,130	88,130	33,955	-	54,175
STD/AIDS Disease Intervention/Prevention	93.977		34,081	17,041	17,041	-	-
STD/AIDS Disease Intervention/Prevention	93.977		33,069	33,069	16,535	-	16,534
Maternal & Child Health - Block Grant	93.991		6,011	2,993	2,993	-	-
Maternal & Child Health - Block Grant	93.994		309,666	154,815	154,815	-	-
Maternal & Child Health - Block Grant	93.994		283,603	283,603	141,832	-	141,771
Bioregion Training and Curriculum Development	93.996		183,677	144,920	144,920	-	-
Bioregion Training and Curriculum Development	93.996		163,245	163,245	31,783	-	131,462
Regionalization	93.996		57,563	31,079	31,021	58	-
Regionalization	93.996		51,135	51,135	2,392	-	48,743
Subtotal forward U.S. Department of Health and Human Services				\$ 2,024,811	\$ 1,381,589	\$ 29,908	\$ 613,314

(Continued)

SHAWNEE COUNTY HEALTH AGENCY
(A SPECIAL REVENUE FUND OF SHAWNEE COUNTY, KANSAS)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

Year Ended December 31, 2006

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	New Award or Unexpended Grant Amount at January 1, 2006	Grant Expenditures	Amount Forfeited	Unexpended Grant Amount at December 31, 2006
Subtotal forward U.S. Department of Health and Human Services				\$ 2,024,811	\$ 1,381,589	\$ 29,908	\$ 613,314
Passed through Jayhawk Area Agency on Aging, Inc.:							
Title III B Supportive Services & Senior Centers	93.044		\$ 16,250 *	11,242	11,242	-	-
Title III B Supportive Services & Senior Centers	93.044		6,270	6,270	3,072	-	3,198
Title III D Routine Health Screening	93.043		3,788 *	3,219	2,842	377	-
Total U.S. Department of Health and Human Services				2,043,542	1,398,145	30,285	616,512
U.S. Department of Agriculture:							
Passed through Kansas Department of Health and Environment:							
Special Supplemental Nutrition Program for Women, Infants and Children:							
Breastfeeding Peer Counseling	10.557		13,024	9,425	8,088	1,337	-
Breastfeeding Peer Counseling	10.557		13,024	13,024	3,020	-	10,004
Women, Infants & Children	10.557		713,195	713,195	713,195	-	-
Total U.S. Department of Agriculture				735,644	724,303	1,337	10,004
Total Federal Awards				\$ 2,856,625	\$ 2,142,137	\$ 71,056	\$ 643,432

* Award Amended
See notes to schedule of expenditures of federal awards.

SHAWNEE COUNTY HEALTH AGENCY
(A SPECIAL REVENUE FUND OF SHAWNEE COUNTY, KANSAS)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2006

1 - General

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards of Shawnee County Health Agency.

2 - Basis of Accounting

The accompanying schedule uses the modified accrual basis of accounting.

SHAWNEE COUNTY HEALTH AGENCY
(A SPECIAL REVENUE FUND OF SHAWNEE COUNTY, KANSAS)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2006

Section I – Summary of Independent Auditor’s Results

Financial Statements

Type of auditors’ report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified:	See 2006-1
Significant deficiencies identified that are not considered to be material weaknesses:	See 2006-2 and 2006-3
Noncompliance material to financial statements:	None

Federal Awards

Internal control over major programs:	
Material weaknesses identified:	None
Significant deficiencies identified that are not considered to be material weaknesses:	None reported
Type of auditors’ report issued on compliance for major programs:	Unqualified
Any audit findings that are required to be reported in accordance with Section 510(a) of Circular A-133:	None
Identification of major program:	
<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.224	Community Health Center
Dollar threshold used to distinguish between Type A and Type B programs	\$ 300,000
Auditee qualified as a low-risk auditee:	Yes

SHAWNEE COUNTY HEALTH AGENCY
(A SPECIAL REVENUE FUND OF SHAWNEE COUNTY, KANSAS)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section II – Financial Statement Findings

Material Weakness 2006-1

The Agency does not maintain a general ledger system in accordance with generally accepted accounting principles (GAAP). The system does not record significant asset, liability and fund balance/net asset accounts which are required to be in conformity with GAAP. Therefore, information in such areas as receivables, payables, deferred revenues and fund balance/net asset information are not available to elected officials and users within the Agency's management. As a result of the general ledger not being maintained in conformity with GAAP, there were many significant journal entries that were not identified by the Agency's internal controls. We recommend that the Agency investigate opportunities to obtain a general ledger system that allows the financial statements prepared by management to be presented on the modified accrual basis of accounting.

Corrective Action Plan/Management's Response (Unaudited)

The County's present accounting system is a cash basis system and has limited accrual accounting capabilities. As a result, the County has been unable to maintain a general ledger system according to GAAP. To remedy this deficiency, the County has been looking for new accounting software. On July 30, 2007, the County signed a contract with SunGard for an Enterprise Resource Planning (ERP) system. This system is written exclusively for governmental entities and the County is confident that this new system will allow us to be in conformity with GAAP.

Significant Deficiency – 2006-2

The Agency's outlying clinics, which collect cash and checks from patients, balance their cash drawers on a daily basis. However, we noted that the clerks at each location open the mail, receive patient payments, post patient payments and reconcile their own cash drawers. Although a majority of the clinic cash reconciliations are reviewed by other clerks, we suggest that the receipt and posting of patient payments be separated. We also noted that checks received from patients are not restrictively endorsed with the Agency's bank account number prior to deposit. We recommend that all checks received be immediately restrictively endorsed with the Agency's bank account number. Implementing these procedures will improve accountability over the financial records of the Agency.

Corrective Action Plan/Management's Response (Unaudited)

Cash Control Policy and Procedure 1.25 has been put in place. Mail is sent to the Main agency business office for processing. The beginning and ending cash balance for each cash drawer is verified by another clerk. Money collected from clients is balanced to the documentation from the Health Pro system and verified by another cashier. Checks are endorsed at the site when received. Verification and balancing of documentation and money is repeated at the business office the next day.

SHAWNEE COUNTY HEALTH AGENCY
(A SPECIAL REVENUE FUND OF SHAWNEE COUNTY, KANSAS)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Significant Deficiency – 2006-3

The Agency uses a separate patient accounts receivable system to track patient accounts receivable. The system contains a library of standard fees determined by the Agency for each type of patient service. These standard fees are automatically charged to a patient account once the patient service has been entered into the accounts receivable system. However, during our analysis of accounts receivable, we noted that the standard patient fees charged for patient services can be modified during input in the accounts receivable system prior to the system's daily processing. We recommend that random manual checks be performed to compare the information entered into the system to the supporting patient encounter sheets, prior to the daily processing by the system, to ensure that the correct patient fee is being captured by the accounts receivable system. This procedure will assist the Agency in strengthening internal control over accounts receivable.

Corrective Action Plan/Management's Response (Unaudited)

Patient Account Charge Entry Audit Policy and Procedure 13.00 has been implemented. Audits are occurring on a random basis. Two codes are chosen for each audit. Reports are ran on the codes for one month at a time. A random selection is made for a percentage of the codes to check for compliance.

Section III – Federal Award Findings and Questioned Costs - None

SHAWNEE COUNTY HEALTH AGENCY
(A SPECIAL REVENUE FUND OF SHAWNEE COUNTY, KANSAS)

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Year Ended December 31, 2006

Prior Year Reportable Condition RC-1

The Agency does not record revenues on an accrual basis throughout the year. Patient revenues should be recorded at their net realizable amounts. Historical information should be accumulated to determine appropriate contractual or bad debt write-offs which should be recorded monthly. Grant revenues should be recorded in a manner which matches expenditures and revenues.

Corrective Actions Taken or Planned:

RC-1 The Agency and the County are researching information for a new software package that will address the issue of receivables. The Agency continues to use supplemental reports (i.e. bad debt write-offs, aging) to monitor the receivables activity very closely.

Follow-Up – This reportable condition is repeated in the current year and is shown as Finding No. 2006-1 in the schedule of findings and questioned costs.

Prior Year Finding 2005-1

Federal Program – Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) – CFDA No. 10.557

Condition – One of the twelve WIC participant computer files tested contained an input error in the income determination module. As a result, the participant's annual income was understated.

Criteria – The Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* eligibility guidelines stipulate that participants must meet an income standard in order to receive WIC benefits. Accurate documentation of the participant's income must be present in the participant's file to support the eligibility determination.

Effect – A participant received WIC assistance when it was not definite that the participant met the income standard.

Questioned Costs – Unknown

Recommendation – Participant information contained in the computer input screens should be reviewed by another person prior to the participant receiving WIC benefits. In addition, the income documentation in the computer file should be more descriptive regarding what type of proof of income was received from the participant, which would provide the necessary support for the eligibility determination.

SHAWNEE COUNTY HEALTH AGENCY
(A SPECIAL REVENUE FUND OF SHAWNEE COUNTY, KANAS)

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
(Continued)

Corrective Action Plan (Unaudited) – In-service training on documentation of income eligibility will be provided to employees. Due to the high volume of clients, dual checking for each client is not practical. A sampling of charts will be audited monthly for accuracy.

Follow-up – In 2006, no exceptions were noted for the WIC files selected for testwork.

Prior Year Finding 2005-2

Federal Program – Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) – CFDA No. 10.557

Condition – The March and June 2005 "WIC Program Affidavit of Expenditures" reports, submitted to the Kansas Department of Health and Environment (KDHE), contained numerous data entry errors as well as erroneous calculations of WIC payroll hours. Reviews of the affidavits did not catch the errors before they were submitted.

Criteria – Reporting guidelines under the Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* stipulate that amounts reported to the grantor must be accurate and complete.

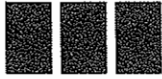
Effect – The amounts reported to KDHE were misstated.

Questioned Costs – Understatement of expenditures on WIC affidavits of \$ 5,552.

Recommendation – The completed affidavit should be independently reviewed by someone other than the preparer and vouched to supporting documentation prior to submission.

Corrective Action Plan (Unaudited) – All WIC affidavits will have the preparer's name as well as the reviewer's name on the affidavit before it can be sent to KDHE. WIC hours will be determined by using percentages for each division on the payroll system. WIC supervisors will review the percentages of time quarterly for accuracy of time spent in each division. Changes will be given to the Finance Officer for implementation in the SCARAB system.

Follow-up – The affidavits are independently reviewed by someone other than the preparer prior to submission. This review includes vouching the information reported in the affidavits to supporting documentation.



Berberich Trahan & Co.

Certified Public Accountants

3630 SW Burlingame Road
Topeka, KS 66611-2050

Telephone 785 234 3427
Toll Free 800 530 5526
Facsimile 785 233 1768
www.cpakansas.com

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

Members of the Shawnee County Health Agency Community Health Center
Board and Shawnee County Board of Commissioners
Shawnee County Health Agency:

We have audited the basic financial statements of Shawnee County Health Agency (the Agency) (a special revenue fund of Shawnee County, Kansas) as of and for the year ended December 31, 2006, and have issued our report thereon dated August 16, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, as items 2006-1, 2006-2 and 2006-3, to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider item 2006-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency'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*.

We noted certain matters that we reported to management of the Agency in a separate letter dated August 16, 2007.

This report is intended solely for the information and use of management, the Shawnee County Health Agency Community Health Center Board, the Shawnee County Board of Commissioners, 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.

Berberich Trahan & Co., P.A.

August 16, 2007



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3630 SW Burlingame Road
Topeka, KS 66611-2050

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Toll Free 800 530 5526
Facsimile 785 233 1768
www.cpakansas.com

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Members of the Shawnee County Health Agency Community Health Center
Board and Shawnee County Board of Commissioners
Shawnee County Health Agency:

Compliance

We have audited the compliance of Shawnee County Health Agency (the Agency) (a special revenue fund of Shawnee County, Kansas) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2006. The Agency's major federal program is identified in the summary of independent auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency'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 Agency'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 Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2006.

Internal Control Over Compliance

The management of the Agency 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 Agency's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Agency's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Agency's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the Agency's internal control that might be 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.

This report is intended solely for the information and use of management, the Shawnee County Health Agency Community Health Center Board, the Shawnee County Board of Commissioners, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Berberich Trahan & Co., P.A.

August 16, 2007