

January 16, 2018

The Honorable John Barker, Chairperson
House Committee on Federal and State Affairs
Statehouse, Room 285-N
Topeka, Kansas 66612

Dear Representative Barker:

SUBJECT: Fiscal Note for HB 2441 by Legislative Post Audit Committee

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2441 is respectfully submitted to your committee.

Under current law, the Legislative Post Audit (LPA) contracts with and oversees outside firms to perform the following audits:

1. The statewide audit, which includes an annual audit of the state's Consolidated Annual Financial Report, an annual audit of the state's compliance with federal requirements, and biennial audits of the State Treasurer and Pooled Money Investment Board (PMIB);
2. A financial audit of the Kansas Lottery;
3. A security audit of the Kansas Lottery; and
4. A financial audit of the Kansas Public Employees Retirement System (KPERs).

HB 2441 would transfer responsibility for procuring and administering these audits from the LPA to the audited agencies, including the Department of Administration, the Kansas Lottery and KPERs. For the statewide audit, the firm that performs the audit would be selected by the Department of Administration Contract Audit Committee, which would be created by the bill. The committee would consist of the following individuals or their designees: the Secretary of Administration, the Director of Accounts and Reports, the Post Auditor, the State Treasurer, and the Director of the Budget. The Department of Administration would be allowed to charge state agencies for audit expenses that are above regular Department operating costs. Monies received from agencies would be deposited into the Department of Administration Audit Services Fund, which would be a new fund created by the bill.

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For the Kansas Lottery financial and security audits, the bill would create the Kansas Lottery Audit Contract Committee for selecting firms. The committee would include the following individuals or their designees: the Executive Director of the Kansas Lottery, the Chairperson of the Kansas Lottery Commission, and the Post Auditor. For the KPERS financial audit, the firm would be selected by the KPERS Board of Trustees. HB 2441 would also require the LPA to conduct a performance audit of KPERS at least once every three years.

Currently, the LPA is responsible for contracting for audit services and the audited agencies are responsible for the costs of the audits. Agencies are billed by LPA who collects the funds and pays the firms for their services. For the Kansas Lottery, transferring procurement and administration of the audits from the Legislative Post Audit would not result in a fiscal effect since the agency already pays for those costs. There would be no fiscal effect on the state budget from transferring responsibilities of the statewide audit from LPA to the Department of Administration. However, because the Department would be assuming responsibility for monitoring and administering a large, complex audit, LPA indicates that State General Fund expenditures and 1.00 FTE Audit Manager position could be shifted from its budget to the Department of Administration budget for FY 2019.

The Department of Administration estimates it would need \$115,470 for FY 2019, which includes \$106,254 for salaries and wages and \$9,216 for other operating expenditures. Of the total, \$3,000 would one-time costs for office and IT equipment. Shifting State General Fund expenditures from the LPA to the Department of Administration would require decreasing State General Fund appropriations in the LPA budget by \$115,570 and increasing State General Fund appropriations by the same amount in the Department's budget. The reduction from the LPA budget and the addition to the Department of Administration budget is not included in HB 2441 and would need to be added to the bill or the appropriations bill.

According to KPERS, the bill would have no fiscal effect on the agency because it already pays for all audit costs. The State Treasurer and the PMIP indicated the bill would have no fiscal effect on their respective agencies. Any fiscal effect associated with HB 2441 is not reflected in *The FY 2019 Governor's Budget Report*.

Sincerely,



Shawn Sullivan,
Director of the Budget

cc: Stephen Durrell, Lottery
Rick Riggs, Post Audit
Jarod Waltner, KPERS
Colleen Becker, Department of Administration
Peter Northcott, Office of the Treasurer
Scott Miller, PMIB