

SESSION OF 2018

SUPPLEMENTAL NOTE ON SENATE BILL NO. 260

As Amended by House Committee on Federal
and State Affairs

Brief*

SB 260, as amended, would transfer responsibility for procuring independent audits from the Legislative Division of Post Audit (LPA) to the audited agencies. LPA currently is responsible for administering the audit contracts, but the agencies are responsible for the costs. Agencies are billed by LPA, which collects the funds and pays the contracted auditing firms for their services.

The bill would transfer responsibility for four audits currently administered by LPA: the Statewide Single Audit, a financial audit of the Kansas Lottery, a security audit of the Kansas Lottery, and a financial audit of the Kansas Public Employees Retirement System (KPERS).

Statewide Contract Audit

The bill would transfer responsibility for procuring and administering the Statewide Contract Audit from LPA to the Department of Administration (DofA). The Statewide Single Audit includes four statutorily required audits:

- An annual audit of the State's consolidated annual financial report (CAFR);
- An annual audit of the State's compliance with federal requirements (federal single audit);

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

- A biennial examination of financial management practices at the State Treasurer's Office; and
- A biennial examination of financial management practices at the Pooled Money Investment Board (PMIB).

In addition, the audit includes two audits that are not statutorily required: annual financial audits of the Department of Transportation, and audits of two state revolving loan funds administered by the Department of Health and Environment.

The bill would create the Department of Administration Contract Audit Committee to select a firm to conduct the audit. This committee would consist of persons appointed by the following individuals: the Secretary of Administration, the Director of Accounts and Reports, the Post Auditor, the State Treasurer, and the Director of the Budget.

The bill would allow the DofA to charge state agencies for audit expenses that are above regular DofA operating costs. Moneys received from agencies would be deposited into the Department of Administration Audit Services Fund, which would be created by the bill.

Kansas Lottery Financial and Security Audits

The bill would create the Kansas Lottery Audit Contract Committee to select a firm to conduct the required audits. This committee would consist of persons appointed by the following individuals: the Executive Director of the Kansas Lottery, the Chairperson of the Kansas Lottery Commission, and the Post Auditor.

KPERS Financial Audit

The bill would require the KPERS Board of Trustees to select a firm to perform the audit. In addition, the bill would

require LPA to conduct a performance audit of KPERS at least once every three years.

The bill would be in effect upon publication in the *Kansas Register*.

Background

The bill was prefiled for introduction on December 27, 2017, at the request of the Legislative Post Audit Committee. A substantially similar bill (HB 2441) was also introduced in the House Committee on Federal and State Affairs.

In the Senate Committee on Federal and State Affairs hearing, the Interim Post Auditor testified in favor of the bill. The Interim Post Auditor stated the bill would allow LPA to focus on performance audits conducted by existing staff. No other testimony was provided.

The Senate Committee amended the bill to replace certain terms (bidders, invitations for bids, bids to firms, requests for proposals, and proposals) and expand the statutes to which contracts referenced in the bill would be subject, to include KSA 75-37,102 and KSA 2017 Supp. 75-37,130 through KSA 75-37,135.

In the House Federal and State Affairs hearing, the Interim Post Auditor testified in favor of the bill. No other testimony was provided.

The House Committee amended the bill to make the provisions of the bill effective upon publication in the *Kansas Register*.

According to the fiscal note prepared by the Division of the Budget on the bill as introduced, there would be no fiscal effect on the state budget from transferring responsibilities of the statewide audit from LPA to the DofA. However, because the DofA would be assuming responsibility for monitoring and

administering the statewide audit, LPA indicates State General Fund (SGF) expenditures and 1.0 FTE Audit Manager position be shifted from its budget to the DofA budget for FY 2019.

The DofA 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 consist of one-time costs for office and IT equipment.

Shifting SGF expenditures from LPA to the DofA would require decreasing SGF appropriations in the LPA budget by \$115,570 and increasing SGF appropriations by the same amount in the DofA's budget. The reduction from the LPA budget and the addition to the DofA's budget is not included in the bill and would need to be added to the bill or the appropriations bill.

According to the Kansas Lottery, transferring procurement and administration costs of the audits from LPA would not result in a fiscal effect since the agency already pays for those costs.

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 PMIB indicated the bill would have no fiscal effect on their respective agencies.

Any fiscal effect associated with the bill is not reflected in *The FY 2019 Governor's Budget Report*. An updated fiscal note was not available at the time the Senate Committee took action on the bill.