

SESSION OF 2018

**CONFERENCE COMMITTEE REPORT BRIEF
SENATE BILL NO. 260**

As Agreed to April 26, 2018

Brief*

SB 260 would transfer responsibility for procuring independent audits from the Legislative Division of Post Audit (LPA) to the audited agencies, establish a one-time audit of the 911 Coordinating Council, and prohibit state agencies from contracting with the same vendor to plan and build certain information technology projects.

Audits

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). 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.

Statewide Single Audit

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

*Conference committee report briefs are prepared by the Legislative Research Department and do not express legislative intent. No summary is prepared when the report is an agreement to disagree. Conference committee report briefs may be accessed on the Internet at <http://www.kslegislature.org/kldr>

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

911 Coordinating Council Audit

The bill would create a one-time audit of the budget and expenditures of the 911 Coordinating Council (Council) to be conducted by LPA on or before December 31, 2018. LPA would be required to examine the following:

- Annual expenses and financial needs, including personnel;
- Total annual operating expenses included in the 2.5 percent cap on expenditures;
- Current and project contractual expenses;
- Expenditures and distribution of moneys from the 911 State Grant Fund; and
- Whether the moneys expended by the Council are being used pursuant to the Kansas 911 Act.

The auditor conducting the audit would be required to compute the anticipated costs of the audit, subject to review and approval by the Contract Audit Committee. Once approved, LPA would be reimbursed from the 911 State Grant Fund.

The bill would require the audit report to be submitted to the 911 Coordinating Council; the House Committee on Energy, Utilities and Telecommunications; and the Senate Committee on Utilities.

Information Technology Contracting Requirements

The bill would prohibit state agencies from contracting with a vendor on an information technology project if that vendor prepared or assisted with:

- The preparation of the program statement;
- The project planning documents; or
- Any other project plans prepared prior to approval of the project by the Chief Information Technology Officer (CITO) of the relevant branch of government.

Information technology projects with estimated cumulative costs of less than \$5.0 million would be exempted from the provisions of the bill. Additionally, the provisions of the bill could be waived with written permission from the CITO.

Effective Date

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

Conference Committee Action

The Conference Committee agreed to the contents of SB 260, as amended by the House Committee on Federal and State Affairs, with the following changes:

- Establish a new one-time audit of the 911 Coordinating Council; and
- Add the contents of HB 2438, as introduced.

Background

The bill contains the contents of SB 260, as amended by the House Committee on Federal and State Affairs, and HB 2438, as introduced.

SB 260

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.

Senate Action

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 made technical amendments to 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.

House Action

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*.

Fiscal Note

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.

HB 2438

The bill was prefiled for introduction on December 21, 2017, at the request of the Legislative Post Audit Committee. In the House Committee on Federal and State Affairs hearing, the Post Auditor provided neutral testimony on the bill. The Post Auditor stated his belief that the bill represents good project management practices. No other conferees appeared before the House Committee.

According to the fiscal note prepared by the Division of the Budget, the Department for Children and Families, the Kansas Department of Health and Environment, the Kansas Department of Agriculture, and the Kansas Department of Transportation all indicate the bill would have no fiscal effect, as these agencies have no plans to implement information technology projects with costs exceeding \$5.0 million in FY 2018 or FY 2019. The Office of Information Technology Services indicates the bill could have a fiscal effect on the agency, but any fiscal effect cannot be estimated.

Audit; Kansas Legislative Division of Post Audit; Statewide Contract Audit; Department of Administration; Kansas Lottery; Kansas Public Employees Retirement System; Kansas Lottery Audit Contract Committee; Chief Information Technology Officer; information technology; 911 Coordinating Council

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