

SESSION OF 2018

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2441

As Amended by House Committee on Federal
and State Affairs

Brief*

HB 2441, as amended, would transfer responsibility for procuring independent audits from the Legislative Division of Post Audit (LPA) to the audited agencies. LPA is currently responsible for administering the audit contracts, but the agencies are responsible for the costs. Agencies are billed by LPA who collects the funds and pays the contracted auditing firms for their services.

The bill would transfer responsibility for four audits currently administered by LPA, including 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). Firms contracting for the listed audits would be required to be located in the state.

Statewide Contract Audit

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

- An annual audit of the State's consolidated annual financial report (CAFR);

*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>

- An annual audit of the State's compliance with federal requirements (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 Department to charge state agencies for audit expenses that are above regular Department 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.

Background

The bill was prefiled for introduction on December 27, 2017, at the request of the Legislative Post Audit Committee.

In the House Committee on Federal and State Affairs hearing, the Post Auditor testified in favor of the bill. The Post Auditor stated that the bill would allow LPA to focus on performance audits conducted by existing staff.

The House Committee amended the bill by requiring that all firms contracting for listed audits be located in the state. The House Committee also amended the bill to include statutory references to general state contracting requirements, with which compliance would not be required.

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 Department of Administration (Department). However, because the Department would be assuming responsibility for monitoring and administering the statewide audit, LPA indicates State General Fund (SGF) expenditures and 1.00 FTE Audit Manager position be shifted from its budget to the Department budget for FY 2019.

The Department 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 Department would require decreasing SGF appropriations in the LPA budget by \$115,570 and increasing SGF appropriations by the same amount in the Department's budget. The reduction from the LPA budget and the addition to the Department'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 Pooled Money Investment Board 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*.