



# **COMPLIANCE AND CONTROL AUDIT REPORT**

**Corporation Commission**

**A Report to the Legislative Post Audit Committee  
By the Legislative Division of Post Audit  
State of Kansas  
March 2005**

# **Legislative Post Audit Committee**

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## **Legislative Division of Post Audit**

The **Legislative Post Audit Committee** and its audit agency, the **Legislative Division of Post Audit**, are the audit arm of Kansas government. The programs and activities of State government now cost about \$10 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of government agencies. The audit work performed by **Legislative Post Audit** helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U. S. Government Accountability Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. These audit standards have been endorsed by the American Institute of Certified Public Accountants and adopted by the **Legislative Post Audit Committee**.

The **Legislative Post Audit Committee** is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the representatives, three are appointed by the Speaker of the House and two are appointed by the House Minority Leader.

As part of its audit responsibilities, the Division is charged with meeting the requirements of the **Legislative Post Audit Act** which address audits of financial matters. Those requirements call for two major types of audit work.

First, the Act requires an annual audit of the State's financial statements. Those statements, prepared by the Department of Administration's Division of Accounts and Reports, are audited by a certified public accounting firm under contract with the **Legislative Division of Post Audit**. The firm is selected by the Contract Audit Committee, which comprises three members of the **Legislative Post Audit Committee** (including the Chairman and Vice-Chairman), the Secretary of Administration, and the **Legislative Post Auditor**. This audit work also meets the State's audit responsibilities under the federal Single Audit Act.

Second, the Act provides for a regular audit presence in every State agency by requiring that audit work be conducted at each agency at least once every three years. Audit work done in addition to the annual financial statement audit focuses on compliance with legal and procedural requirements and on the adequacy of the audited agency's internal control procedures. These compliance and control audits are conducted by the Division's staff under the direction of the **Legislative Post Audit Committee**.

### **LEGISLATIVE POST AUDIT COMMITTEE**

Representative John Edmonds, Chair  
Representative Tom Burroughs  
Representative Peggy Mast  
Representative Bill McCreary  
Representative Tom Sawyer

Senator Les Donovan, Vice-Chair  
Senator Anthony Hensley  
Senator Nick Jordan  
Senator Derek Schmidt  
Senator Chris Steineger

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Barbara J. Hinton, Legislative Post Auditor

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LEGISLATURE OF KANSAS  
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March 4, 2005

To: Members, Legislative Post Audit Committee

Representative John Edmonds, Chair  
Representative Tom Burroughs  
Representative Peggy Mast  
Representative Bill McCreary  
Representative Tom Sawyer

Senator Les Donovan, Vice-Chair  
Senator Anthony Hensley  
Senator Nick Jordan  
Senator Derek Schmidt  
Senator Chris Steineger

This report contains the findings from our completed compliance and control audit of the Corporation Commission.

We would be happy to discuss this report with any legislative committees, individual legislators, or other State officials.

A handwritten signature in black ink that reads "Barbara J. Hinton". The signature is written in a cursive, flowing style.

Barbara J. Hinton  
Legislative Post Auditor



# **EXECUTIVE SUMMARY**

LEGISLATIVE DIVISION OF POST AUDIT

## ***Has the Corporation Commission Provided Adequate Oversight for Local Spending of Grants?***

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**The Corporation Commission generally had appropriate procedures to ensure adequate oversight for local spending of grants.** ..... page 3  
*The audit focused on the Commission's energy grant program. The Commission has made significant improvements in its procedures since the previous audit. In addition, our tests of local grant spending found that moneys were used for appropriate and allowable purposes.*

**Appendix A: Agency Response** ..... page 5



# Corporation Commission

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The Legislative Division of Post Audit has conducted compliance and control audit work at the Corporation Commission. Compliance and control audits can identify noncompliance with applicable requirements and poor financial-management practices. The resulting audit findings often identify needed improvements that can help minimize the risk of potential future loss or misuse of State resources.

At the direction of the Legislative Post Audit Committee, this audit focused on the Commission's oversight of grants to local organizations. The audit addresses the following specific question:

**Has the Corporation Commission provided adequate oversight for local spending of grants?**

To answer this question, we reviewed applicable statutes and regulations, and identified standard grant oversight practices. We also interviewed appropriate Department staff members, and reviewed a sample of grant files and records.

In conducting this audit, we followed all applicable government auditing standards.

## Corporation Commission AT A GLANCE

**Authority:** Created by K.S.A. 66-101.

**Staffing:** The Commission has about 215 full-time-equivalent positions.

**Budget:** The Commission's activities are funded almost entirely by fees, federal grants, and other receipts. In addition, certain statutory transfers are made from other funds, including the State General Fund, to the Commission's Abandoned Oil and Gas Well Fund. During fiscal year 2003, the Commission took in and spent about \$16.8 million.

### FY 2003 Expenditures

<u>Type</u>	<u>Amount</u>	<u>% of Total</u>	<u>Program</u>	<u>Amount</u>	<u>% of Total</u>
Salaries and Wages	\$10,250,315	61%	Conservation	\$6,296,598	38%
Contractual Services	\$5,391,361	32%	Administrative Services	\$4,652,887	28%
Aid to Local Governments and Other Assistance	\$691,199	4%	Utilities	\$3,692,627	22%
Commodities	\$231,913	1%	Energy	\$1,304,216	8%
Capital Outlay	\$101,407	1%	Transportation	\$818,264	5%
Other	\$98,397	1%			
<b>Total Expenses:</b>	<b>\$16,764,592</b>	<b>100%</b>	<b>Total Expenses:</b>	<b>\$16,764,592</b>	<b>100%</b>

Source: *The Governor's Budget Report*, Vol. 2, FY 2005.

## Has the Corporation Commission Provided Adequate Oversight for Local Spending of Grants?

*ANSWER IN BRIEF: The Corporation Commission's procedures for overseeing how local organizations spent grants received from the Commission generally were well-designed and operating effectively during the period we reviewed. In testing a sample of grants, we found grant moneys were used for allowable purposes. These findings are discussed in more detail in the sections that follow.*

### ***The Corporation Commission Generally Had Adequate Procedures To Ensure Adequate Oversight for Local Spending of Grants***

During fiscal years 2003, the Corporation Commission made almost \$1 million in grants to support energy conservation projects and to increase knowledge of energy issues. Examples are grants to school districts to help fund energy conservation measures, such as upgrading lighting systems to make them more energy-efficient, and grants to support gathering data about wind currents as a possible energy source. This appears to be the Commission's only program of grants to local organizations that aren't essentially procurements of goods or services.

The Commission is responsible for developing and implementing procedures to ensure that the local organizations to which it provides grants spend those grant moneys appropriately. Such procedures would include the following:

- identifying for the local organizations the funding sources of their grants
- informing local organizations about applicable compliance requirements
- monitoring local organizations' spending of grant moneys
- responding appropriately to any problems found with the local organizations

To identify and evaluate the oversight procedures used by the Commission, we interviewed Department staff, examined applicable records and files, and tested a sample of grants to local organizations. The sample of grants tested is described below. The Commission's oversight activities addressed all of the above aspects of ensuring appropriate spending by local organizations.

Our test of a sample of local grant spending found that grant moneys had been spent for appropriate and allowable purposes. For fiscal year 2003, the Commission made 36 energy grants. To determine whether local spending of grant moneys was used appropriately, we tested the four grants listed on the next page. These grants, selected because they were among the larger grants, accounted for about 25% of the grant dollars awarded. We considered this sample sufficiently representative to reach conclusions about the Commission's oversight of local spending. In each case, grant moneys were spent appropriately.

Grantee	Purpose of Grant	Amount Spent
USD #382 (Pratt)	Upgrade lighting and controls and Pratt High School to improve energy efficiency	\$ 39,219
USD #313 (Buhler)	Upgrade lighting and automation at Prairie Hill High School to improve energy efficiency	\$ 49,298
Coriolis (Energy Planning Consultants, Inc.)	Gather tall tower wind data to help study wind as a possible energy source	\$ 73,489
Kansas State University	Operate the Kansas Energy Extension Service—produces original publications on energy topics, maintains internet resources, and responds to phone and e-mail energy questions	\$ 65,668

The Commission has adequately addressed grant oversight problems identified in Legislative Post Audit’s previous compliance and control audit of local grant oversight. The previous audit, issued October 1997, found that the Commission didn’t follow some practices that were required, or that would better ensure that moneys were spent properly at the local level. Recommendations regarding those practices are listed below, together with the steps taken by the Commission to address them.

<b>The previous audit recommended that the Commission...</b>	<b>The Commission now...</b>
Compare grantee actual costs to budgeted costs and authorize or disapprove expenditures that aren’t part of the approved grant or that exceed the allowed variance	Compares actual costs to budgeted costs and investigates non-approved costs or costs that are more than 10% over budget
Follow its established policy for on-site reviews of grantees	Has eliminated the policy calling for on-site reviews because of limited staff available to the program (This change has been clearly communicated to the federal granting agency.) The Commission’s current procedures, including the improvements listed in this table, now provide adequate oversight without the site visits.
Ensure receipt and appropriate review of grantee audit reports	Obtains a copy of the most recent available audit report and reviews those reports for applicable findings
Require grantees to submit supporting documentation for salaries charged to grants	Requires timesheets or other appropriate documentation to support salaries charged to grants

## APPENDIX A

### Agency Response

On January 21, 2005, we provided a copy of the draft audit report to the Corporation Commission. The Commission's response is included as this Appendix.

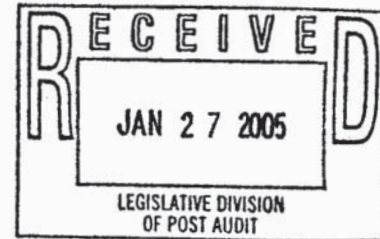
# KANSAS

CORPORATION COMMISSION

KATHLEEN SEBELIUS, GOVERNOR  
BRIAN J. MOLINE, CHAIR  
ROBERT E. KREHBIEL, COMMISSIONER  
MICHAEL C. MOFFET, COMMISSIONER

January 25, 2005

Barbara J. Hinton, Auditor  
Legislative Division of Post Audit  
800 SW Jackson Street, Suite 1200  
Topeka, KS 66612-2212



Dear Ms. Hinton:

The Commission appreciates the opportunity to respond to the audit reviewing the Commission's oversight of local spending of our grant recipients. I concur with the recommendations. I am pleased with staff for implementing proper procedures and controls to ensure our compliance with federal and state policies and guidelines.

We appreciated the professional and thorough review provided by Randy Tongier. If you have additional questions, please let me know.

Sincerely,

A handwritten signature in cursive script, appearing to read "Brian Moline".

Brian Moline, Chair

cc: Susan Duffy, Executive Director  
Jackie Montfoort Paige, Chief Fiscal Officer