



# **FINANCIAL AND COMPLIANCE AUDIT REPORT**

**State of Kansas  
Fiscal Year 2006**

**A Report to the Legislative Post Audit Committee  
By the Joint Venture of Allen, Gibbs & Houlik and  
Berberich Trahan & Co., Under Contract with the  
Legislative Division of Post Audit  
State of Kansas  
February 2007**

# ***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 \$11 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 Peggy Mast, Chair  
Representative Tom Burroughs  
Representative John Grange  
Representative Virgil Peck Jr.  
Representative Tom Sawyer

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

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Barbara J. Hinton, Legislative Post Auditor

The Legislative Division of Post Audit supports full access to the services of State government for all citizens. Upon request, Legislative Post Audit can provide its audit reports in large print, audio, or other appropriate alternative format to accommodate persons with visual impairments. Persons with hearing or speech disabilities may reach us through the Kansas Relay Center at 1-800-766-3777. Our office hours are 8:00 a.m. to 5:00 p.m., Monday through Friday.



LEGISLATURE OF KANSAS

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February 9, 2007

To: Members, Legislative Post Audit Committee

|                                  |                                 |
|----------------------------------|---------------------------------|
| Representative Peggy Mast, Chair | Senator Nick Jordan, Vice-Chair |
| Representative Tom Burroughs     | Senator Less Donovan            |
| Representative John Grange       | Senator Anthony Hensley         |
| Representative Virgil Peck       | Senator Derek Schmidt           |
| Representative Tom Sawyer        | Senator Chris Steineger         |

This report contains significant findings, conclusions, and recommendations from the completed Statewide audit covering fiscal year 2006. This audit was conducted by the joint venture of Allen Gibbs & Houlik and Berberich Trahan & Co., audit firms under contract with the Legislative Division of Post Audit.

The report discusses key aspects regarding the conduct of the audit, but makes no recommendations. We would be happy to discuss any items in the report with any legislative committees, individual legislators, or other State officials.

A large, elegant handwritten signature in black ink that reads "Barbara J. Hinton".

Barbara J. Hinton  
Legislative Post Auditor



December 30, 2006

To the Legislative Post Audit Committee  
Kansas State Legislature  
Topeka, Kansas

This letter is intended to inform the Audit Committee of the State of Kansas about significant matters related to the conduct of the annual audit so it can appropriately discharge its oversight responsibility and that we comply with our professional responsibilities to the Audit Committee.

The following summarizes various matters which must be communicated to you under auditing standards generally accepted in the United States of America.

### **The Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America**

Our audit of the financial statements of the State of Kansas (State) for the year ended June 30, 2006 was conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States, the provisions of the Single Audit Act, OMB Circular A-133 and OMB's Compliance Supplement. Those standards, circulars, and the supplement require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe our audit accomplished that objective.

In accordance with *Government Auditing Standards*, we have also performed tests of controls over internal control over financial reporting and tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements that contribute to the evidence supporting our opinion on the financial statements. However, they do not provide a basis for opining on the State's internal control over financial reporting or on compliance and other matters.

### **Management Judgments and Accounting Estimates**

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us they used all the relevant facts available to them

at the time to make the best judgments about accounting estimates and we considered this information in the scope of our audit. Estimates significant to the financial statements include such items as:

- Taxes receivable
- Incurred but not reported claims
- Arbitrage liabilities
- Depreciation

The Committee may wish to monitor throughout the year the process used to compute and record these accounting estimates.

### **Audit Adjustments**

There were several audit adjustments made to the original trial balance presented to us to begin our audit. None, either individually or in the aggregate, were deemed to have a significant effect on the financial statements.

### **Uncorrected Misstatements**

The State recorded all of the identified uncorrected misstatements, whether material or immaterial, to the financial statements.

### **Accounting Policies and Alternative Treatments**

Management and the Committee have the ultimate responsibility for the appropriateness of the accounting policies used by the State. The State did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period which should be brought to your attention for approval.

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### **Other Information in Documents Containing Audited Financial Statements**

In connection with the State's annual report, we did not perform any procedures or corroborate other information included in the annual report. However, we read the annual report and considered whether the information or the manner in which it was presented was materially inconsistent with information or the manner of presentation of the financial statements. Based on our reading, we concluded that the information did not require revision.

We are not aware of any other documents that contain the audited basic financial statements. If such documents were to be published, we would have a responsibility to determine that such financial information was not materially inconsistent with the audited statements of the State.

### **Disagreements with Management**

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

**Consultations with Other Accountants**

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

**Major Issues Discussed with Management Prior to Retention**

No major issues were discussed with management prior to our retention to perform the aforementioned audit.

**Difficulties Encountered in Performing the Audit**

We did not encounter any difficulties in dealing with management relating to the performance of the audit.

**Closing**

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the State.

This report is intended solely for the information and use of the Committee and management and is not intended to be and should not be used by anyone other than the specified parties.

Allen, Gibbs & Houlik, L.C.  
Wichita, Kansas

*Berberich Trahan & Co., P.A.*  
Topeka, Kansas