

MINUTES

Legislative Post Audit Committee July 1, 2009

The meeting was called to order by Chair Virgil Peck, Jr. at 10:10 a.m. in Room 143-N of the Statehouse. Committee members present:

Representative Virgil Peck, Jr., Chair	Senator Terry Bruce, Vice-Chair
Representative Tom Burroughs	Senator Anthony Hensley
Representative John Grange	Senator Derek Schmidt
Representative Peggy Mast	Senator Chris Steineger
Representative Tom Sawyer	

Approval of Minutes

Representative Mast moved approval of the March 18, 2009, minutes. Representative Sawyer seconded the motion; motion carried.

Completed Performance Audits

K-12 Education: Reviewing Issues of the Kansas State High School Activities Association. This audit was presented by Dan Bryan, Auditor. The Kansas State High School Activities Association is a non-profit educational corporation that regulates middle/junior high and high school interscholastic activities, and is governed by a 78-member Board of Directors. The Association's governance structure differs from similar associations in six comparison states by having the largest policy-making body and a separate board of appeals. Kansas is also one of three states that require State Board of Education approval of Association rule changes. Most Association revenue comes from ticket sales for playoff games. Kansas' Association shares 30% of ticket sales with schools that host such games; practices in the comparison states ranged between covering host schools' actual costs to giving them 100% of ticket sales. The Association has significantly more cash reserves and spends a larger portion of its revenue on staff salaries and benefits than associations in comparison states. Finally, the Kansas Association's policy that limits out-of-State travel to 500 miles from the Kansas border is more restrictive than most comparison states. However, Kansas' policies related to participation with private premier teams, total number of games allowed in a season, and offseason coaching contact aren't significantly different from comparison states.

Senator Brownlee had questions for Mr. Bryan. The senator stated that schools are losing money when they host athletic activities. Representative Mast requested that Senator Brownlee provide information to both Kansas State High School Activities Association and Legislative Post Audit regarding which schools are losing money when they host athletic events.

Gary Musselman, Executive Director, Kansas State High School Activities Association, was available to answer members' questions. Representative Burroughs asked how Legislative Post Audit has the authority to do an audit of KSHSAA. Jim Wilson, First Assistant Revisor of Statutes, stated that because KSHSAA staff participate in KPERS and the agency receives State funds, KSHSAA is subject to audit under the Legislative Post Audit Act.

Representative Burroughs commended KSHSAA on being forthcoming with their information.

Senator Schmidt moved to accept the audit and Representative Grange seconded the motion. Motion carried. All legislators will receive the audit highlights document, and full copies of the audit will be distributed to the chairs, vice-chairs, and ranking minority members of the House and Senate Education Committee, as well as all members of the House Education Budget Committee, and the appropriate subcommittee of the Senate Ways & Means Committee.

K-12 Education: School District Efficiency Audit (school audit). This audit was presented by Laurel Murdie, Principal Auditor. This audit was limited to a review of available data on the non-instructional operational spending for 121 school districts to identify trends or patterns that could shed light on districts' efficiency. While the review showed that per-student spending generally was driven by economies of scale—the more students there were in a district, the less they tended to spend—there was still a lot of variation in spending among similar-sized districts. When districts spent more per student than their peers in various areas, it tended to be in the area of staffing costs. In addition, school districts didn't always report expenditure and staffing data consistently, making meaningful comparisons difficult. The audit concluded that efficiency audits that are more in-depth than this one can serve a vital role in helping districts identify additional efficiencies.

Dale Dennis, Deputy Commissioner, Department of Education, was available to answer members' questions.

Representative Mast moved to accept the audit and Senator Schmidt seconded the motion. Motion carried. All legislators will receive the audit highlights document. Full copies of the audit will be distributed to the chairs, vice-chairs, and ranking minority members of the House and Senate Education Committees, and the

House Government Efficiency and Fiscal Oversight Committee. Full copies also will be sent to all members of the House Education Budget Committee and the appropriate subcommittee of the Senate Ways & Means Committee. Barb Hinton, Legislative Post Auditor, told members that staff also would send a notification of the audit's release to all school board presidents.

Vehicle Travel: Determining Whether the State Is Becoming More Cost Efficient With Its Vehicle Fleet. This audit was presented by Justin Stowe, Auditor. Overall, State employees have increased the number of miles they drive for work by 2% since 2003. Fuel expenditures have increased by \$6.8 million since 2003, which represents a 3.5% increase adjusted for inflation. The use of ethanol has gone from 11% of fuel purchases to about 35% during that period. The Governor and the Department of Administration have taken steps to improve the average gasoline fuel efficiency (as measured by M.P.G. ratings) of vehicles available through the State's vehicle contract since 2007. However, the State has more "flexible-fuel" vehicles that can use either ethanol or gasoline available on the contract now, which likely will reduce the State fleet's overall fuel efficiency. That's because ethanol is much less fuel-efficient than gasoline. For the 140 vehicles reviewed in which flexible-fuel vehicles replaced gasoline-only vehicles, auditors estimate that fuel efficiency could decrease by as much as 5.3 M.P.G., or 25.5%, if agencies use only ethanol fuel. Finally, 7.7% of the State's vehicle purchases in fiscal year 2008 were used vehicles. Review of 251 commonly purchased new vehicles in fiscal year 2008 showed the State potentially could save up to \$112,000 a year (9%) by purchasing those vehicles used instead of new. However, this level of savings assumes agencies would buy a used 2007 vehicle instead of a 2009 vehicle of the same make and model, and that they could buy the used vehicle at 20% below market value. If they couldn't achieve that level of discount, bought different or better-equipped used vehicles, or bought used vehicles that needed significant maintenance, any or all potential savings could evaporate.

Marilyn Jacobson, Director of Facilities Management, Department of Administration, was available to answer members' questions.

Representative Grange moved to accept the audit and Senator Bruce seconded the motion. Motion carried. All legislators will receive the audit highlights document. Full copies will be distributed to the chair, vice-chair, and ranking minority member of the House Government Efficiency and Fiscal Oversight Committee, and to all members of the appropriate Senate Ways and Means subcommittee and House Budget Committee.

Completed Compliance and Control Audits

Child-Care Assistance: Determining Whether SRS' Procedures Limit the Risk of Improper Payments. This audit was presented by Leo Hafner, Deputy Post Auditor. Overall, SRS has reasonable procedures in place to reduce improper payments in the Child-Care Assistance Program, and those procedures caught most of the potentially improper payments the auditors identified. However, the audit identified a few cases that SRS hadn't found involving clients using their benefits cards to pay themselves, as well as ten instances in which clients were paying each other to watch each other's children—something SRS doesn't routinely check for. There were some accuracy problems with the data contained in the databases used to manage the program, such as the same social security number being assigned to more than one person, or wrong birth dates. Finally, 571 families whose incomes appeared to significantly exceed the Program's basic guidelines received \$1.8 million in child-care assistance in 2007. Among those 571 were 30 families whose income exceeded \$100,000. Certain exceptions in SRS' current eligibility guidelines allowed these families to participate in the Program.

Candace Shively, Deputy Secretary, Department of Social and Rehabilitation Services, made brief remarks and was available to answer members' questions.

All legislators will receive the audit highlights document. Full copies of this report will be distributed to the chairs, vice-chairs, and ranking minority members of the House Appropriations and Senate Ways & Means Committees, and House Government Efficiency and Fiscal Oversight Committee, and to all members of the House Social Services Budget Committee, and the appropriate Senate Ways & Means subcommittee.

Data Mining: Reviewing State Data Systems for Evidence of Inappropriate Payments. This audit was presented by Levi Bowles, Principal Data Mining Auditor. The auditors used data-mining techniques to analyze several State data systems, with a focus on overtime. The State paid a total of \$13.1 million in overtime pay in fiscal year 2008, including \$4.4 million in overtime premiums. Agencies with very high overtime costs could reduce their costs by as much as \$260,000 a year if they could hire additional employees, rather than paying so much overtime to existing employees. However, for some agencies, recruiting qualified employees is a problem, or existing employees want the overtime pay to make their low-paying jobs more attractive. The report also looked at several specific cases where employees worked significant amounts of overtime, or where State agencies paid their employees as contractors. Agencies generally had reasonable explanations for these situations. Finally, in one instance at the Department of Health and Environment, a manager is married to a subordinate, and the Department hasn't acted to limit the potential conflict of interest.

Marshall Kennedy, CFO, and Wayne Bollig, Program Director, Veterans' Commission, were available to answer members' questions. Also present to answer questions were: Chuck Simmons, Deputy Secretary, Department of Corrections; and Jessica Abel, Director of Human Resources, Department of Health and Environment.

All legislators will receive the audit highlights document. Full copies of the audit will be distributed to the chairs, vice-chairs, and ranking minority members of the House Government Efficiency and Fiscal Oversight Committee, and the House Appropriations and Senate Ways & Means Committees, and full copies will also be distributed to all members of the appropriate House Budget Committee and Senate Ways & Means subcommittee.

State Agency Information Systems: Reviewing Selected Security Controls in State Agencies. This audit was presented by Allan Foster, Principal IT Auditor. Each of the five agencies reviewed could do a better job of controlling passwords. Three of the five agencies had weak password policies. Although most of the agencies had good password settings on their servers, auditors still were able to crack 23% to 58% of their passwords —primarily because many users create passwords that meet the network's requirements for strong passwords, but still are relatively easy to crack. In general, the agencies did a good job of installing security patches on server and workstation operating systems (such as Microsoft Windows), but 30 of 133 servers (23%) were significantly behind on application patches (such as Adobe Reader and Java).

The following persons were present and available to answer questions: *Board of Nursing:* Mary Blubaugh, Executive Administrator. *Office of Judicial Administration:* Kelly O'Brien, Chief Information. *Department of Transportation:* Anthony Schlinsog, Chief Information Officer. *KPERS:* John Oliver, IT Manager. *DISC (Department of Administration):* Larry Kettlewell, Kansas Enterprise Security Officer. *State Treasurer's Office:* Phil Stevenson, Chief of Staff.

Following presentation and discussion of the public report, Senator Bruce made the following motion:

I move that the open meeting of the Legislative Post Audit Committee in Room 143-N of the Statehouse be recessed for a closed, executive meeting to commence immediately in Room 143-N of the Statehouse pursuant to subsection (b)(13) of K.S.A. 2008 Supp. 75-4319 for a discussion of the security of the information systems of the Board of Nursing, Office of Judicial Administration, Department of Transportation, Kansas Public Employees Retirement System, Division of Information Systems and Communications of the Department of Administration, and the State Treasurer's Office, which subject is under consideration by the Legislative Post Audit Committee, because open discussion would jeopardize the security of the information systems, that the Legislative Post Audit Committee resume the open meeting in Room 143-N of the

Statehouse at 2:20 p.m., and that this motion, if adopted, be recorded in the minutes of the Legislative Post Audit Committee and be maintained as a part of the permanent records of the committee.

Motion was seconded by Representative Sawyer. Motion carried. The Committee went into executive session at 2:15 p.m. The open meeting resumed at 2:20 p.m.

All legislators will receive the audit highlights document. Full copies will be distributed to the chair, vice-chair, and ranking minority member of the Joint Committee on Information Technology.

Consideration of Audit Topics

Leo Hafner, Deputy Legislative Post Auditor, took the Committee through the list of possible audit topics.

Senator Mary Pilcher-Cook testified requesting legislative approval of request #12 pertaining to taxpayers who avoid paying Kansas income tax by claiming residency in another state.

Senator Steineger discussed approving request #10, on university costs, and #8, on Court Services and parole.

Senator Schmidt suggested approving topic #1 on selected tax credits, and adding a second question to this topic as well.

Representative Mast discussed topic #8, SRS funding issues.

Senator Schmidt made a motion to approve audit topic #1, Selected Tax Credits and Exemptions, and to add a question on transferrable credits. Senator Bruce seconded the motion. Motion passed.

Senator Steineger moved to approve audit #10, University Costs. Senator Schmidt seconded the motion. After further discussion, Senator Steineger withdrew the motion.

Representative Mast made a motion to develop a scope statement on combining the Parole Board and Sentencing Commission and proceed with the audit. Senator Steineger seconded the motion. Motion carried.

Senator Bruce made a motion to modify the scope statement on the audit

approved last fall dealing with State agency management, and to proceed with the audit. Senator Schmidt seconded the motion. Motion carried.

Representative Burroughs suggested that the Committee take steps to get the information in audit reports in front of legislators more at the beginning of the legislative session as a way to better ensure that the information is considered and acted upon.

KPERS performance audit topic. Leo Hafner reviewed for members the statutory requirement that the annual KPERS financial-compliance audit include a performance audit topic every third year. He presented a list of possible topics. Representative Sawyer moved to approve the performance audit topic pertaining to the Retirement System's funding situation. Representative Mast seconded the motion. Motion passed.

Update on audit topics approved by the 2010 Commission. Scott Frank presented the Committee with a brief update on the recent audit assignments made by the Commission.

Legislative Post Audit Operations

Potential impact on Post Audit of audit requirements related to the federal Recovery Act. Barb Hinton briefed the Committee on recent federal changes related to the American Recovery and Reinvestment Act (ARRA). Because of the emphasis placed on transparency and accountability for ARRA moneys, all states are having to change their auditing and accounting procedures to some extent. Ms. Hinton recommended that the Committee direct Post Audit to do a "preparedness review" to determine the extent to which agencies receiving ARRA moneys are prepared to receive and spend the money in accordance with federal requirements. Representative Mast made a motion to accept Ms. Hinton's recommendation. Representative Sawyer seconded the motion. Motion carried.

Notification of pre-approved out-of-state-travel. Barb Hinton notified the Committee of two pre-approved out-of-State trips. Ms. Hinton attended The National Association of State Auditors, Comptrollers, and Treasurers annual meeting, on June 16-19, which was held in Savannah, Ga. Ms. Hinton will also be attending the National Association of State Auditors, Comptrollers, and Treasurers annual meeting in Dearborn, MI., on August 16-19. The Committee has pre-approved Ms. Hinton's travel during her tenure on the NASACT Executive Committee.

Status of follow-up items. Rick Riggs updated Committee members

regarding the status of follow-up items related to previous audit reports or recommendations.

Budget update. Ms. Hinton gave a brief overview of the Division's expenditures for the fiscal year 2009.

Audits in process. Ms. Hinton discussed the standard schedule showing the status of the performance audits under way.

Status of audits requested and approved. Ms. Hinton briefly discussed the table showing the sources of the audits that have been requested and approved.

Old Business

Ms. Hinton shared with the Committee the news that the June 2008 computer-security audit, *Surplus Computer Equipment: Determining Whether State Agencies Effectively Remove Software and Agency Data From Surplus Computers*, was awarded a Certificate of Recognition of Impact from the National Legislative Program Evaluation Society (NLPES), a staff section of NCSL. Allan Foster conducted the audit. The award will be presented at the NCSL annual meeting later this month.

Date of the Next Meeting

No date was set for the next meeting. Members suggested a possible meeting date for the last week in August. Staff will poll members and work with the Chair to set the date. The meeting adjourned at 4:10 p.m.

(All handouts and other documents referred to in these minutes are on file with Legislative Post Audit.)