

## MINUTES

### Legislative Post Audit Committee August 26, 2008

The meeting was called to order by Chair Derek Schmidt at 10:09 a.m. in Room 143-N of the Statehouse. Committee members present:

Senator Derek Schmidt, Chair	Representative Virgil Peck, Jr., Vice-Chair
Senator Les Donovan	Representative Tom Burroughs
Senator Chris Steineger	Representative John Grange
	Representative Peggy Mast
	Representative Tom Sawyer

#### Approval of Minutes

Representative Mast moved approval of the June 18, 2008 minutes. Representative Grange seconded the motion; motion carried.

#### Completed Performance Audits

**Report on K-12 Education: An Overview of School Districts' Use of Additional State Funding (school audit).** This audit was presented by Scott Frank, Audit Manager. This audit was requested by Sen. Ostmeyer and directed by the 2010 Commission. The report was first presented to the Committee at its June 18<sup>th</sup> meeting. At that time the Committee did not accept the report and asked for additional information at the next Committee meeting. Scott Frank presented the additional information the Committee requested.

Brad Neuenswander, Team Director for the Department of Education, was present to answer members' questions.

Representative Mast moved to accept the audit and Representative Peck seconded the motion. Motion carried.

This audit will be distributed to the House and Senate Education Committees, the House Appropriations and Senate Ways and Means Committees, the House Education Budget Committee, and the LEPC.

**Economic Development: Determining the Amounts the State Has Spent on Economic Development Programs and the Economic Impacts on Kansas Counties.** This audit was presented by Joe Lawhon, Principal Auditor. Part I of this audit (which covered Questions 1 and 2 of the scope statement) was presented to the Committee in February 2008. This report includes both Part I & Part II, which includes question three.

The estimated cost of economic development in Kansas for the preceding five years has been at least \$1.3 billion, which includes both spending by State agencies, and State and local forgone tax revenues. Of the \$453 million State agencies reported spending, most related to the Department of Commerce. Of the estimated \$860 million in forgone tax revenues, most has been local property tax revenues related to industrial revenue bond exemptions. Assessing the effectiveness of economic development programs can be hampered because of the lack of data, and when data are available, most traditional economic development programs or incentives show negative or inconclusive results. Nonetheless, there are some success stories, both traditional and technology-based. The literature suggests that states now must offer economic development assistance to remain competitive, regardless of its cost-effectiveness.

The auditors took several approaches to try to assess the results of spending for economic development—from the global to the specific. First, they asked State agencies to report their accomplishment data to staff, which showed that more than 130,000 jobs had been created or retained over five years. However, there's likely to be double-counting in those figures between some programs and tax credits. Second, using historical county-level data, the auditors found there has been a small but measurable statistical relationship between economic development spending in a county and the growth in jobs and businesses in that county between 2003 and 2007. However, all other things being equal, factors like population and employment levels that existed before the assistance was provided had a much greater impact on job and business growth in a county. Third, the auditors analyzed the impact Nebraska Furniture Mart has had Statewide and on individual counties. Statewide, furniture sales increased by 88% from 2002 to 2007, but since 2002 the number of furniture stores and the amount of furniture store sales in nearby counties have declined—sometimes significantly. Finally, staff followed up on the findings of an earlier audit, which showed that about one-third of the companies or individuals assisted by several State economic development programs in 1998 were operating a business in Kansas in 2008.

Representatives of the Kansas Bioscience Organization provided Committee members with prepared, written testimony.

Tracy Taylor, President and CEO of KTEC, presented prepared remarks. Also present from KTEC to answer members' questions was Linda Reinhardt, Chair, Board of Directors.

The following persons were present and available to answer questions: *Department of Commerce*: Rae Anne Davis, Deputy Secretary of Workforce Services; Steve Kelly, Deputy Secretary for Business Development. *K-TEC*: Linda Reinhardt, Chair, Board of Directors. *Kansas Inc.*: Stan Ahlerich, Director of Operations. *Kansas Biosciences Authority*: Tom Thornton, President and CEO. *Kansas Small Business Development Center*: Stan Compton, Associate State Director.

Senator Schmidt questioned figures in the report showing that the number of government jobs had decreased, and private-sector jobs had increased. Mr. Lawhon said they team would review the workpapers and provide additional information to the Committee.

Senator Steineger moved the report be accepted and Representative Sawyer seconded the motion; motion passed.

This audit will be distributed to Senate Commerce and House Economic Development and Tourism Committees, the Joint Committee on Economic Development, the House Appropriations and Senate Ways & Means Committees, and the House Taxation and Senate Assessment and Taxation Committees.

**Commission on Veterans' Affairs: Reviewing How Well It Is Spending Its Money and Serving Veterans.** This audit was presented by Lisa Hoopes, Senior Auditor. The Kansas Commission on Veterans' Affairs appears to be taking reasonable steps to identify veterans through its field offices and their outreach efforts and, although other State agencies have varied methods for identifying veterans, they seem to be referring veterans on to federal officials to determine their eligibility for federal benefits. The Commission and other veteran service organizations take steps to coordinate certain activities, but coordination is being deterred by long-standing rivalries between the leadership of the veteran entities. In recent years, there have been two significant vacancies in the Commission's veteran service representative positions; other positions the Commission has referred to as "vacant" primarily included positions whose job responsibilities had been transferred to a State-funded grant program. The Soldiers' Home had 12 more direct-care staff positions filled in July 2008 than it did in July 2007, and its corrective action plan apparently has brought it back into good standing with both the State and federal inspectors. However, Home officials cited huge challenges in attracting and keeping qualified nursing staff because of location and competition factors. Finally, staff concluded that the Commission's goal of holding its monthly meetings outside Topeka to attract

more veterans hadn't been successful, and didn't justify the additional costs incurred. Those meetings cost almost four times as much as Topeka-based meetings.

George Webb, Executive Director, Commission on Veterans Affairs, made brief remarks. Others present to answer questions from the Commission on Veterans Affairs were: Jack Fowler, Commission Chair; Wayne Bollig, Veteran Services Program Director; Jim Frederick, Chief Fiscal Officer; and Kim Tatum, Director of Human Resources.

Committee members expressed concern about the strained relationship between the Commission and the various veterans service organizations, and about the difficulties in hiring nursing staff for the Soldiers Home in Ft. Dodge.

Representative Burroughs indicated that he would like to see a letter sent to the Veterans Commission requesting that officials outline what steps they plan to take to address the problems between the Commission and the groups. Representative Mast asked for information on the cost to the State of paying for a veteran to live in a private nursing home, versus in a Commission facility.

Senator Donovan moved to accept the audit, and further that a letter, to be signed by all Committee members, be sent to the committees that deal with the Commission and with veterans' affairs issues, asking those committees to encourage a resolution to the problems between the Veterans Commission and the groups. Representative Burroughs seconded the motion, motion passed.

This audit will be distributed to House Appropriations and Senate Ways and Means Committees, the House Veterans, Military, and Homeland Security Committee, and the Senate Federal and State Affairs Committee.

### **Completed Computer-Security Audits**

**State Agency Information Systems: Reviewing the Kansas Health Policy Authority's Management of Those Systems.** Allan Foster, Principal Auditor, presented this audit. Although there are many good aspects to the Health Policy Authority's security management system, some important safeguards are missing. The Authority doesn't consider risks that are specific to the agency as part of its risk assessment. It also relies too heavily on default policies without adequately making staff aware of them, and has too many draft policies awaiting approval. The Authority hasn't done an adequate job of promoting security awareness in general among its staff, and management doesn't monitor the implementation and effectiveness of the security system. Despite the problems with the security-management process, the Authority does a good job of technically securing its IT resources. Based on the auditors' reviews and on more technical work done by a

consultant, the auditors found that the Authority's network is very well secured. The auditors found few vulnerabilities within the network, and all have been fixed. However, the system the Authority uses to manage employee access to Medicaid data doesn't provide the kinds of reports necessary to properly monitor that access. Finally, the Authority didn't use a systematic process in responding to its security incidents, primarily because it lacked a formal incident response procedure.

Present to answer question from Kansas Health Policy Authority were: Scott Brunner, Chief Financial Officer, and Tom Laughlin, IT Manager. From DISC: Denise Moore, Director; and John Jones, IT Manager.

This audit will be distributed to the Joint Committee on Information Technology and to the Health Policy Oversight Committee.

### **Legislative Post Audit Committee Operations**

**Discussion of potential changes to the Committee Rules.** This item was postponed until the next meeting.

**Designation of a budget subcommittee to review the Division's FY 2010 budget request.** Barb Hinton, Legislative Post Auditor, told members that, under the Legislative Post Audit Act, the Division is required to submit its budget request to the Committee for review and approval. Once the Committee approves the Division's request, it is forwarded to the Legislative Coordinating Council for its review and approval. Ms. Hinton said that the Chair usually names a three-person Subcommittee to consider the Division's budget request and make a recommendation to the full Committee. The Chair appointed Representative Peck as Subcommittee chair, along with Representative Grange and Senator Steineger.

### **Legislative Post Audit Operations**

**Discussion of methodologies for determining the cost of illegal immigrants.** Leo Hafner, Deputy Post Auditor, presented information he had gathered on the types of methodologies used in other studies looking at the costs of illegal immigrants. Following the presentation, Senator Steineger made a motion to rescind the authorization for the audit. Representative Peck seconded the motion. The motion failed on a tie vote. Members decided to have more discussion on the direction and focus of the audit at the September 17<sup>th</sup> meeting.

**Status of follow-up items.** This item was postponed until the next meeting.

**Audits in process.** This item was postponed until the next meeting.

**Status of audits requested and approved.** This item was postponed until the next meeting.

### **Old/New Business**

Ms. Hinton reported to the Committee that Legislative Post Audit had received an NLPES Recognition of Impact Award for the 2007 audit, *K-12 Education: Reviewing Issues Related to Virtual Schools*. Joe Lawhon accepted the award on behalf of the Division at the NCSL meeting in New Orleans in July.

Ms. Hinton updated the Committee on the status of staff member Brad Hoff's wife, Teresa, who had a liver transplant at the Mayo Clinic in June. She's doing fine and is now in Topeka recovering.

Ms. Hinton introduced two new staff members, Alex Gard and Lynn Retz, to the Committee.

### **Date of the Next Meeting**

The Chair scheduled the next meeting for Wednesday, September 17, 2008.

The meeting adjourned at 1:43 p.m.

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