

MINUTES

Legislative Post Audit Committee October 30, 2007

The meeting was called to order by Chair Mast at 10:00 a.m. in Room 519-S of the Statehouse. Committee members present:

Representative Peggy Mast, Chair
Representative Tom Burroughs
Representative John Grange
Representative Virgil Peck
Representative Tom Sawyer

Senator Les Donovan
Senator Anthony Hensley
Senator Derek Schmidt
Senator Chris Steineger

Approval of Minutes

Senator Donovan moved to approve the September 24th, 2007, minutes. Representative Sawyer seconded the motion; motion carried.

Completed Performance Audits

KU Medical Center and KU Hospital: Reviewing Selected Operational Issues. This audit was presented by Chris Clarke, Audit Manager. Since 2001, research spending from all sources has grown from 23% of total spending in 2001 to 32% in 2007. The amount of the State operating grant spent for research accounts for only \$3.6 million, and represents an unchanged 3% of State grant expenditures. However, more of the State grant now is being spent on other costs, and less on education. The Kansas City campus received almost all the \$13.3 million increase in State grant moneys since 2001. Among other things, it uses State funds to pay for the Medical Center's Kansas City-based administrative operations, and to some residency program costs, an expense covered by different funding sources in Wichita. The big increase in research spending has come from other sources—primarily federal research grants generated by faculty on the Kansas City campus. The differences in the amounts spent on research between Kansas City and Wichita have raised concerns in Wichita, which has received accreditation citations for not having research opportunities.

The Legislature created the University of Kansas Hospital Authority in 1998 to improve the financial viability of the KU Hospital. The current organizational relationship between the Hospital and Medical Center follows State law, and is similar to how teaching hospitals and medical schools are organized in many other states. However, the financial relationship between the Medical Center and Hospital, isn't defined in State law, and is a source of contention between the two. Although comparisons of financial support with other states have significant limitations, the amount of financial support the Medical Center has received in the past from all affiliated hospitals does appear to be relatively low.

The value of the care provided to medically indigent patients may be recorded as either charity care or bad debt, and is referred to as uncompensated care. When reporting the value of charity care or bad debt in its financial statements, the KU Hospital follows generally accepted accounting principles. Those principles require public teaching hospitals to report the value of that care based on their established charges for the services provided. However, reporting the value of uncompensated care (charity care plus bad debt) on that basis results in much higher dollar figures than if the care is valued based either discounted rates for paying patients or the cost of the care. Ms. Clarke answered members' questions.

Dr. Barbara Atkinson, Executive Vice Chancellor, University of Kansas Medical Center, distributed and presented brief remarks and answered members' questions.

Bob Page, President and CEO, University of Kansas Hospital, distributed and presented brief remarks and answered members' questions.

Others present to answer questions: Board of Regents: Kip Peterson; KU Medical Center: Dr. Ed Dismuke, Dean, School of Medicine, Wichita Campus; Ed Phillips, Vice Chancellor for Administration; Shelley Gerber, Chief of Staff; Mike Keeble, Associate Vice Chancellor for Institutional Finance; Amy Jordan Wooden, Sr. Director, External Relations; KU Hospital: Scott Glasrud, Executive VP and Chief Financial Officer; Jon Jackson, Sr. VP, System Integration; Chris Hansen, Senior Vice-President for Ambulatory Services.

Representative Peck moved to accept the audit report. Senator Donovan seconded the motion; motion carried. The report will be distributed to the Senate Ways and Means and House Appropriations Committees, the House Education Budget Committee, the Senate and House Education Committees, Legislative Education Planning Committee, Senate Public Health and Welfare Committee, and the House Health and Human Services Committee.

KU Medical Center and KU Hospital: Reviewing Selected Financial Issues. This audit was presented by Chris Clarke, Audit Manager. The auditors saw no evidence to indicate the Medical Center was having trouble covering its ongoing operations. From 2004-2006, its current assets for ongoing operations increased by about 31%, its current liabilities for ongoing operations increased by 13%, and its cash balances and ratios looked healthy. The School of Medicine has made multi-year commitments totaling \$79 million to department chairs since 1999. The Medical Center has paid about 61% of the commitments made since 2003, mostly with KU Endowment and Research Institute funds. Over the next five years, the Medical Center has committed nearly \$250 million to capital expenditures, which have been approved by the Board of Regents and the Legislature, and have identified funding sources. Finally, officials recently unveiled plans to spend \$800 million over 10 years to expand research. Funding sources haven't been fully identified; possible sources include moneys from an affiliation with St. Luke's Hospital as well as contributions from the Kansas City area.

The Legislature appropriated \$5 million to the KU Cancer Center for both fiscal years 2007 and 2008 to help it reach a designation from the National Institutes of Health as a Cancer Center and Comprehensive Cancer Center. In 2006, Center officials indicated that State funding would be used for research, drug discovery, outreach, and administration. In fiscal year 2007, about \$2.2 million of the \$5 million appropriation (45%) was used for research. Center officials indicated State funds are used to fill the gaps that other funding sources don't cover.

This year, the Hospital Authority executed a \$1.8 million separation agreement with its former CEO. Nothing in law or regulation prohibited the Hospital from giving a separation package of that size, which was equal to three years of the CEO's annual base salary. The agreement included both ongoing responsibilities and concessions from the CEO. Board members said they thought the separation package was in the Hospital's best interest. The auditors tried to determine if similar packages had been granted in other states where the hospital CEO had left, but were unable to make a determination because information of this nature was limited.

In April 2006, the Hospital contracted for a new medical records system projected to cost about \$50 million over five years. The cost difference between the two vendors was calculated at between about \$1 million and about \$12 million— much smaller than the \$30 million some thought. The range of costs resulted from uncertainty about the amount of work the Hospital would have to supply to implement software. The Board's decision appeared to be based on the fact that Epic did the best in all the Hospital's evaluations, and that physicians and staff preferred it to Cerner. Board members said cost was a secondary consideration. Ms. Clarke answered members' questions.

Dr. Barbara Atkinson, Executive Vice Chancellor, University of Kansas Medical Center, distributed and presented brief remarks and answered members' questions.

Bob Page, President and CEO, University of Kansas Hospital, answered members' questions.

Others present to answer questions: Board of Regents: Kip Peterson; KU Medical Center: Dr. Ed Dismuke, Dean, School of Medicine, Wichita Campus; Ed Phillips, Vice Chancellor for Administration; Shelley Gerber, Chief of Staff; Mike Keeble, Associate Vice Chancellor for Institutional Finance; Amy Jordan Wooden, Sr. Director, External Relations; KU Hospital: Scott Glasrud, Executive VP and Chief Financial Officer; Jon Jackson, Sr. VP, System Integration; Chris Hansen, Senior Vice-President for Ambulatory Services.

Senator Hensley moved to accept the audit report. Representative Grange seconded the motion; motion carried. The report will be distributed to the Senate Ways and Means and House Appropriations Committees, the House Education Budget Committee, the Senate and House Education Committees, Legislative Education

Planning Committee, Senate Public Health and Welfare Committee, and the House Health and Human Services Committee.

Senator Steineger moved to request that the Medical Center submit the following additional information to the Committee:

- moneys paid to any attorneys relating to the negotiations, and how much more they expect to spend
- the amount of money spent on public relations, including meals, entertainment, or sports functions
- the sources of those moneys

Representative Peck seconded the motion; motion passed.

The Chair recessed the meeting for lunch; with the meeting to reconvene at 1:30 p.m.

The Chair called the meeting back to order at 1:36 p.m., and the Committee resumed hearing completed performance audits.

Kan-ed: A-K-GOAL Audit Determining Whether It's Achieving the Intended Results. This audit was presented by Lisa Hoopes, Senior Auditor. In all, 90% of eligible entities are members of Kan-ed, and 34% of those members are fully connected members who can take advantage of videoconferencing and distance learning. A number of members said they don't need videoconferencing and distance learning, but others cited a lack of information, equipment, or expertise as reasons for not being connected. Kan-ed officials could strengthen its grant programs by enforcing provisions requiring members to connect as a condition for receiving grant moneys and by monitoring grant spending. Kan-ed's marketing efforts haven't been particularly effective because members say the information they receive is too technical, or doesn't fully explain the benefits of being connected or how to connect to the network. Connected school districts generally have the capability to provide distance learning in a majority of their buildings, mostly through the use of local area networks.

It appears that a significant number of new members may become connected over the next five years. If that happens, Kan-ed officials may need to take some of the money they currently use for broadband subsidies and apply that money to equipment grants. A recent study concluded that consolidating Kan-ed with two other similar Statewide networks wasn't feasible because of differing security levels, differing backbone speeds, and differing governance structures. Although there are pros and cons to having Kan-ed administered by the Board of Regents or some other agency, the auditors saw no significant benefit to be gained from moving Kan-ed at this time. Ms. Hoopes answered members' questions.

Brad Williams, Executive Director of Kan-ed, answered questions. Susan Duffy, Executive Director, Kansas Corporation Commission; Janet Buchanan, KCC

Chief of Telecommunications; and Kip Peterson, Board of Regents, Director for Government Relations and Communications also were present to answer questions.

Senator Donovan moved the audit report be accepted. Representative Sawyer seconded the motion; motion passed. The report will be distributed to the Joint Committee on Information Technology (JCIT), the House Appropriations and Senate Ways and Means Committees, House and Senate Education Committees, House Energy and Utilities Committee, Senate Utilities Committee, the Chief Information Technology Officers (CITOs), the House Government Efficiency and Technology Committee, and the 2010 Commission.

K-12 Education: Determining the Reasons for Variations in Virtual School Costs. This audit was presented by Brenda Heafey, Auditor. The reported cost of operating virtual schools can vary significantly, with much of the variation in virtual costs due to differences in how schools account for costs. Once differences in accounting and reporting are taken into account, the operating expenditures for the four sample schools ranged from about \$1,940 per FTE (Cherryvale) to just more than \$4,400 per FTE (Emporia) for the 2006-07 school year. Other factors that contributed significantly to the variation in costs included the number of instructional staff in each school relative to its enrollment, as well as spending on technology, supplies, training, and travel. Ms. Heafey answered members' questions.

Dale Dennis, Deputy Commissioner for Finance, Department of Education, answered members' questions. Tom Foster, Deputy Commissioner for Learning Services, was also present to answer questions. At the Committee's request, Mr. Dennis said he could supply information on how virtual-school students' assessment scores had changed since the Division's earlier audit on virtual schools.

Senator Donovan moved the audit report be accepted. Representative Sawyer seconded the motion; motion passed. The audit will be distributed to the Senate and House Education Committees, Legislative Education Planning Committee, Senate Ways and Means Subcommittee on the Department of Education, and House Education Budget Committee, and the legislators' representing the school districts that were a part of this audit.

Thomas County Economic Development Alliance: Reviewing Its Procedures for Recording and Depositing Loan Payments. This audit was presented by Randy Tongier, Audit Manager. This audit looked at the way that the Thomas County Economic Development Alliance records and deposits loan payments received. Given its size, the Alliance generally has adequate procedures except that it doesn't send periodic statements to borrowers. The Alliance did make several errors in recording loan transactions, but those errors seemed to be isolated to one account. Some of those errors might have been detected and corrected sooner if statements showing payments and loan balances had been sent to the borrowers. All errors noted by the audit had been corrected. Mr. Tongier answered members' questions.

Gerry Fulwider, Executive Director, Thomas County Economic Development Alliance, and Paul Steele, an Alliance Board member, were available to answer questions.

Representative Grange moved to accept the audit. Representative Sawyer seconded the motion; motion passed.

Completed Financial-Compliance Audit

Kansas Lottery, Fiscal Year 2007. This audit is required by State law, and was conducted jointly by the CPA firms of Allen Gibbs & Houlik and Berberich Trahan and Company, under contract with Legislative Post Audit. The audit was presented by Karen Linn, Shareholder, Berberich Trahan and Company. This audit of the Kansas Lottery for fiscal year 2007 is required by State law. The audit found that the Lottery fairly presented its financial statements and met applicable legal requirements. The audit also found that the Lottery needs to take steps to ensure that all year-end accounting adjustments are properly made. Ms. Linn distributed copies of her presentation and answered members' questions.

Ed Van Petten, Executive Director, Kansas Lottery, answered questions. Carolyn Brock, Lottery Comptroller, and Keith Kocher, Assistant Attorney General, also were available to answer questions.

The audit will be distributed to House and Senate Federal and State Affairs Committees, Senate Ways and Means Subcommittee on Lottery/Racing and Gaming, and the House General Government Budget Committee.

Legislative Post Audit Operations

Notification of topics approved by the 2010 Commission. Scott Frank, School Audit Manager, reported to the Committee the topics the 2010 Commission approved at their October 23rd meeting. The topics they approved for the school audit team:

- *K-12 Education: Estimating the Impact of a Second Count Date on School District Funding*
- *K-12 Education: School District Efficiency Audits*
- *A review of how school districts are using the additional funding they've received since 2005, with a particular emphasis on at-risk and professional development funds.*

Limited-scope audits directed by the Chair. Jim Wilson, First Asst. Revisor of Statutes, told members that Revisor's staff had raised questions recently about the 200-hour limited-scope audit process the Post Audit Committee uses. These audits are

directed by the Chair in accordance with a process outlined in Committee Rule 1-3, which has been in place since the Committee approved it in February 1978. The question has arisen as to whether the Chair's approval of limited-scope audits under Committee Rule 1-3 constitutes action by the Committee, because the Committee isn't authorizing them.

Pending resolution of this issue, the Chair asked that the Committee consider voting to approve the 200-hour audits that currently have been directed. Also, with the advice of the Revisor's staff, the Chair indicated she would not approve any more 200-hour audits until this issue is resolved.

Representative Sawyer moved that the limited-scope audits approved under LPAC Rule 1-3 that are now under way at the direction of the Chair are hereby approved for all purposes under the Legislative Post Audit Act. Representative Peck seconded the motion; motion passed.

Status of follow-up items. Rick Riggs, Administrative Auditor, said there was nothing new to report.

Budget update. Ms. Hinton presented a summary of the Division's budget status through September 2007.

Audits in process. Ms. Hinton discussed the schedule showing the status of the performance audits under way, and answered members' questions.

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/New Business

Introduction of new staff. Ms. Hinton introduced two new staff members, Nathan Ensz and Jack Brooks, Associate Auditors.

Results of the Division's triennial peer review. Ms. Hinton reported on results of the Division's triennial peer review, which is required by government auditing standards. The Division received an "unqualified" opinion, meaning that the Division has a well-designed system of quality control, and has complied with government auditing standards.

NLPES Impact Award. Ms. Hinton reported that the Division had received an Impact Award from the National Legislative Program Evaluation Society for the Board of Healing Arts audit.

Date of Next Meeting

The Chair set the next meeting for Wednesday, December 12th, at 10:00 a.m. in Room 519-S. That meeting also will include the annual Christmas party for Committee members and staff.

The meeting adjourned at 3:00 p.m.

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