

MINUTES

Legislative Post Audit Committee December 14, 2006

The meeting was called to order by Chairman Donovan at 10:10 a.m. in Room 514-S of the Statehouse. Committee members present:

Senator Les Donovan, Chair
Senator Derek Schmidt
Senator Nick Jordan
Senator Chris Steineger

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

Approval of Minutes

Senator Steineger moved to approve the minutes of the November 13, 2006, meeting. Representative Edmonds seconded the motion; motion carried.

Completed Performance Audits

K-12 Education: Reviewing Free-Lunch Student Counts Used as the Basis for At-Risk Funding, Part II. This audit was presented by Katrin Osterhaus, Senior Auditor. Based on a Statewide random sample, about 23,000 (17%) of the approximately 135,000 free-lunch students counted for at-risk funding in 2005-06 weren't eligible for free lunches. As a result, the State overpaid nearly \$19 million in at-risk funds. At the same time, according to survey responses from district officials, about 3,500 students may have been eligible for free lunches but their families didn't apply. The free-lunch count used for at-risk funding also may include a number of students the Legislature didn't intend to fully fund, such as adults attending alternative education schools, and free-lunch students who don't attend full-time. Auditors also identified problems with the Department of Education's free-lunch reviews that, if addressed, could produce a more accurate count.

In 2003-04, Kansas had 54,000 more free-lunch students Statewide than comparable U.S. Census Bureau estimates would suggest. Ineligible students would account for almost half that difference. However, the Census Bureau's district-level poverty estimates also have several limitations, including difficulties in accurately measuring important populations, significant lag time in publishing figures, and decreasing accuracy as the estimates get further away from the 10-year Census count.

Dale Dennis, Deputy Commissioner of Fiscal Services, was available to answer questions.

Representative Edmonds moved the report be accepted. Senator Steineger seconded the motion; motion passed. The report will be distributed to the House and Senate Education Committees, the House Select Committee on Education Finance, and the Legislative Education Planning Committee.

Update on Survey Results from K-12 Education: Reviewing Free-Lunch Student Counts Used as the Basis for At-Risk Funding, Part I. Barb Hinton, Legislative Post Auditor, told members that the wording of one of the survey questions for Part I may have been misinterpreted and, as a result, several districts may have under-reported the number of students who would have been eligible for free lunches but didn't apply. Staff re-surveyed those districts that responded to the initial survey. Ms. Hinton shared the updated results and answered members' questions.

Postsecondary Educational Institutions: Reviewing Tuition Rates Being Charged to Non-Resident Students in Kansas. The audit was presented by Chris Clarke, Principal Auditor. State law specifically authorizes tuition reductions for some non-resident students, and allows schools to enact other reductions. In Fall 2005, about 12,000 of the nearly 27,000 non-resident students at Kansas public colleges and universities (46%) received some type of waiver or discount, which resulted in tuition reductions of nearly \$26 million. Specific statutory authorizations, such as those for active military members and employees of the school, accounted for 40% of the students and 56% of the money. Policies approved by boards of regents and trustees accounted for the remainder. These school policies included tuition reductions for residents of certain counties in bordering states, online students, and victims of Hurricane Katrina. Even with the rate reductions, tuition paid by non-resident students at State universities more than covered the estimated cost of teaching those students. This wasn't true at community colleges, where non-resident tuition rates are far lower than the cost per credit hour to begin with.

Beginning in the late 1990s, Congress enacted several tax deductions or credits. After these tax benefits took effect the average out-of-pocket tuition costs per student actually decreased in Kansas. Since 2002, however, average out-of-pocket tuition costs in Kansas have been rising rapidly. One factor influencing this rise: tuition at State universities increased rapidly after changes made by the 2001 Legislature. By 2004, out-of-pocket tuition costs had climbed past the 1998 level, and continue to rise.

Ms. Clarke answered members' questions. Robin Kempf, Acting General Counsel for the Board of Regents, was present to answer questions.

Representative Mast moved the report be accepted. Representative Edmonds seconded the motion; motion passed. The report will be distributed to the House Higher Education and Senate Education Committees, the Legislative Education Planning Committee, the House Appropriations and Senate Ways and Means Committees, the House Education Budget Committee, and the Senate Ways and Means Subcommittee on Higher Education.

KPERS: Reviewing Active and Passive Investment Management Approaches and the State's Pension Obligation Bonds (contracted audit). This audit was presented by Brad Koehn, Shareholder, Berberich Trahan & Co.

This performance audit of the Kansas Public Employees Retirement System is required by State law. The work was done by Berberich Trahan & Co., a certified public

accounting firm under contract with Legislative Post Audit. The audit looked at the System's use of different investment management styles and the State's experience with pension obligation bonds. The audit found that the Retirement System uses both passive and active investment management styles. For the periods reviewed, the System earned more investment income using a combination of styles than it would have using only a passive style. In addition, the System's proportional use of investment management styles has been similar to those of other states reviewed. Finally, regarding pension obligation bonds, the State has earned 9.9% to date from investing the bond proceeds. Over the life of the bonds, the debt cost will be about 5.4%. Mr. Koehn answered members' questions.

Vince Smith, Chief Investment Officer, answered members' questions. Also available for questions were Scott Peppard, Deputy Chief Investment Officer and Leland Breedlove, Chief Fiscal Officer.

Senator Schmidt moved the report be accepted. Representative Edmonds seconded the motion; motion passed. The report will be distributed to the Joint Committee on Pensions, Investments, and Benefits, and the House Appropriations and Senate Ways and Means Committees.

Reviewing the Operations of the State Treasurer's Office-Fiscal Year 2006 (contracted audit). The audit was presented by Karen Linn, Berberich Trahan & Co.

This audit is required by the Legislative Post Audit Act. It was conducted by the joint venture of Allen Gibbs & Houlik and Berberich Trahan & Co., audit firms under contract with Legislative Post Audit. The audit addresses 10 questions about selected financial management responsibilities of the Treasurer's Office, mainly those involving that Office's custodial responsibilities for State moneys. The audit found only one deficiency. The interest rate charged to one lender under the Agricultural Loan Deposit Program didn't match the approved rate. The Treasurer's Office has taken steps to prevent future occurrences. Ms. Linn answered members' questions.

Peggy Hanna, Assistant State Treasurer, was also available for questions.

Representative Edmonds moved the report be accepted. Senator Steineger seconded the motion; motion passed. The report will be distributed to the Senate Ways and Means Subcommittee on Legislative and Elected Officials and the House General Government and Commerce Budget Committee.

Reviewing the Operations of the Pooled Money Investment Board-Fiscal Year 2006 (contracted audit). The audit was presented by Karen Linn, Berberich Trahan & Co.

This audit is required by the Legislative Post Audit Act. It was conducted by the joint venture of Allen Gibbs & Houlik and Berberich Trahan & Co., audit firms under contract with Legislative Post Audit. The audit addresses four questions about selected financial management responsibilities of the Pooled Money Investment Board, mainly those involving the Board's fiscal accountability for moneys. The audit found no deficiencies. Ms. Linn answered members' questions.

Derl Treff, Director of Investments, was also available for questions.

Representative Edmonds moved the report be accepted. Senator Schmidt seconded the motion; motion passed. The report will be distributed to the Joint Committee on Pensions, Investments, and Benefits, the Senate Ways and Means Subcommittee on Commerce and Revenue, and the House General Government and Commerce Budget Committee.

Performance Audit Topics

Consideration of Audit Requests. Leo Hafner, Deputy Post Auditor, took members through the list of legislators' audit requests and the list of staff suggestions for possible audit topics.

Representative Lana Gordon addressed the Committee in support of audit topic #7, *Kansas Juvenile Correctional Complex: Reviewing Staffing, Personnel, and Safety Policies and Practices at the Facility*.

Senator Steineger moved to approve request #13, *Healthcare-Related Programs in Kansas: Determining What Funding Kansas Receives and Who Administers It*. Representative Burroughs seconded the motion.

Senator Schmidt submitted a substitute motion to approve audit requests #6, *Children's Programs: Reviewing Whether They Are Coordinated to Avoid Duplication and Maximize the Use of Resources*; #13, *Healthcare-Related Programs in Kansas: Determining What Funding Kansas Receives and Who Administers It*; and #14, *Providing Vehicles for Official State Travel: Reviewing the Impact of the Decision to Disband the State's Motor Pool*. Senator Jordan seconded the motion; motion passed.

Topics approved for the school audit team by the 2010 Commission. Ms Hinton told members the 2010 Commission had met and approved the following audit topics:

- *K-12 Education: Comparing the Centralization of School District Accounting in Different States*
- *K-12 Education: Reviewing Issues Related to Virtual Schools*
- *K-12 Education: Reviewing the Staff Recruitment and Retention Strategies Used by Kansas School Districts*
- *K-12 Education: Reviewing the Cost of Vocational Education Programs*

Legislative Post Audit Operations

Status of follow-up items. Ms. Hinton brought the Committee up to date on the status of follow-up items related to previous audit reports or recommendations.

Budget update. Ms. Hinton briefed members on the Division's expenditures to-date for FY 2007.

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

Status of audits requested and approved. Ms. Hinton reviewed the standard table showing the sources of the audits that have been requested and approved over time.

Old/New Business

None.

Date of Next Meeting

No specific meeting date was set. A meeting will be scheduled in mid-January, both to present completed audits (two of which have statutory deadlines) and to reorganize the Committee. The meeting adjourned at 12:15 p.m.

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