

## MINUTES

### Legislative Post Audit Committee December 17, 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 Nick Jordan, Vice-Chair  
Senator Les Donovan  
Senator Derek Schmidt  
Senator Chris Steineger

#### Approval of Minutes

Representative Burroughs moved approval of the October 30, 2007, minutes. Representative Sawyer seconded the motion. Motion carried.

#### Completed Performance Audits

**K-12 Education: Reviewing Issues Related to Special Education Funding.** This audit was presented by Heidi Zimmerman, Auditor. In 2005-06, the percent of special education “excess costs” covered by State categorical aid varied between 45% and 207% for 69 school districts and special education cooperatives. Those that spent more on special education per student had less of their excess costs covered by categorical aid. Because some school districts and cooperatives didn’t report certain special education expenditures correctly, districts will receive almost \$800,000 less in categorical aid than they were entitled to for the 2007-08 school year. In addition, capping the amount of categorical aid districts and cooperatives could receive would free up a small portion of aid to be redistributed, but wouldn’t completely eliminate the variation in the percent of excess costs that are reimbursed. Finally, recent changes to Medicaid will cost the State an estimated \$24 million in Medicaid funding, starting in the 2007-08 school year. Under current law, the Legislature will replace 92% of the lost funding with State categorical aid, but because of the way categorical aid is distributed, districts and cooperatives in more affluent suburban areas likely will gain funding, while those in high-poverty areas likely will lose funding.

Present to answer questions were Dale Dennis, Deputy Commissioner of Education, and Colleen Riley, Director of Special Education Services, Department of Education.

The audit will be distributed to the House and Senate Education Committees, the House Education Budget Committee, the appropriate Senate Ways & Means Subcommittee, and the LEPC.

Senator Jordan moved to accept the audit and Representative Sawyer seconded the motion. Motion carried.

**Kansas Corporation Commission: Reviewing Issues Related to Consumer Complaints.** This audit was presented by Chris Clarke, Audit Manager. The KCC's Office of Public Affairs and Consumer Protection has 8.5 FTE staff who spend about two-thirds of their time handling customer inquiries and facilitating the resolution of customers' informal complaints. The auditors' review of 30 informal complaints showed that consumers received at least some relief 73% of the time—even when the utility wasn't in the wrong—and the utilities appeared to take reasonable action in response to each complaint. Utility customers also can file formal complaints with the KCC, which are handled by KCC legal staff. Staff reviewed eight formal complaints; complainants received at least some relief in half those cases. Kansas is similar to surrounding states' utility regulators in terms of how informal complaints are handled. The auditors didn't identify any strong reasons for moving the KCC's informal complaint function to either the Citizens' Utility Ratepayer Board (CURB) or the Attorney General's Consumer Protection Division.

Present to answer questions were Susan Duffy, KCC Executive Director, and Marge Petty, Director, Office of Public Affairs and Consumer Protection.

The audit will be distributed to the Senate Utilities Committee, the House Energy and Utilities Committee, and the appropriate House Budget Committee and Senate Ways & Means Subcommittee.

Representative Grange moved to accept the audit and Representative Sawyer seconded the motion. Motion carried.

**Statewide Expenditures: Reviewing Transactions in the STARS Accounting System for Fraud and Abuse.** This audit was presented by Levi Bowles, Auditor. The auditors used data mining techniques to identify potential problems with State purchases in the STARS accounting system. The auditors found one instance where professors at the University of Kansas Medical Center were involved in self-dealing—they had purchased more than \$14,000 worth of medical research supplies from their own outside company. Staff also identified several other

issues that weren't fraud or abuse, but may represent missed opportunities to save money, including several vendors who did a lot of business with State agencies but who weren't on a Statewide contract, and several instances where specific agencies did a lot of business with certain vendors but didn't seek competitive bids.

Chris Howe, Director of Purchases, distributed a handout and delivered prepared remarks. Mike Keeble, Associate Vice Chancellor of Finance, University of Kansas Medical Center, was available to answer questions.

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

Senator Jordan moved to accept the audit and Representative Sawyer seconded the motion. Motion carried.

**State Treasurer's Office: Reviewing Operations of the State Treasurer's Office, Fiscal Year 2007.** Karen Linn, Berberich Trahan & Co., distributed a handout and presented the audit. This audit of the State Treasurer's Office 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 11 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 two deficiencies. First, in the unclaimed property area, the Office's inventory list of items in three safe deposit boxes didn't match the items actually in the boxes. Second, in the Kansas Investments Developing Scholars Program, the Office didn't distribute State matching dollars to participants until the month after the deadline.

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

This audit will be distributed to the appropriate House Budget Committee and Senate Ways & Means Subcommittee.

Senator Jordan moved to accept the audit and Representative Sawyer seconded the motion. Motion carried.

**Pooled Money Investment Board: Reviewing Operations of the Pooled Money Investment Board, Fiscal Year 2007.** The audit was presented by Karen Linn, Berberich Trahan & Co. This audit of the Pooled Money Investment Board 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 distributed a handout and Dan Nackley, Director of Investments, was available for questions.

This audit will be distributed to the appropriate House Budget Committee and Senate Ways & Means Subcommittee, and the Joint Committee on Pensions, Investments, and Benefits.

Representative Grange moved to accept the audit and Representative Sawyer seconded the motion. Motion carried.

### **Completed Financial-Compliance Audit**

**Kansas Public Employees Retirement System, Fiscal Year 2007.** Brad Koehn of Berberich Trahan & Co., distributed a handout and presented this audit. This financial-compliance audit of the Kansas Public Employees Retirement System, covering fiscal year 2007, is required by State law. The work was done by the joint venture of Allen Gibbs & Houlik and Berberich Trahan & Co., certified public accounting firms under contract with Legislative Post Audit. The audit found that the System fairly presented its financial statements, met applicable legal requirements, and had no significant weaknesses in its financial-management procedures. Although the report makes no recommendations, it provides comments on the difference between recommended and actual employer contributions, changes in the System's unfunded actuarial liability, and the financial status of the death and disability program.

Glenn Deck, KPERS Executive Director, and Leland Breedlove, KPERS Chief Fiscal Officer, were available to answer questions.

This audit will be distributed to the appropriate House Budget Committee and Senate Ways & Means Subcommittee, and the Joint Committee on Pensions, Investments, and Benefits.

### **Completed Security Audit**

**Lottery Security: Performance Audit of Security in the Operation of the Kansas Lottery.** The audit was presented by Herb Delehanty, Delehanty Consulting. This audit, conducted by Delehanty Consulting under contract with Legislative Post Audit, looked at 14 different aspects of security at the Kansas Lottery. The areas assessed ranged from online ticket vendor operations to validation and payment of winning tickets. The Lottery's overall security is very satisfactory, but the audit did

identify several areas where improvements are needed. The audit resulted in a public report that identifies areas with audit findings and, as provided for under the Kansas Open Records Act, a confidential report that provides detailed findings and recommendations.

Ed Van Petten, Executive Director of the Kansas Lottery, delivered prepared remarks and Gary Herman, Director of Security for the Lottery, as well as Keith Kocher, Asst. Attorney General assigned to the Lottery, were available to answer questions.

Representative Sawyer made the following motion, "I move that the open meeting of the Legislative Post Audit Committee in Room 519-S of the Statehouse be recessed for a closed, executive meeting to commence immediately in Room 519-S of the Statehouse pursuant to subsection (b)(13) of K.S.A. 2006 Supp. 75-4319, as amended by section 16 of chapter 177 of the 2007 Session Laws of Kansas, for a discussion of the security of the information system of the Kansas Lottery which is under consideration by the Legislative Post Audit Committee, because open discussion would jeopardize the security of the information system, that the Legislative Post Audit Committee resume the open meeting in Room 519-S of the Statehouse at 2:00 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 Senator Steineger. Motion carried.

The Chair announced the she had determined the following persons were necessary to aid the Committee in the closed meeting, and she directed that those names be noted in the minutes:

Barb Hinton, Legislative Post Auditor  
Ed Van Petten, Executive Director  
Gary Herman, Director of Security  
Joe Sellens, Enterprise Security  
Jerry Oliver, Audit and Security  
Stephen Durrell, Assistant Attorney General

The Committee went into executive session at 1:40 p.m. The open meeting resumed at 2:00 p.m.

This audit will be distributed to the House and Senate Federal and State Affairs Committees, and the Joint Committee on Information Technology.

Representative Sawyer moved to accept the audit and Senator Steineger seconded the motion, motion carried.

## **Legislative Post Audit Operations**

**Limited-scope audits directed by the Chair.** Representative Sawyer made the following motion: “I move that the open meeting of the Legislative Post Audit Committee be recessed for a closed, executive meeting to commence immediately in Room 519-S of the Statehouse pursuant to subsection (b)(2) of K.S.A. 2006 Supp. 75-4319, as amended by section 16 of chapter 177 of the 2007 Session Laws of Kansas, for the purpose of consulting with Jim Wilson, First Assistant Revisor, an attorney for the committee, regarding procedures for approving limited scope audits, which would be deemed privileged in the attorney-client relationship, that the Legislative Post Audit Committee resume the open meeting in this room, Room 519-S of the Statehouse, at 11:30 a.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 Senator Jordan. Motion carried. The Committee went into executive session at 11:15 a.m. The open meeting resumed at 11:30 a.m.

**Approval of out-of-state-travel requests.** Barb Hinton, Legislative Post Auditor, asked the Committee to review and approve out-of-state travel requests for the second half of fiscal year 2008:

- Pre-approved meeting for Barb Hinton as a member of the executive committee for the National Association of State Auditors, Comptrollers, and Treasurers (*NASACT*).
- Joe Lawhon as a member of the executive committee for the National Legislative Program Evaluation Society (NLPES, which is a staff section of NCSL).

Representative Sawyer moved to accept the travel request. Senator Jordan seconded the motion. Motion passed.

**Status of follow up items.** Rick Riggs, Administrative Auditor, updated members regarding the status of follow-up items related to previous audit reports or recommendations. Chris Clarke briefed members on updated information provided by KU Medical Center officials in response to a recommendation in the October 2007 audit report, *KU Medical Center and KU Hospital: Reviewing Selected Operational Issues*. The updated information will be included in subsequent copies of the report.

**Budget update.** Barb Hinton gave a summary of the Division’s budget status through November 2007.

**Audits in process.** Barb Hinton gave a summary of the standard schedule showing the status of the performance audits under way, as well as shared information regarding the scope statement for the computer-security audit being started on the Health Policy Authority's computer system. This audit is being done as part of the ongoing compliance and control audits of computer-security issues that the Committee has authorized.

**Status of audits requested and approved.** Barb Hinton briefly discussed the table showing the source of recent audits that have been requested and approved.

**Old/New Business.** New staff members were introduced: the Committee's new secretary, Sharon Chandler, is replacing Angie Barnes, who recently moved to the Legislative Research Department. Travis Williams is the Division's new computer support person.

**Date of next meeting.** The Chair scheduled the next meeting for Wednesday, January 16, at 8:00 a.m. The meeting adjourned at 1:50 p.m.

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