

MINUTES

Legislative Post Audit Committee December 19, 2008

The meeting was called to order by Chair Derek Schmidt at 10:15 a.m. in Room 545-N of the Statehouse. Committee members present:

Senator Derek Schmidt, Chair	Representative Virgil Peck, Jr., Vice-Chair
Senator Nick Jordan	Representative Tom Burroughs
Senator Chris Steineger	Representative Tom Sawyer

Approval of Minutes

Senator Steineger moved approval of the November 18, 2008 minutes. Representative Peck seconded the motion; motion carried.

Completed Performance Audits

Agricultural-Related Agencies: A K-GOAL Audit Determining Whether Cost Savings Could Be Achieved By Making the Animal Health Department and Conservation Commission Part of the Department of Agriculture. This audit was presented by Joe Lawhon, Principal Auditor. Kansas is one of six states that doesn't place any of its animal health oversight or conservation grant functions within its Department of Agriculture. The remaining 44 states have varying degrees of those functions placed under their Department of Agriculture. Kansas could save about \$710,000 a year by merging the two agencies with the Department of Agriculture. About \$630,000 of the savings comes from eliminating or restructuring staff positions, while about \$80,000 comes from other operating costs reductions. Although agency officials expressed concerns about restructuring, the auditors found those issues could be overcome. During this audit, staff identified other issues regarding the operations of the Animal Health Department and the Conservation Commission. For example, the Animal Health Department hasn't fully developed and implemented policy manuals and criteria for assessing the results of inspections—these items were recommended in a previous audit issued in 2002. Other issues related to the efficient use of staff and technology need to be studied by management at both agencies.

Present to answer members' questions were Constantine Cotsoradis, Deputy Secretary, Department of Agriculture; George Teagarden, Livestock Commissioner,

Animal Health Department; and Greg Foley, Executive Director, Soil Conservation Commission.

Representative Peck asked Mr. Teagarden if the 2002 recommendations had been implemented. Mr. Teagarden indicated that the recommendations had been formally implemented on Monday, December 15, 2008.

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

This audit will be distributed to the House and Senate Agriculture Committees, the House Appropriations and Senate Ways and Means Committees, the House Agriculture and Natural Resources Budget Committee, the Government Efficiency and Technology Committee, and the House Elections and Governmental Organization Committee.

Department of Commerce: A K-GOAL Audit Reviewing the Department's Management Staffing Levels. This audit was presented by Justin Stowe, Auditor. The Department of Commerce had more staff in management positions than any of the five comparison agencies. On average, the Department had fewer people reporting to each of its managers, and many of these managers were located at fairly low reporting levels in the Department. The heaviest concentration of management staff—one management position for every 1.2 non-management positions—was in the Employment Services Section of the Department's Workforce Development Division. In addition, the Department has organized its five workforce development regions with a double layer of management. Overall, staff estimated that \$61,000 to \$99,000 could be saved annually by bringing the Department's proportion of management more in line with that of other agencies. Finally, the auditors found that discrepancies between authorized and filled positions, as well as limited access to complete organization charts for some State agencies, hampers good analysis of agency staffing levels.

David Kerr, Secretary of Commerce, was available to answer questions.

Senator Steineger moved to accept the audit and Senator Jordan seconded the motion. Motion carried. This audit will be distributed to the Senate Commerce and House Economic Development and Tourism Committees, the Joint Committee on Economic Development, the House Appropriations and Senate Ways & Means Committees, the House Government Efficiency and Fiscal Oversight Committee, and the House Elections Committee.

Wireless Enhanced 911: Reviewing Implementation of the 2004 Act. This audit was presented by Lisa Hoopes, Senior Auditor. In 2004 and 2006, the Wireless

Enhanced 911 Act and the Voice over Internet Protocol (VoIP) Enhanced 911 Act were passed to encourage local Public Safety Answering Points (PSAPs) to update their emergency phone systems to handle calls from wireless phones and VoIP calls. In all, officials from 100 of the State's 115 PSAPs said they expected to have fully implemented a wireless E-911 system by the end of 2008, and all said they would complete implementation by 2010. Fees imposed on wireless subscribers under the Acts generated approximately \$40 million between July 2004 and June 2008. Through June 2008, PSAPs reported spending almost \$23 million of grant and local fee money, with the biggest category of spending being for equipment. Staff identified very few problems with the way fee moneys were spent. An early assessment of the adequacy of wireless E-911 funding had to involve many estimates, projections, and assumptions. Within the limitations those factors create, it appears that, on a Statewide basis, revenues generated between now and December 2012 would far exceed E-911 estimated expenditures. However, projected revenues may not be enough to cover anticipated radio maintenance and upgrades. The auditors' analysis showed seven individual PSAPs will have difficulty covering all their estimated expenditures through 2010. Further, after the funding change in July 2010, at least 10 PSAPs will have difficulty covering monthly operating expenses.

Juliene Maska, Administrator, Governor's Grant Program, was available to answer questions.

Representative Peck moved to accept the audit, Senator Jordan seconded the motion. Motion carried.

This audit will be distributed to the Senate Utilities and House Energy and Utilities Committees, and the House Appropriations and Senate Ways & Means Committees.

K-12 Education: Reviewing School Districts' At-Risk and Professional Development Programs. This audit was presented by Laurel Murdie, Principal Auditor. For the 2008-09 school year, the State will give school districts an estimated \$368 million to provide additional services to students who are at-risk of failing academically. Staff selected and visited 10 sample districts to determine whether the at-risk services they provide are supported by research and are implemented as part of a thorough school improvement process. In general, they appear to provide at-risk services, both academic and non-academic, that are research-based, and eight of the 10 districts had a good improvement process in place to address the needs of at-risk students. Staff also looked at the types of professional development school districts provide. Statewide, the most common types of development training providing by districts include curriculum and assessment development, instructional best practices, intervention strategies, and technology training. The programs provided by our 10 sample districts were supported by research and for seven of the 10 districts, clearly

tied back to student needs. Finally, a recent survey of Kansas teachers indicates that targeted professional development may help the performance of at-risk students.

Present to answer questions were Dale Dennis, Deputy Commissioner of Education; Dr. Bart Goering, Superintendent, Spring Hill School District; Dr. John Heim, Superintendent, Emporia School District; Diane Gjerstad, Government Relations Director, Wichita School District; Mr. Bert Moore, Superintendent, West Elk School District; Dr. Rick Doll, Superintendent, Louisburg School District.

Senator Jordan 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 and the Legislative Educational Planning Commission.

Reviewing Operations of the State Treasurer's Office, Fiscal Year 2008. Mark Dick, of Allen, Gibbs & Houlik, presented this audit. This audit is required by the Legislative Post Audit Act. This audit of the State Treasurer's Office is required by the Legislative Post Audit Act. It was conducted by Allen Gibbs & Houlik, an audit firm under contract with Legislative Post Audit. The audit addresses nine 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 in the unclaimed property area. First, some items received had not been recorded on the inventory listing. Second, some abandoned property received had not been sold within the statutorily-required time frame. The audit also discusses an error found by the Treasurer's Office in earlier highway equalization distributions.

Scott Gates, General Counsel, State Treasurer's Office, was available to answer questions.

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

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

Reviewing Operations of the Pooled Money Investment Board, Fiscal Year 2008. Mark Dick, of Allen, Gibbs & Houlik, presented this audit. The audit was conducted by Allen, Gibbs & Houlik, an audit firm under contract with Legislative Post Audit. The audit addresses several questions about selected financial-management responsibilities of the Pooled Money Investment Board, mainly those involving the Board's investment of State moneys.

Liz Miller, PMIB Director of Investments, was available to answer questions.

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

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 Compliance and Control Data-Mining Audit

Statewide Medical Expenditures: Reviewing Medicaid Expenditures for Fraud and Abuse. This audit was presented by Levi Bowles, Senior Data-Mining Auditor. Using data-mining techniques staff found almost \$13 million in suspicious Medicaid claims for federal fiscal year 2006 (the most recent year for which complete data were available to analyze). The suspicious claims included: more than \$10 million in claims for more than 10,000 clients whose income appeared to exceed program limits; almost \$700,000 in claims for clients who didn't provide a valid Social Security number, almost \$600,000 in potential "upcoding" by doctors for office and emergency room visits, and almost \$500,000 in other suspicious claims such as claims filed for deceased individuals and charges for non-hospital services when a client was hospitalized. In addition, the auditors identified 519 clients who received prescriptions for controlled substances, such as heavy painkillers and powerful stimulants, from five or more doctors in one year, which may be indicative of potential abuse.

Dr. Andy Allison, Deputy Director, Kansas Health Policy Authority, had written testimony and was available to answer questions. Representative Peck asked Dr. Allison to provide additional information on the actual number of people who are receiving services that do not have a social security number. Dr. Allison indicated that he would need to do some research to provide that information for the Committee.

This audit will be distributed to the House Appropriations and Senate Ways and Means Committees, the Senate Public Health and Welfare and House Health and Human Services Committees, the Joint Committee on Information Technology, and the Government Efficiency and Technology Committee.

Completed Financial-Compliance Audits

Kansas Public Employees Retirement System, Fiscal Year 2008. 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 2008, 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.

Glenn Deck, Executive Director, KPERS was available to answer members' questions.

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

Legislative Post Audit Operations

Discussion of audit schedules and priorities. Barb Hinton, Legislative Post Auditor, outlined the effort to complete as many audits as possible relating to potential efficiencies or cost savings before the end of the session. Ms. Hinton briefed members on three things related to this topic:

- The revised audit schedule and its impact on other audits
- Staff's current thinking about how to break down some of the larger audits the Committee has approved (i.e., 18-25 weeks) into smaller parts
- The potential designation of certain audits approved at the November 18 meeting as K-GOAL audits. The law says the Committee must authorize at least 4 K-GOAL audits each year (focused on efficiency/cost savings issues), which must be done by December 1 for consideration by the Legislature during the next legislative session. Any of the efficiency-related audits that were approved in November could be designated as the K-GOAL audits for 2009.

Budget Update. Ms. Hinton updated the Committee on where Post Audit stands with the budget for FY 2009. Ms. Hinton explained that the budget for the agency had already been had been cut by two percent, reducing Post Audit's available budget for FY 2009 by \$57,500. Because of the State's financial picture, the Chair has asked staff to reduce the Division's FY 2009 expenditures by an additional two percent (\$56,200). Almost \$40,000 of that amount would come from leaving a vacant position open through FY 2009, and the Legislature's moratorium on out-of-State travel.

Discussion of potential savings and legislation related to audits. Barb Hinton reported that staff has pulled together a list of potential savings areas that have

not yet been acted on, based on the latest information received. Senator Schmidt made a motion to draft into bills the first five recommendations from the list of cost-related recommendations and to designate particular bills as House or Senate bills. Senator Steineger seconded the motion.

Representative Peck made a substitute motion to also include item #7 from the list of cost-related recommendations, related to the audit on Free-Lunch Student Counts as the Basis for At-Risk Funding, and to draft it as a bill as well. Senator Jordan seconded the substitute motion:

Audit recommendations to be introduced as House Bills:

K-12 Education: Reviewing School Districts' At-Risk and Professional Development Programs
(December 2008)

The Legislature should consider whether it is appropriate to use at-risk moneys to fund the salaries of existing teachers, and if not to amend the law to prohibit the practice.

Community Colleges: Examining Whether There Are Ways to Share Resources to Reduce Costs
(February 2008)

The Legislature should consider whether to cap community college mill levies, and whether restrictions should be placed on the amount of cash balances community colleges are allowed to accumulate.

K-12 Education: Estimating the Impact of a Second Count Date on School District Funding
(February 2008)

The Legislature should clarify statutory language regarding eligibility for additional funding, and the amount of that funding, resulting from a second count date for military dependents.

Audit recommendations to be introduced as Senate Bills:

Agricultural-Related Agencies: A K-GOAL Audit Determining Whether Cost Savings Could Be Achieved By Making the Animal Health Department and the Conservation Commission Part of the Department of Agriculture
(December 2008)

The Legislature should merge the agencies, while considering the role of the boards and the powers of the agency heads, and ensuring that the agencies' various fees continue to fund the activities for which they were collected.

Financial Regulatory Agencies in Kansas: A K-Goal Audit Determining Whether Functions Could Be Combined To Gain Cost Efficiencies
(September 2008)

The Legislature should consolidate the Department of Credit Unions, Office of the Bank Commissioner, and Office of the Securities Commissioner

K-12 Education: Reviewing Free-Lunch Student Counts as the Basis for At-Risk Funding
(Nov. – Dec. 2006)

The Legislature should consider instituting an age limit for free-lunch students, and change the at-risk funding count from a headcount to an FTE count.

Motion carried.

Ms. Hinton presented a staff proposal to reduce the statutory performance audit requirement related to financial-management practices at the State Treasurer's Office and Pooled Money Investment Board from once a year to once every three years. She said that this move would save the State about \$40,000 every three years, with minimal impact on overall audit coverage.

Representative Burroughs moved to introduce a bill in the House to reduce the audits of the State Treasurer's Office and Pooled Money Investment Board from once a year to once every three years, with a provision that, if there was a change in leadership in the Treasurer's Office, there would be a "transition audit" done at that time. Representative Sawyer seconded the motion. Motion carried.

Jim Wilson, First Assistant Revisor of Statutes, will see to it that all eight of the above actions are drafted into bill form.

Evaluation of the Post Auditor. There was no motion to go into executive session for this item. Senator Schmidt thanked Ms. Hinton for her outstanding work for the Post Audit Committee.

Request for Outside Employment. Ms. Hinton has been asked by the Director of the Center for Public Management in Topeka (associated with the KU Department of Public Administration) to put on periodic workshops related to assessing and improving government efficiency. The first workshop is slated for January 6-7. Ms. Hinton also has been invited to speak about efficiency audits at a legislative conference being held at the Humphrey Institute of Public Affairs in Minneapolis on January 14th. The Institute will be paying her way. Ms. Hinton asked the Committee to approve her request for outside employment.

Representative Burroughs made a motion to approve Ms. Hinton's request and Representative Peck seconded the motion. Motion carried.

Status of follow-up items. Rick Riggs brought members up to date on the status of items he had followed for the Committee. Scott Frank reported that during fieldwork on a recent audit it came to the attention of the team that the drinking water in Severy, Kansas, is contaminated with harmful levels of hazardous chemicals. Representative Burroughs requested that Legislative Post Audit pass the information along to the appropriate committees.

Budget update. Barb Hinton gave a summary of the Division's budget status through November 2008.

Audits in process. Ms. Hinton gave a summary of 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 source of recent audits that have been requested and approved.

Old/New Business. None at this time.

Date of next meeting. Ms. Hinton stated that the Committee will need to meet during the first 15 days of the 2009 session to reorganize. At that time, the Chairmanship will rotate to the House. Ms. Hinton gave the members an estimate of when upcoming audits would be completed, and briefed members on items to be considered at future meetings, including adoption of the Committee rules and the selection of Contract Audit Committee members.

The meeting was adjourned at 3:15 p.m.

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