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Legislative Post Audit Performance Audit Report Highlights

Highlights

Substance Abuse Programs: Evaluating Cost Savings Achieved Through Enhanced Access to State Substance Abuse Programs

Report Highlights

December 2015 ● R-15-014

Summary of Legislator Concerns

Legislators have raised concerns that state-funded substance abuse programs may not meet all the treatment needs for state residents, which results in increased state criminal justice, health care, and other service costs.

Background Information

Substance abuse treatment in Kansas is provided through a network of treatment providers.

State funding for substance abuse treatment is overseen by a number of state agencies, including the Kansas Department of Health and Environment, Kansas Department for Aging and Disability Services, Kansas Sentencing Commission, and the Department of Corrections.

In fiscal year 2014, the state spent about $27.6 million to provide substance abuse prevention and treatment programs to about 23,000 individuals.

***QUESTION 1**: Could the State Achieve Significant Savings by Improving Access to Substance Abuse Treatment Programs?*

- Although substance abuse can result in substantial criminal justice and social service costs, expanding treatment is unlikely to achieve significant savings.

- We estimate an additional 4,500 to 7,000 individuals are eligible for state-funded treatment and likely to seek it.
    - A 2006 needs assessment found that approximately 55,000 Kansans likely needed, but had not received, state-funded substance abuse treatment.
    - Although many people may need substance abuse treatment, the number of individuals who will actually seek out and receive it is limited. That is primarily because most individuals with a substance abuse problem do not think they need treatment and insufficient funding and counselors mean fewer people receive services.
    - To serve additional individuals, the state could expand eligibility for some existing programs or could supplement federal funding to increase access for those who qualify.

- We estimate the state would spend between $7 million and $11 million to assess and treat those individuals during a three-year period.

Estimated Number of People Served and State Costs Incurred Through Expanded Substance Abuse Treatment in Kansas

Program	Est. People Served		Est. Cost	
	Minimum	Maximum	Minimum	Maximum
Medicaid	800	1,100	$500,000	$600,000
Substance Abuse Prevention and Treatment Block Grant (a)	200	2,400	$250,000	$3.3 million
Senate Bill 123	700	700	$3 million	$3 million
Other State-Funded Programs: *DUI, Correctional Program*	2,800	2,800	$3.5 million	$3.5 million
Total (b)	***4,500***	***7,000***	***$ 7 million***	***$11 million***

(a) These individuals meet the eligibility requirements under the federal SAPT block grant. However, officials at the Substance Abuse and Mental Health Services Administration told us these individuals would likely have to be funded with state dollars (rather than federal) because the state would not receive additional SAPT block grant dollars simply because it spent more.
(b) Due to rounding these numbers may not add up. Further, the total represents only state costs (the federal government pays for 55% of Medicaid costs). Total costs are $8 million to $12 million.
Source: LPA analysis of audited data from six treatment providers and various state agencies.

- We estimated the state would reduce spending on other services by $1 million to $7 million for those individuals, which would not offset the cost of their treatment.

  - We interviewed treatment providers, reviewed academic studies, and created a simulation model to determine whether increased substance abuse treatment would reduce costs for other state services.
  - Treatment could reduce the number of individuals who are convicted of crimes, children placed into foster care, and admissions to state hospitals.
  - The estimated savings for some services was less than might be expected because the reduced need for these services was unlikely to affect fixed costs. These primarily include savings related to the criminal justice system.
  - Additionally, we did not identify any savings for some other services because the impact of treatment was unlikely to reduce their costs at all. These include savings related to the Kansas Highway Patrol, state hospitals, and Medicaid.

- Our results are significantly different from other studies which found greater savings from expanding substance abuse treatment primarily because we focused only on savings to the state and because many of the studies included savings in their estimate that we do not think will be realized.

SUMMARY OF RECOMMENDATIONS

None

AGENCY RESPONSE

Agency officials generally concurred with our findings and conclusions. However, agency officials also noted that if we had used assumptions that increased the estimated number of individuals affected by treatment, it might have led to greater savings. Although we agree that this is possible, we also think the assumptions we used were reasonable and accurately reflect the general effect of increasing substance abuse treatment in Kansas.

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The federal government provided an additional $25.9 million in funding for substance abuse treatment and prevention through the Substance Abuse Prevention and Treatment Block Grant and Medicaid.

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Legislative Post Audit
Performance Audit
Report Highlights

Highlights

Kansas State Employee Health Plan: Evaluating the State's Pharmacy Benefits Management System

Report
Highlights

February 2015 ● R-15-002

Summary of Legislator Concerns

Legislators are interested in knowing whether Kansas has sufficient controls in place to help ensure that its current pharmacy benefit manager is minimizing state costs.

Background Information

The State Employee Health Plan provides health care benefits to about 92,000 state employees and their dependents.

The plan is overseen by the Kansas State Employees Health Care Commission, but Kansas Department of Health and Environment (KDHE) staff administer the daily operations.

The prescription portion of the plan costs about $80 million each year.

Since 2006, Caremark has been the pharmacy benefit manager for the prescription drug plan.

***QUESTION 1**: Does Kansas have Sufficient Controls in Place to Minimize State Costs and Enhance Benefits through its Pharmacy Benefits Manager?*

- Because a pharmacy benefit manager controls many aspects of the prescription benefit plan, there is a risk that it may not manage the plan in the state's best interest. While the state cannot fully eliminate these risks, it can mitigate them through a combination of good contractual provisions and monitoring activities.

- The Health Care Commission has negotiated strong contractual provisions, but KDHE does little to verify Caremark's compliance with those terms.
  - The commission has included numerous contractual provisions to reduce the risks associated with using a pharmacy benefit manager.
  - However, as the administrator of the contract, KDHE does not routinely take the steps needed to verify that Caremark is complying with those provisions.

- KDHE does not adequately check claims data for <u>spread</u> pricing, which may occur if a pharmacy benefit manager charges the state more than it pays the pharmacy for a claim.
  - Because spread pricing has the potential to affect every claim, it represents a significant risk to the state that needs to be addressed.
  - The state only occasionally audits claims for spread pricing, and when it does, it does not independently verify Caremark's information.
  - Although KDHE's monitoring for spread pricing is weak, our analysis of 259 prescription drug claims found no evidence of spread pricing.

- Although ensuring the state receives its share of drug <u>rebates</u> is difficult, KDHE does little to monitor Caremark's compliance. Rebates are paid by drug manufacturers to pharmacy benefit managers and the state's contract with Caremark requires the rebates to be passed on to the state.
  - Monitoring these rebates is important because they can total in the millions of dollars, and it can be easy for pharmacy benefit managers to keep them.
  - However, monitoring drug rebates is difficult because pharmacy benefit managers and drug manufacturers consider rebate information proprietary.
  - KDHE has not taken proactive steps to verify rebate amounts, but told us they plan to audit drug rebates during calendar year 2015.

- The state does little to verify how the state employee prescription drug <u>formulary</u> (list of medicines covered by the plan) is managed.
  - Scrutiny of proposed changes is important to ensure the changes benefit the state rather than the pharmacy benefit manager.
  - Despite the contract giving KDHE the final say on any formulary changes, Kansas relies primarily on Caremark's recommendations.

- The state does not take steps to ensure it receives all claim recoupments that Caremark collected from pharmacies.
  - There is risk that payments recouped from pharmacies may not be passed to the state.
  - The state does not verify whether Caremark has provided all the funds it has recouped from pharmacies.
  - The total claims recouped from pharmacies likely does not merit the state spending significant resources to ensure that the state receives all that it should.

- The state's contract with Caremark includes few controls related to mail-order prescriptions, but state spending for mail-order is minimal.
  - There is a risk that the pharmacy benefit manager will charge more for mail-order prescriptions than the same prescription at a walk-in pharmacy.
  - The state does not have controls related to mail-order prescriptions.
  - However, the lack of controls is not a significant issue because mail-order prescriptions comprise a very small portion of total prescription drug costs.
  - Therefore, there is little reason to dedicate additional state resources at this time.

On May 6, 2015, we revised the audit report to include a discussion of specialty drugs. Appendix D in the full report includes a "strike-and-add" version of those changes, which include the following information:

- Although specialty drugs account for 32% of total prescription drug costs for the State Employee Health Plan, we could not verify whether KDHE is proactively monitoring this area.
  - Monitoring and controlling how much the state spends on specialty drugs is important because they are a significant portion of the total costs and are increasing rapidly.
  - KDHE officials told us they monitor the total costs of specialty drugs and check specialty drug pricing for accuracy, but we could not verify these actions.
  - KDHE plans to more closely monitor specialty drug costs and take steps to ensure the state receives all drug manufacturer rebates for specialty drugs.

SUMMARY OF RECOMMENDATIONS

Question 1 Recommendations:

We made a series of recommendations aimed at addressing the state's lack of monitoring its pharmacy benefits manager for the state employee prescription drug plan. These include developing processes to verify compliance with contract terms or contracting with a third party to do so.

AGENCY RESPONSE

In its response, the agency stated that it found the report's findings helpful and that it planned to immediately implement additional controls.

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Caremark provides a number of prescription management services as the state's pharmacy benefit manager. These include:

- *Caremark has established a network of pharmacies where members can fill prescriptions.*
- *Caremark negotiates drug rebates and administers the plan's preferred drug list (formulary).*
- *Caremark processes and pays prescription drug claims.*

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Report Highlights

Highlights

Department of Corrections: Evaluating Safety Issues at the Kansas Juvenile Correctional Complex

Report Highlights

September 2015 ● R-15-013

Summary of Legislator Concerns

Our July 2012 audit of the Kansas Juvenile Correctional Complex (KJCC) identified numerous problems that compromised the safety and security of offenders and staff, including a poor security environment and poor personnel practices. Because of the extensive number of problems we identified, the Legislative Post Audit Committee authorized this follow-up audit of safety and security issues at KJCC.

Background Information

KJCC is one of two juvenile correctional facilities in Kansas. As of May 2015, KJCC provided maximum and medium security beds for 128 male and 15 female juvenile offenders. In fiscal year 2015, KJCC had $15.1 million in expenditures and employed 237 FTE staff.

Our 2012 audit of KJCC identified problems related to the facility's personnel management and safety and security environment. As a result, we made several recommendations to resolve those deficiencies. In this audit, we evaluated 12 topic areas to determine whether officials had substantially addressed those recommendations.

***QUESTION 1**: Has the Kansas Juvenile Correctional Complex Taken Adequate Action to Correct Problems Identified in Our 2012 Audit?*

KJCC officials have taken actions that substantially addressed nine of the 12 recommendations we evaluated.

- KJCC implemented a new process to track investigations of abuse, neglect, and sexual assault of juvenile offenders.
- KJCC now has a process to internally review critical incidents.
- KJCC has improved personnel practices related to background checks, staff training, and staffing analyses.
- KJCC has greatly improved its process to inventory, track, and secure keys and tools. However, officials did not appear to follow a consistent process regarding damaged tools.
- KJCC's process ensures searches are generally frequent and documented.
- KJCC implemented a new process to address prohibited items, although some items did not make it into that process as they should.
- Medical staff generally were notified when juvenile offenders were found with alcohol or drugs, but we could not verify if other staff were also notified.

KJCC officials' actions failed to adequately address two of the 12 recommendations we evaluated.

- As was the case in 2012, KJCC staff did not adequately supervise juvenile offenders.
  - ➢ Officers either missed or were late in conducting visual checks on general population units in two of the three cases we tested.
  - ➢ Officers either missed or were late in conducting visual checks on segregation units in three of the five cases we tested.
  - ➢ We also saw examples of officers who did not check on juvenile offenders on suicide precaution as required. In all three cases, staff documented that they completed the checks even though video showed they had not.
  - ➢ Finally, our test work also revealed several examples of officers who did not stagger the timing of their checks of juvenile offenders on suicide precaution, as is required by policy.

- Not all KJCC policies have been updated as needed since our 2012 audit.
  - In 2012, we found that KJCC management had done a poor job of establishing and communicating clear, concise, and easy-to-follow safety and security policies.
  - Oversight of KJCC was transferred to the Department of Corrections in July 2013. This required KJCC officials to consolidate, revise, and rescind policies and procedures to align KJCC policy with current Department of Corrections' policy.
  - As of July 2015, KJCC officials were still in the process of updating and aligning the facility's policies with those of the Department of Corrections.

Findings related to agency actions we <u>could not fully evaluate</u>.

- We could not fully evaluate staff discipline, but had some concerns about the process officials use to ensure discipline is consistent and increasingly severe.
  - During the 2012 audit we found that staff discipline was not consistent and that disciplinary actions were not increasingly severe.
  - By 2015, KJCC officials had updated their policy on staff discipline and reported using a database to help manage disciplinary actions.
  - However, the disciplinary database was not maintained or updated in a way that officials could use it to ensure discipline was consistent and increasingly severe.
  - Officials described other actions they took to address our recommendation on staff discipline. Officials believe these actions improved their overall disciplinary process. However, we were unable to evaluate whether these other actions satisfied our recommendation. We did however identify risks associated with relying on these other methods.

We also identified certain minor issues that were communicated separately to agency management. Those issues are not included in the audit report.

SUMMARY OF RECOMMENDATIONS

We made a series of recommendations aimed to address the issues we discovered regarding juvenile supervision, prohibited items, tool destruction, disciplinary actions, and policies and procedures.

AGENCY RESPONSE

Agency officials agreed to implement our recommendations and had no comments in their formal response that required us to change the report.

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Highlights

Larned State Hospital: Reviewing the Operations of the Sexual Predator Treatment Program, Part 2

Report Highlights

April 2015 ● R-15-006

Summary of Legislator Concerns

Legislators have expressed concern about the growing size of the offender population, employee workload, and working conditions at the Larned facility. Further, they would like to know how Kansas' program compares to other state programs and what actions could be taken to limit program growth.

Background Information

In 1994, the Legislature created a civil commitment program for sexual predators through the Sexually Violent Predator Act. The goal of the program is to prevent sexual predators from reoffending after their release.

The treatment program is primarily administered at Larned State Hospital. As of December 2014, the program had 243 residents and the population was continuing to grow. Additionally, program staffing and expenditures have also grown since 2010.

QUESTION 1: How does Kansas' Sexual Predator Treatment Program compare to other states and best practices?

- The recommended practices for sexual predator programs emphasized individualized treatment.

- Kansas' program generally did not adhere to these recommended practices, while programs in Iowa, Washington, and Wisconsin generally did.

  - Kansas' treatment program was not individualized, so all residents received essentially the same treatment.
  - The treatment programs in the other states provided more individualized treatment than Kansas.
  - In addition, Iowa, Washington and Wisconsin had conditionally released and discharged more residents than Kansas.
  - Although data on reoffending was not readily available, preliminary estimates made by Wisconsin shows it had a 3% to 5% reoffense rate.

- Kansas' sexual predator treatment program met many legal requirements, although there were several exceptions.

  - Kansas appeared to adequately address most statutory program requirements.
  - However, Kansas' program may not have adequately addressed other statutory requirements related to education and rehabilitation.
  - Senate Bill 149 was introduced in the 2015 legislative session. Among other things, this bill would remove the requirements related to education and rehabilitation from the Sexually Violent Predator Act.

Other Findings:

- Residents who completed the first five phases at Larned did not necessarily arrive at the reintegration facilities (Osawatomie and Parsons) with the skills to be successful.

  - Staff told us residents often arrived without the skills necessary to find a job.
  - Additionally, staff told us residents generally arrived without basic life skills such as knowing how to cook or shop for themselves.

- Program officials had not maintained appropriate records and documentation to effectively manage the program.
  - ➢ The program did not track resident participation or progression.
  - ➢ We could not tell if residents had received the treatment they should.
  - ➢ The program did not maintain thorough records of service cancellations.
- Policies and program guidance were outdated and not adhered to. We found that staff had not adhered to progress review panel policy requirements and that resident handbooks were outdated and inaccurate.
- Until recently, KDADS had not filed annual reports with the Legislature as required by statute.

QUESTION 2: What actions could be taken to reduce the resident population of the Sexual Predator Treatment Program?

- Unless changes are made, the program will exceed capacity in the next few years and will continue to grow for the foreseeable future.
  - ➢ As of December 2014, the program housed 243 residents – about 92% of the program's physical capacity.
  - ➢ The population continues to grow because far more sex offenders are committed to the program each year than are released.
  - ➢ Few residents exit the program because most never progress past the early phases of treatment.
  - ➢ Based on current trends, we project the program population will exceed its current space limits in the next few years and will continue to grow into the foreseeable future.
  - ➢ We further estimate the program costs will more than double by 2025.
  - ➢ An insufficient local labor force will create staffing problems for the program as it grows.

<u>Findings Related to Reducing the Resident Population:</u>

- We evaluated the impact of six different options to reduce the program's resident population.
- **Option 1**: Treating low-risk residents in a community setting would reduce the resident population and reduce program costs.
  - ➢ We estimate this option would decrease the resident population by about 40 residents (12%) by 2025.
  - ➢ By reducing the population, we estimate this option would also reduce projected program costs by about \$7.5 to \$8.0 million (22% to 31%) by 2025.
  - ➢ Although feasible, serving low-risk residents in the community would require a significant change in treatment philosophy, including a willingness to increase the risk of reoffending.

The program has seven phases. The first five are provided at Larned. The last two phases – known as reintegration – are provided at Osawatomie and Parsons State Hospitals. Residents who complete all seven phases are conditionally release from the program. Since the program began in 1994, only three residents have completed the program.

Participation in treatment is voluntary. Staff estimate about 40% of the residents do not participate in treatment. As of December 2014, most residents are between 40 and 60 years old, most have been in the program more than five years, and most are in phase two or three of the program.

The constitutionality of involuntary civil commitment has been challenged in Kansas and other states. In 1997, the U.S. Supreme Court ruled Kansas' Sexually Violent Predator Act was constitutional. However, recent federal lawsuits in Minnesota and Missouri could affect Kansas' program.

- **Option 2**: Treating medically infirm residents in a secured nursing facility would reduce the resident population, but would not significantly affect program costs.

  - We estimate this option would decrease the resident population at Larned by about 45 to 50 residents (15%) by 2025.
  - It is unlikely this option would reduce the projected program costs by 2025, but it could alleviate capacity issues at Larned.
  - KDADS officials agreed that treating medically infirm residents in a separate facility would benefit all residents.

- **Option 3**: Treating residents on the "parallel track" in a separate secured facility would reduce the resident population, but potentially increase costs.

  - We estimate this option would decrease the resident population at Larned State Hospital by about 45 to 50 residents (13% to 16%) by 2025.
  - However, we estimate this option would <u>increase</u> program costs by about $6.5 to $8.0 million by 2025.
  - KDADS and Larned officials generally agreed that residents with intellectual or developmental disabilities would be better treated in a separate secure facility.

- **Option 4**: Expanding the number of reintegration slots from 16 to 32 would not reduce the resident population.
  - Because reintegration facilities house so few residents compared to Larned, it does not appear that this option would significantly reduce the resident population by 2025.
  - However, we estimate doubling the reintegration slots would increase program costs by $5 million by 2025.
  - Even though this option would increase costs, it may prove beneficial because it could increase motivation and help avoid a potential bottleneck.
  - This option could require amending state law, but KDADS officials say it is feasible.

- **Option 5**: Limiting the time a resident can occupy a slot in a reintegration facility would not significantly reduce the resident population at Larned State Hospital.
  - The program has no limits on how long residents can remain in the reintegration facilities, which potentially blocks others who are ready to progress.
  - Limiting the time at a reintegration facility would help ensure slots are available for residents who are more likely to transition into the community.
  - However, because only a few residents would be sent back to Larned, it does not appear this option would reduce the projected program resident population or costs.
  - Agency officials agreed that putting a time limit on a resident's time at a reintegration facility would benefit the residents.

- **Option 6**: Beginning sexual predator treatment before the offender is released from prison would not significantly impact resident population and could increase costs.

  - Currently, no treatment for sexually violent predators is offered while in prison, so offenders cannot start treatment until they are committed after their release.
  - Offenders who began treatment while serving their prison sentence could shorten their civil commitment time.
  - However, this option does not significantly reduce resident population because the time savings are small compared to the times till needed to complete the program.
  - In addition, we estimate this option would <u>increase</u> projected program costs by about $600,000 and $2 million by 2025.
  - Providing sexually violent predator treatment in the prisons would require coordination between KDADS and the Department of Corrections to ensure prison-based treatment is effectively managed.

<u>Other Findings:</u>

- Statutory housing restrictions make it difficult for residents to leave the program.

SUMMARY OF RECOMMENDATIONS

<u>Question 1 Recommendations:</u>

- We recommend KDADS and program officials better align the program with current research-based recommended practices, identify the need for additional resources and develop a strategy for obtaining those resources. We also recommended that KDADS and program officials implement and review various processes to address management of the program.

<u>Question 2 Recommendations:</u>

- We recommend KDADS and program officials should develop a strategic plan for addressing program growth and limited labor force issues.

AGENCY RESPONSE

- Agency officials disagreed with a number of the report findings in Question One. The agency appears to have made a number of recent changes to the program, most of which were implemented after the time period covered by our audit work. We commend the agency for making these changes, but do not believe they affect the report's findings. The agency generally agreed to implement or has begun implementing all the audit recommendations.

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Legislative Post Audit Performance Audit Report Highlights

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Kansas Public Employees Retirement System: Evaluating Controls to Detect and Prevent Fraud and Abuse

Report Highlights

September 2015 ● R-15-011

Summary of Legislator Concerns

Legislators have expressed concerns that some individuals might be circumventing KPERS current controls in order to continue earning years of service credit or earning credit for employer contributions while not working for a KPERS-covered employer.

Background Information

KPERS is a $16 billion public pension system for 1,500 public employers and covers about 295,000 state and local public employees.

KPERS provides pension benefits for retired members as well as disability and death benefits.

KPERS currently has about 100 FTE staff who work in the following five divisions; administrative, benefits and members services, fiscal services, information technology, and investments. KPERS also contracts for actuarial and investment services.

***QUESTION 1**: Does the Kansas Public Employees Retirement System Have Sufficient Controls to Detect and Prevent Fraud and Abuse?*

- Because of the volume of applications, contributions and benefit payments handled on a regular basis, public pension plans are at risk for fraud and abuse. For example, there is risk of making inaccurate benefit payments and not collecting enough in contributions. These risks can be exploited and result in fraud and abuse.

- These risks can be mitigated by implementing the following controls:
  - Requiring proof of identity helps verify members' identities.
  - Regular monitoring helps ensure that benefits are calculated correctly and that information used to calculate benefits is accurate.
  - Segregating duties helps ensure that one employee cannot both enroll and approve benefits and also ensures that sensitive information is safeguarded from internal and external threats.

- KPERS had many, but not all, controls to help prevent and detect fraud abuse.
  - Recent financial audits confirmed that KPERS requires proof of identity when processing benefits.
  - We confirmed KPERS monitors benefit processing through supervisory reviews.
  - We confirmed KPERS segregates duties between staff who collect contributions and staff who distribute benefits.
  - However, we also found evidence of inadequate controls in three areas as detailed in the following sections.

- Since late 2013, KPERS had not conducted field audits to verify the accuracy of employer-reported information.
  - KPERS uses field audits as a control to help ensure retirement contributions are accurate.
  - However, KPERS temporarily suspended its field audit function for 20 months beginning in 2013 because of turnover and the need to implement other projects.
  - During the time when the field audits were suspended, KPERS was at increased risk of not collecting all the contributions it should.
  - Pay-period reporting and new government accounting standards provide KPERS with additional controls, but are not a substitute for field audits.

- KPERS could strengthen its efforts to identify recipients of disability benefits who are not eligible for those benefits.

  - KPERS relies on a third-party contractor to monitor the ongoing eligibility of KPERS disability recipients.
  - We identified at least 16 KPERS disability recipients who earned substantial income while also receiving disability benefits.
  - Information from the Kansas Department of Revenue (KDOR) and the Kansas Department of Labor (KDOL) could help KPERS identify disability recipients who earned substantial income while also receiving disability benefits.
  - KDOR and KDOL officials told us they foresee few if any problems in sharing income-related data with KPERS in the future.

- We found seven teachers who were incorrectly awarded KPERS service credits while working for education associations.

  - The seven teachers were no longer teaching in their district and were officers in their education association.
  - In reporting payroll information to KPERS, each school district continued to show the teachers as working for the school district.
  - Because education associations are not KPERS-covered employers, the seven former teachers should not have been awarded KPERS service credits while working for them.
  - It is likely that service credits have been incorrectly awarded this way for many years and KPERS plans to investigate and correct any errors.

Other Findings

- When calculating members' retirement benefits, KPERS handled final average salary calculations appropriately.

  - Current state law includes provisions intended to limit the impact of accumulated leave and late-in-career salary increases on members' retirement benefits.
  - Our test work showed that benefit inflation rarely happens, but when it did KPERS made the required adjustments.
    - Significant increases in final average salaries used to calculate members' monthly retirement benefits have been rare—5% of retirees in the past two years had significant salary increases and those instances are allowed by law.
    - For the 61 retirees included in our sample, KPERS appropriately identified increases in their final average salaries and then made the necessary adjustments.

- Legislation considered during the 2015 Legislative Session would have substantially limited the opportunity for retirees to include unused leave when calculating retirement benefits.

  - Currently, two KPERS retirement plans call for unused leave to be included when calculating retirement benefits.
    - For members of the KPERS 1 retirement plan who were hired on or before July 1, 1993, KPERS must consider unused leave when calculating retirement benefits.
    - For members of the Kansas Police and Firefighters (KP&F) retirement system who were hired on or before July 1, 1993, KPERS must include unused leave when calculating retirement benefits.

KPERs retirements benefits are funded through member contributions, employer contributions, and investment earnings.

As of May 2015, the total assets for the system were about $16.8 billion.

As of December 2014, KPERS had an unfunded liability of about $9.5 billion that is projected to be eliminated by 2033. Unfunded liability occurs when the value of benefits earned by public employees is greater than the value of the plan's assets.

- Although rare, the monthly retirement benefit for some retirees was substantially increased when large amounts of unused leave were included in their final salary calculation, as provided for by state law.
- In reaction to such instances, the 2015 Legislature considered two bills which would have limited employees' ability to include unused leave when calculating retirement benefits.

- Restricting or eliminating the inclusion of unused leave could reduce KPERS' unfunded liability up to $80 million, but the actual impact likely will be far less.

  - KPERS' actuaries estimated <u>eliminating</u> the inclusion of unused leave in the benefits calculation would save the plan up to $80 million.
  - We estimated that <u>setting a 240-hour limit</u> on the amount of unused leave that can be included would save the plan up to $62 million.
  - Neither estimate is likely to be fully realized because many members would retire before either policy change took effect.

SUMMARY OF RECOMMENDATIONS

<u>Question 1 Recommendations:</u>

- We recommended that KPERS should follow through with its plan to reinstitute field audits.

- We recommended that KPERS work to establish inter-agency data-sharing agreements with the Kansas Department of Revenue and the Kansas Department of Labor to identify KPERS members receiving disability benefits but who are no longer eligible.

- We recommended that KPERS incorporate a check of members' service records into its field audit function, correct any inaccuracies and, for the seven teachers we identified, that KPERS make any corrections to records and contributions as required by law.

AGENCY RESPONSE

- KPERS officials agreed to implement our recommendations and had no comments in their formal response that required us to change the report.

HOW DO I REQUEST AN AUDIT?

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Legislative Post Audit Performance Audit Report Highlights

Highlights

Sales Tax and Revenue Bonds: Evaluating the Heartland Park STAR Bond Project

Report Highlights

March 2015 ● R-15-004

Summary of Legislator Concerns

Legislators have expressed concern that the recent proposal by the City of Topeka to purchase Heartland Park shifts the burden of bond repayment from the local government to the state and fails to meet other provisions of state law.

Background Information

STAR bonds allow local governments to use future sales tax revenue to pay current redevelopment costs.

In 2006, the City of Topeka issued $10.4 million in full faith and credit STAR bonds to make improvements to the Heartland Park racetrack. The full faith and credit backing made the city responsible for debt service payments in the event the sales tax increment revenue was not enough to pay off the bonds.

The original Heartland Park STAR bond district did not generate enough sales tax revenue to retire the bonds, so the city is seeking to amend the 2005 project to raise additional revenue and keep the racetrack out of foreclosure.

QUESTION 1: *Does the City of Topeka's Proposal to Purchase Heartland Park Meet the Intent of the STAR Bond Financing Act and Its Requirements?*

- We evaluated eight areas of the City of Topeka's current proposal to purchase Heartland Park and expand the STAR bond district, and we found that all eight areas appeared to meet the requirements of the STAR Bond Financing Act.

  - **Purpose of the current proposal** - The current proposal is to retain Heartland Park rather than develop or expand the park.

    - Issue: Concerns have been raised about whether it is appropriate to treat the current proposal as an amendment to the original Heartland Park project. Concerns have also been raised that the current proposal is not an allowable use of STAR bonds because it does not involve the creation or expansion of a new project.
    - Conclusion: Amending the original STAR bond project plan appears to meet the requirements of the law, although it is not clear the Legislature envisioned using the bonds to save an existing attraction.

  - **Use of the STAR bond proceeds** - The current proposal is to spend the additional STAR bond proceeds on acquiring clear title to the park, which involved buying the current operator's reversionary interest and paying off debt obligations.

    - Issue: Concerns have been raised that purchasing the reversionary interest in Heartland Park is not an allowable use of STAR bond proceeds.
    - Conclusion: Using STAR bonds to purchase the reversionary interest and secure clear title to the park appears to meet the requirements of the law.

  - **Economic impact of the current proposal** - The current proposal must demonstrate that the project benefits the local and state economies.

    - Issue: Concerns have been raised about whether the two studies submitted as part of the current proposal accurately reflect the economic activity generated by the park.
    - Conclusion: The current proposal includes a study of Heartland Park's economic impact that appears to meet the requirements of the law, although we noted some concerns about the studies submitted. For example, the studies do not represent an independent assessment of the proposal's economic impact and additional problems with the methodology suggest the most recent report significantly overstates the park's impact.

- **Expansion of the district boundaries** - The current proposal is to expand the boundaries of the original STAR bond district to capture additional revenue for repaying the original and new bonds.

  - Issue: Concerns have been raised about whether a STAR bond district can be expanded and for what reasons.
  - Conclusion: Expanding the boundaries of an existing STAR bond district appears to meet the requirements of the law. With the expanded boundaries, the district will capture sales tax revenues that are not related to activity at Heartland Park. However, our rough estimates of the park's economic impact suggest that the foregone tax revenues from within the expanded district will be offset by the total taxes generated on race weekends.

- **Base year for sales tax increment calculations** - The current proposal uses 2005 as the base year for sales tax increment calculations.

  - Issue: Concerns have been raised about whether 2005 or 2013 is the appropriate base year for determining the sales tax increment revenue.
  - Conclusion: Using 2005 as the base year for sales tax increment calculations appears to meet the requirements of the law, although those requirements are not as clear now as they were in 2005.

- **Financial solvency of the current proposal** - The current proposal must demonstrate that it will generate enough sales tax increment revenue to retire the STAR bonds associated with the original project and proposed amendment.

  - Issue: Concerns have been raised about whether the current proposal to expand the STAR bond district will generate enough sales tax revenue to pay off the STAR bond debt. That is because the original STAR bond district has not generated enough sales tax to cover debt service costs.
  - Conclusion: The current proposal includes an analysis of the expanded STAR bond district's ability to pay off bond debt, which appears to meet the requirements of the law. We reviewed the city's financial analysis and found that the city's calculations and assumptions about a 1% annual growth rate were reasonable. We also found that recent increases in state sales tax rates would account for 8%, or about $4 million, of the state sales tax revenue generated by the expanded district.

- **Share of project costs paid for with STAR bonds** - The current proposal must demonstrate that the amount of additional STAR bonds will be less than 50% of total additional costs.

  - Issue: Concerns have been raised that the additional STAR bonds make up more than 50% of the additional project costs.
  - Conclusion: The city's current proposal appears to meet the requirement that STAR bonds do not finance more than 50% of the total costs of the project, although we noted some concerns about the statute. Primarily, if the new park operator does not invest an additional $5 million in improvements to the park, the law does not have a provision that would require the city to pay any amount back to the state.

If approved, the City of Topeka will issue $5 million in STAR bonds to purchase the current operator's future reversionary interest in the property, and will also expand the original district to encompass existing businesses along a seven-mile stretch of Topeka Boulevard.

The Department of Commerce gave preliminary approval of the current proposal in September 2014. As of the time of this report, the department had not given final approval.

Additionally, as of February 2015, the current proposal was on hold due to a legal challenge by Topeka citizens. A citizen's group organized a petition drive to put the proposed purchase of Heartland Park to a citywide vote. The petition was subsequently challenged by the city and appealed by the petitioner. As of the time of this report, the Court of Appeals had not issued its final ruling.

- **Selling or leasing Heartland Park to a third party -** The current proposal includes selling or leasing the park to a third party after acquiring it.

  - Issue: Concerns have been raised that statutes prohibit STAR bond financing to be used for purchasing or constructing property and then selling that property to a third party.
  - Conclusion: Selling or leasing Heartland Park to a third party appears to meet the requirements of the law. Current statutes do not explicitly allow or prohibit the use of STAR bonds for buildings sold to a third party. In 2005, the law prohibited STAR bonds from being used in such way, but Heartland Park was given a statutory exemption.

SUMMARY OF RECOMMENDATIONS

- We made several recommendations for the Legislature to consider that would strengthen and clarify the requirements of the STAR Bond Financing Act.

AGENCY RESPONSE

- Department of Commerce and City of Topeka officials generally agreed with the report's findings and conclusions.

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HOW DO I REQUEST AN AUDIT?

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Highlights

Legislative Post Audit
Performance Audit
Report Highlights

The Kansas Racing and Gaming Commission: Evaluating Selected Regulatory Processes and Standards

Report Highlights

July 2015 ● R-15-012

Summary of Legislator Concerns

Legislators were interested in knowing whether the Kansas Racing and Gaming Commission reviewed and approved casino internal control change requests and slot machine project requests in a timely manner. Further, they wanted to know how Kansas gaming standards compared to other states and current industry standards.

Background Information

The 2007 Kansas Expanded Lottery Act allowed the state to own and operate four casinos. The Kansas Lottery owns the casino games and contracts with casino managers to operate the casino facilities, while the Kansas Racing and Gaming Commission regulates the casinos.

As of July 2015, three state-owned casinos were operational and a fourth was recently approved by the Kansas Racing and Gaming Commission.

In fiscal year 2014, state-owned casinos generated $78 million in revenues for the state.

QUESTION 1: *Does the Kansas Racing and Gaming Commission Review and Approve Casino Change Requests in a Timely Manner to Maximize Gaming Revenues?*

- The Kansas Racing and Gaming Commission must approve any changes to a casino's internal controls or games.
  - ➢ Casinos must get permission from the Kansas Racing and Gaming Commission before changing any controls or games. These requests cover virtually all aspects of casino operations.
  - ➢ Some changes are more likely to directly affect casino revenues than others.
  - ➢ When change requests have the potential to affect revenues, it is important for Racing and Gaming staff to render timely decisions.

- We found that about 70% of slot machine project requests were not approved in a timely manner.
  - ➢ The approval process for slot machine requests is unwritten and informal.
  - ➢ Racing and Gaming staff have a goal to review each request and make a decision in three days, which is similar to other states.
  - ➢ Very few slot machine change requests were approved within three days.
  - ➢ Delays in approving slot machine project requests can affect a casino's ability to generate state revenue.

- We found 23% of table game change requests were not approved in a timely manner.
  - ➢ The Kansas Lottery, Attorney General's Office, and the Kansas Racing and Gaming Commission are involved in the table games approval process.
  - ➢ Because Racing and Gaming staff do not have an internal goal for resolving table game requests, we used Missouri's standard of three months.
  - ➢ Six of the 26 table game change requests we reviewed were not approved within three months.

- 34% of the internal control change requests that did not involve slot machines or table games were not approved with three months by the commission.
  - ➢ Staff review every change request and make recommendations to the Kansas Racing and Gaming Commission.
  - ➢ A significant number of the requests that did not involve slot machines or table games took longer than three months to be resolved.
  - ➢ Several factors affected whether the internal control change requests were approved in a timely manner including Racing and Gaming staff being slow to follow-up with casino officials and casino officials significantly revising original requests.

- Unlike Kansas, two other states we reviewed use a risk-based approach for reviewing change requests.
  - Kansas Racing and Gaming officials generally follow the same review process for all change requests, regardless of the topic area.
  - Nevada and New Jersey both use a risk-based review process to help ensure that more important change requests get reviewed more quickly.

QUESTION 2: Do the Gaming Standards Adopted by the Kansas Racing and Gaming Commission Align with Current Industry Standards?

- Kansas' gaming standards currently require more review and are more stringent than several other states.
  - The Kansas Racing and Gaming Commission's interpretation of slot machine payouts is more stringent than in other states and affects casino revenues.
  - Kansas required more layers of review for its table games changes than three other states.
  - Unlike other states, Racing and Gaming staff approve all advertising and promotional materials before they are disseminated.

- Kansas has not adopted the most recent electronic gaming standards recommended by its contractor.
  - Gaming Laboratories International (GLI) establishes base standards for gaming devices and systems.
  - The Kansas Racing and Gaming Commission uses gaming standards that are eight years old.

Other Findings:

- Racing and Gaming officials and a state contractor complete verification work on slot machines.

SUMMARY OF RECOMMENDATIONS

We made a series of recommendations to the commission to develop a slot machine project request process, use a risk-based approach for other change requests, consider alternative slot machine payout requirements, allow on-site staff to approve casino marketing materials, and update its regulations to align with current electronic gaming standards.

AGENCY RESPONSE

The agency disagreed with several of the report's findings and recommendations. Racing and Gaming officials do not plan to implement the recommendations dealing with implementing a risk-based review process, using theoretical payout when determining whether a slot machine can be removed, using on-site staff to review and to approve advertising and promotional materials, and adopting the most recent electronic gaming standards recommended by Gaming Laboratories International.

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Legislative Post Audit Performance Audit Report Highlights

Highlights

Federal Funds: Evaluating State Spending Required by Federally Funded Programs

Report Highlights

December 2015 ● R-15-016

Summary of Legislator Concerns

Legislators have expressed concern that Kansas' federally funded programs might contain provisions that require additional state spending, which could potentially be challenged given the Supreme Court's ruling in *NFIB v. Sebelius (2012)*.

Background Information

The federal government provides both monetary and nonmonetary support for state programs in a number of areas including education, transportation, health care, and social services.

- *Monetary grants distribute federal funds to state agencies for certain activities that can have broad or narrow purposes.*
- *Nonmonetary grants provide goods or services to state agencies rather than funds.*

Agencies can pass monetary and nonmonetary grants through to other state agencies or local governments that expend the funds.

QUESTION 1: *Does Kansas' Participation in Federally Funded Programs Create Significant Unfunded Obligations for State Agencies?*

- In recent years, Kansas Agencies spent about $5 billion annually in monetary and nonmonetary support from the federal government for more than 500 programs.
- Federally funded programs will require Kansas agencies to spend an estimated $2 billion on cost-sharing obligations in fiscal year 2016.
  - These programs generally require one of two types of cost-sharing:
    - Matching requirements compel the state to pay for a certain percentage of a program's costs and helps ensure the state participates financially in programs that directly benefit Kansans.
    - Maintenance-of-effort requirements compel the state to maintain a certain level of non-federal funding or services and helps ensure federal funds are used to augment, rather than replace, state funds.
  - State agencies can use a variety of funding sources to satisfy cost-sharing obligations, including state general funds and fee funds.
  - Data compiled by the Kansas Legislative Research Department shows Kansas' portion of cost sharing will be about $2 billion in fiscal year 2016.
    - This is only an estimate of the cost-sharing obligations and does not include information for all federally funded programs in Kansas.
  - Beyond cost-sharing obligations, we did not identify any significant unfunded mandates.
- Federally funded programs typically impose administrative requirements on state agencies, although most of these can be paid for with program funds.
  - State agencies are required to file numerous reports with federal agencies, monitor program performance, develop program policies and a state plan, and maintain accounting systems and other records necessary to operate the state plan.
  - The federal Office of Management and Budget has established guidelines that generally permit state agencies to use federal funds to pay for these administrative obligations.
  - We selected nine programs with large federal expenditures to review, and state and federal officials with those programs told us the significant administrative obligations were either paid for with federal funds or counted toward the state's cost-sharing obligations.

- Federally funded programs often include conditions on how state agencies can spend federal funds.

  - The federal government prohibits states from using federal funds for certain costs, such as alcoholic beverages and fines.

  - Many federally funded programs limit the amount of federal funds agencies can spend on administrative activities.

  - Some federally funded programs require agencies to use a portion of the federal funds for a particular purpose, a practice known as "earmarking."

- Most programs have penalty or repayment clauses if state agencies fail to meet program requirements, although the terms vary depending on the program.

  - In recent years, Kansas has been assessed penalties or required to repay funds for failing to meet federal requirements.

- The federal government has tied some national policy objectives to federal funds, and states' efforts to challenge those policies have had mixed results.

  - We identified several national policies tied to state-operated programs for education, health care, and transportation, but they do not appear to have resulted in significant costs to the state.

  - States' efforts to challenge national policies have had mixed results.
    - States successfully challenged a provision of the Patient Protection and Affordable Care Act as described at right.
    - On the other hand, states were unsuccessful in challenging the No Child Left Behind Act and federal drinking age requirements.

*In the U.S. Supreme Court case **NFIB v. Sebelius** (2012), states successfully challenged a provision of the Patient Protection and Affordable Care Act that required states to expand the scope of Medicaid or risk losing all federal program funds. The Court determined this was coercive.*

SUMMARY OF RECOMMENDATIONS

- This report contains no recommendations.

AGENCY RESPONSE

- We provided copies of the report to six state agencies involved with the nine programs we selected for our review. None of the agencies submitted a formal response.

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Legislative Post Audit Performance Audit Report Highlights

Highlights

K-12 Education: Efficiency Audit of the Auburn-Washburn School District

Report Highlights

July 2015 ● R-15-010

Summary of Legislator Concerns

K.S.A. 46-1133 requires the Legislative Division of Post Audit to conduct a series of efficiency audits of Kansas school districts from fiscal year 2014 to fiscal year 2017. The audits are to include one small, one medium, and one large school district.

Auburn-Washburn school district was selected for an audit in September 2013 in the large-sized school district category.

Background Information

The Auburn-Washburn school district is located in Northeast Kansas, in Shawnee County.

The district served about 5,750 FTE students and had 848 FTE employees in the 2013-14 school year.

In the 2013-14 school year, the district's expenditures were a little more than $64 million.

Five-year trend data show the district's student enrollment has increased while staffing has declined. However, expenditures per FTE students have remained constant.

***QUESTION 1**: Could the Auburn Washburn school district achieve significant cost savings by improving resource management, and what effect would those actions have?*

Savings Options That Would Have Little to No Impact on Students or the Community and Should be Implemented

- The district could save between $165,000 and $280,000 by eliminating 5.0 to 8.5 FTE custodial positions.
  - Auburn-Washburn's custodial staffing levels are high compared to peer districts and national benchmarks.
  - District officials were concerned that eliminating custodial positions would make buildings less clean and pose a health risk to students.
  - Based on our tours of schools in districts that meet the national custodial benchmarks and information from the Centers for Disease Control, we think the peer and national benchmarks are reasonable standards for Auburn-Washburn.
  - Eliminating custodial positions would save the state between $18,000 and $30,000 in Kansas Public Employees Retirement System (KPERS) funding.

- The district could save between $34,000 and $77,000 annually by aligning supplemental pay with what similar districts pay.
  - In the 2014-15 school year, Auburn-Washburn paid 189 staff a total of $525,000 in supplemental pay for a variety of extracurricular activities.
  - Auburn-Washburn's supplemental pay is often more than what similar districts pay because it is based on a percentage of individual staff pay rather than a flat rate.
  - Reducing supplemental pay would also save the state between $4,500 and $10,200 annually in KPERS funding.

- The district could use its procurement cards for more of its supply and service expenditures, which could generate up to $34,000 in revenue annually.
  - District officials told us it was possible to expand their use of procurement cards but expressed some concerns.

Savings Options That Could Have a <u>Moderate Impact</u> on Students or the Community, and Should be Considered

- The district could save $68,000 annually by replacing four nurses with health aides.
  - Auburn-Washburn had similar total health services staffing levels as four peer districts.
  - However, two of the four peer districts we evaluated used health <u>aides</u> rather than <u>nurses</u> to deliver basic health services to students.
  - If Auburn-Washburn used health aides in a similar way, it could replace four nurses with four health aides and save $68,000.
  - District officials were concerned that replacing nurses with health aides would pose a safety risk to students.
  - The state would also save about $9,000 in KPERS funding if the district replaced four nurses with health aides.

Savings Options That Could Have a <u>Significant Impact</u> on Students or the Community, and Should be Considered

- The district could reduce of offset about $215,000 to $335,000 in annual transportation costs by changing its policies on busing students who live less than 2.5 miles from school.
  - The district offers transportation services to all students who live in the district, regardless of how far away they live from school.
  - The district could save between $232,000 and $335,000 annually by <u>no longer busing</u> students who live less than 2.5 miles from their school.
  - Alternatively, the district could achieve up to $250,000 in savings and increased revenue by <u>requiring parents to pay</u> for bus services for students who live less than 2.5 miles from their school.
  - District officials raised several concerns about altering their transportation services including safety issues and community resistance.
  - The state could save up to $18,000 in KPERS funding if the district changed its transportation policy.

SUMMARY OF RECOMMENDATIONS

- We made several recommendations to the Auburn-Washburn school district to either implement or consider implementing the cost savings options we identified.

AGENCY RESPONSE

- District officials generally concurred with the report's findings, conclusions, and recommendations except that officials raised concerns with some recommendations.

HOW DO I REQUEST AN AUDIT?

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Auburn-Washburn has higher property values and lower free-lunch counts than the state average.

92% of the district staff that responded to our survey reported that the district operated efficiently or very efficiently.

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Legislative Post Audit Performance Audit Report Highlights

Highlights

K-12 Education: Efficiency Audit of the Marais des Cygnes Valley School District

Report
Highlights

April 2015 ● R-15-007

Summary of Legislator Concerns

K.S.A. 46-1133 requires the Legislative Division of Post Audit to conduct a series of efficiency audits of Kansas school districts from fiscal year 2014 to fiscal year 2017. The audits are to include one small, one medium, and one large school district.

Marais des Cygnes Valley school district was selected for an audit in September 2014 in the small-sized school district category.

Background Information

The Marais des Cygnes Valley school district is located in Eastern Kansas, primarily in Osage County.

The district served 278 FTE students and had 44 FTE employees in the 2013-14 school year.

Four-year trend data show the district's student enrollment and staffing have increased, but expenditures per FTE student have remained constant.

Marais des Cygnes has lower property values and higher free-lunch counts than the state average.

***QUESTION 1:** Could the Marais des Cygnes Valley school district achieve significant cost savings by improving resource management, and what effect would those actions have?*

- The Marais des Cygnes Valley school district appears to operate efficiently compared to its peer districts.

  - ➢ The district's operational expenditures were lower than the peer district's average in the areas we evaluated.
  - ➢ The district has chosen to operate with fewer financial resources than comparable school districts.
  - ➢ The district's lower spending does not appear to have adversely affected student performance.
  - ➢ Because the district already appears to be operating efficiently in the areas we audited, we found limited options for increased efficiency.

Savings Options That Would Have <u>Little to No Impact</u> on Students or the Community and Should be Implemented

- The district could generate up to $5,200 in revenue annually by switching to a cash-back procurement card and maximizing its usage.

  - ➢ District officials would need to restructure the district's current procurement card use and strengthen existing controls to implement this cost savings option.

Savings Options That Could Have a <u>Moderate Impact</u> on Students or the Community, and Should be Considered

- The district could save about $21,000 annually by replacing a full-time teaching position with a paraprofessional.

  - ➢ The district could eliminate a full-time teaching position that is currently performing paraprofessional duties to generate about $21,000 in annual savings.
  - ➢ District officials confirmed that a paraprofessional could perform these duties and said they would consider adjusting staffing levels.
  - ➢ The state would also save about $3,000 in KPERS funding by eliminating this teaching position.

- The district could generate up to $18,000 in savings and increased revenue by eliminating free meals for staff and increasing meal prices.
  - The district transferred $33,000 from its general fund to food service in school year 2013-14 because its food service operations were not self-sufficient.
  - The district could reduce the need to transfer about $11,000 to $15,000 to its food service program by eliminating free meals provided to district staff.
  - The district could generate an additional $3,000 in revenue by bringing its student and staff meal prices in line with their peer districts**.**

Other Findings

- The district lacks adequate policies and procedures for several of its financial controls.
  - The superintendent's procurement card purchases are not reviewed and approved.
  - The district has inadequate procedures and no policies for processing cash transactions.
  - The district appears to have adequate procedures in other financial areas but lacks written policies.

SUMMARY OF RECOMMENDATIONS

We made several recommendations to the Marais des Cygnes Valley school district to either implement or consider implementing the cost savings options and financial control improvements we identified.

AGENCY RESPONSE

The district generally concurred with our findings, conclusions, and recommendations.

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Legislative Post Audit Performance Audit Report Highlights

Highlights

K-12 Education: Efficiency Audit of the Prairie Hills School District

Report Highlights

March 2015 ● R-15-005

Summary of Legislator Concerns

K.S.A. 46-1133 requires the Legislative Division of Post Audit to conduct a series of efficiency audits of Kansas school districts from fiscal year 2014 to fiscal year 2017. The audits are to include one small, one medium, and one large school district.

Prairie Hills school district volunteered for an audit in July 2014 in the medium-sized school district category.

Background Information

The Prairie Hills school district is located in Northeast Kansas, primarily in Nemaha and Marshall Counties.

The district served about 1,080 FTE students and had 161 FTE employees in the 2013-14 school year.

Three-year trend data show the district's student enrollment and staffing have declined, but expenditures per FTE students have increased slightly.

Prairie Hills has higher property values and lower free-lunch counts than the state average.

QUESTION 1: *Could the Prairie Hills school district achieve significant cost savings by improving resource management, and what effect would those actions have?*

Savings Options That Would Have Little to No Impact on Students or the Community and Should be Implemented

- The district could generate almost $125,000 in savings and increased revenue by adopting more efficient food service practices and increasing meal prices.
  - The district transferred $130,000 from its general fund to food service in school year 2013-14 because its food service operations were not self-sufficient.
  - The district could potentially save about $100,000 in food supplies by adopting certain practices of its most efficient peer districts.
  - The district could reduce the need to transfer about $15,000 to its food service program by eliminating free meals provided to 28 employees.
  - The district could generate an additional $8,300 in revenue by bringing its student and staff meal prices in line with their peer districts.

Savings Options That Could Have a Moderate Impact on Students or the Community, and Should be Considered

- The district could save about $85,000 by consolidating certain classes not filled to capacity and eliminating 1.5 FTE teaching positions.
  - Sabetha High School and Middle School offer multiple math, science and physical education classes that are not filled to capacity.
  - Consolidating classes not filled to capacity would allow the district to reduce three full-time teachers to part-time and save about $85,000 a year.
  - It could be difficult to find teachers willing to work part-time although the district could consider sharing full-time teachers between buildings.

- The district could save about $12,000 annually by ending its current practice of busing students who live less than 2.5 miles from their school.
  - The district has chosen to provide transportation services to about 90 students that it is not statutorily obligated to transport.
  - The district could eliminate one bus and one driver for about $12,000 in annual savings by no longer transporting students who live within 2.5 miles of their school.
  - District officials expressed several concerns about eliminating transportation for the 58 Sabetha students within 2.5 miles of their school.

Savings Options that Could Have a Significant Impact on Students or the Community, but Should be Considered

- The district could save about $460,000 annually by closing the Wetmore school and moving the students to Sabetha schools.
  - The Prairie Hills school district serves about 1,100 FTE students at three separate locations—Axtell, Wetmore, and Sabetha.
  - The Axtell and Wetmore schools have significantly smaller enrollments and spend about 15% to 20% more per student than the Sabetha schools.
  - Closing either the Wetmore or Axtell building could reduce district expenditures by about $1.0 million in staff and building costs.
  - However, we estimate about 50% of Wetmore parents would likely transfer their students to another district which would reduce state funding, leaving a net savings of about $460,000 by closing the Wetmore school.
  - For Axtell, we estimate about 95% of parents would likely transfer their students to another district which would reduce state funding, leaving a net loss of about $190,000 by closing the Axtell school.
  - Closing either school building would face significant community opposition.

- The boundaries created by the Prairie Hills school district consolidation make achieving significant savings difficult.
  - Unlike most consolidated districts, the two districts that combined to form Prairie Hills are almost entirely geographically separate.
  - Prairie Hills' geographic separation makes it difficult for the district to implement cost saving measures typical of most consolidated districts.
  - Even if district officials take all actions noted in this report including closing a school building, the district will still have about a $800,000 gap between estimated revenues and expenditures.

- The district could save $80,000 by eliminating two low-enrollment programs and 1.5 FTE teaching positions.
  - The Axtell agriculture program and the Sabetha-Wetmore family and consumer science program serve only a few students.
  - The district could achieve net savings of $80,000 per year by eliminating these two programs, which would reduce teaching staff by 1.5 FTE.
  - District officials told us that closing these programs would be very unpopular with community members and students.

- The district could save $60,000 by consolidating four Sabetha kindergarten classes to three and eliminating one teaching position

Other Findings

- The district still has inadequate payroll controls to prevent fraud and abuse despite a 2013 payroll theft of $35,000.
  - In 2013, the district's payroll clerk was caught embezzling about $35,000 from the payroll system because of an inadequate separation of duties.
  - The district's separation of duties for processing most direct deposit payroll (85% of employees) is inadequate.
  - The district's separation of duties for processing physical checks (15% of employees) was better, but could be improved.
  - Although the district's payroll system is still vulnerable, we did not identify any fraudulent payroll payments.

In 2010, the school districts of Axtell and Sabetha-Wetmore consolidated to form USD 113 Prairie Hills. The state provides a financial incentive for districts that voluntarily consolidate with other districts.

Prairie Hills' funding will decrease by an estimated $1.5 million when its five-year consolidation incentive ends June 2015.

- Unusually high spending limits and poor controls for some district purchasing cards increases the risk they could be misused.
  - Two purchasing cards used by district office staff have credit limits of $100,000 each and weak controls.
  - Additionally, the assistant superintendent's credit card purchases are not sufficiently reviewed and approved.
  - We did not identify any questionable transactions based on our review of purchases made on all three cards.
  - The other five district credit cards appear to have adequate controls.

- The district has inadequate procedures and no policies for processing cash transactions.
  - The district does not adequately separate duties and does not have written policies for handling $400,000 in school-related payments.
  - Although the district appears to have adequate separation of duties for about $60,000 collected at the gate of sporting and extracurricular events, the district does not have written policies.

- The district's inventory is not complete or accurate because it is not regularly updated.
  - The district's written policy specifies that the district's inventory be checked and updated annually.
  - We found that the district inventory is incomplete and inaccurate because the district's policies are not being followed.

SUMMARY OF RECOMMENDATIONS

We made several recommendations to the Prairie Hills school district to either implement or consider implementing the cost savings options and financial control improvements we identified.

AGENCY RESPONSE

District officials generally concurred with the report's findings, conclusions, and recommendations. However, district officials raised concerns with some recommendations and reported that the district does not plan to take action on some items such as eliminating free meals for all staff and eliminating transportation for students who live less than 2.5 miles from the school.

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Legislative Post Audit
Performance Audit
Report Highlights

Highlights

K-12 Education: Reviewing Virtual School Costs and Student Performance

Report Highlights

January 2015 ● R-15-001

Summary of Legislator Concerns

During the 2014 legislative session, the Kansas Legislature passed Senate Substitute for House Bill 2506 which required our office to conduct an audit of the costs associated with operating virtual schools by February 1, 2015.

Background Information

Kansas law requires that virtual schools use internet-based instruction and that teachers and students be separated by time and place.

Kansas had 48 virtual schools that served 6,400 FTE students in the 2013-14 school year.

In the 2013-14 school year, virtual school students were less likely to qualify for free lunch, received fewer special education services, and were more likely to be adults than students in more traditional settings.

QUESTION 1: *What Kinds of Services do Kansas Virtual Schools Provide?*

- We selected a sample of six virtual schools and 222 virtual school students to evaluate the services the schools offered and how often students used those services.

- All six of the selected schools offered <u>full curriculums</u> appropriate to the age of their students including core courses such as math and science, as well as elective courses such as art and music.

- The selected schools generally offered the same type of <u>support services</u> to both adult and K-12 students, but the students' use of those services varied.
  - K-12 students were more likely to use at-risk services than adult students.
  - Conversely, adults were more likely to use job and career planning and guidance counseling than K-12 students.

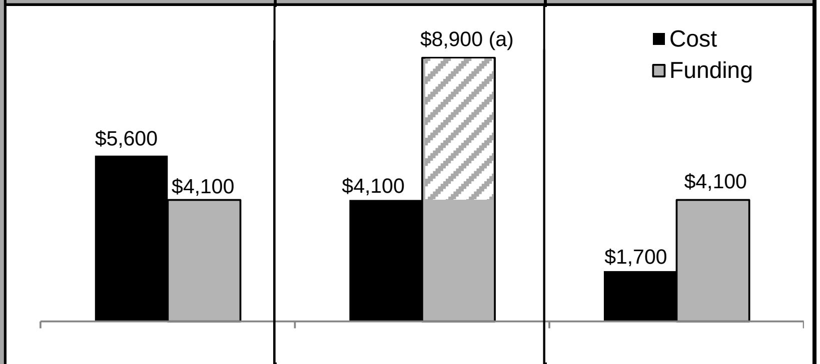
- Some virtual schools also provided <u>additional materials</u> such as computers and science supplies and <u>extracurricular activities</u> such as field trips.
  - All six virtual schools also provided educational resources such as textbooks.
  - Two virtual schools routinely provided computers to students.
  - Only K-12 virtual schools provided extracurricular opportunities.

QUESTION 2: *How Do Virtual Schools Operating Costs Compare to the Amount of State Funding They Receive and what are Their Outcomes?*

- We identified three different models of virtual education in Kansas.
  - Forty-four virtual schools offered a <u>full-time K-12 curriculum</u> to students. These schools offered educational services to school-aged students.
  - Four virtual schools offered an <u>adult diploma completion</u> program to students. These schools catered to adult students seeking their high school diploma.
  - One virtual school offered <u>part-time K-12</u> courses to a large number of private school students. This school allowed private school students to enroll in a course or two each year.

Comparison of Costs and Funding
For Three Virtual School Education Models in Kansas
(2013-14 school year)

	Full-Time K-12 Curriculum	Adult Diploma Completion	Part-Time K-12 Courses
Funding & Costs (Per FTE Student)			



	Full-Time K-12 Curriculum	Adult Diploma Completion	Part-Time K-12 Courses
FTE Enrollment (% of total)	*4,624 (71%)*	*1,326 (20%) (b)*	*558 (c) (9%)*

(a) Officially, adult diploma completion programs receive approximately $4,100 in state aid per FTE student (the same as the other models). However, because the FTE counts of adult students are significantly overstated, the funding per actual FTE student is much higher.
(b) This enrollment figure represents all adult students enrolled in a virtual school across all three models because the number of adults specifically enrolled in an adult diploma completion program is unavailable. Based on available data, we think the number of adults enrolled in a diploma completion center is at least 450.
(c) This number reflects the only school included in this model (Andover) because it enrolled the majority of the total K-12 part-time students.
Source: LPA analysis of select virtual schools' resources and expenditures, interviews with school administrators and virtual school consultants, and audited KSDE student data.

Findings Related to Funding and Costs for the Full-Time K-12 Curriculum Model

- We estimate the cost of operating a full-time K-12 virtual school is about $4,500 to $5,600 per FTE student.
- In 2013-14, full-time K-12 virtual schools received an estimated $400 to $1,500 less per FTE student in state funding than it cost to operate them.
- For the students in our sample who were enrolled in a full-time K-12 virtual school, the number of minutes reported on count dates was generally consistent with the students' actual course loads.

Findings Related to Funding and Costs for the Adult Diploma Completion Virtual School Model

- We estimate the cost of operating a virtual diploma completion program for adults is about $3,300 to $4,100 per FTE student.
- In 2013-14, adult diploma completion programs received an estimated $4,800 to $5,600 per FTE student more in state funding than it cost to operate them.
  - Unlike full-time K-12 students, the number of minutes adult students were funded for on count days significantly overstated their course loads.
  - Consequently, the state provided the equivalent of $8,900 in funding for each adult diploma completion FTE student in 2013-14.

Virtual schools are funded similarly to traditional schools, although there are some key differences in how students are counted and which types of additional funding they can receive.

Although virtual school funding per FTE student has remained relatively constant, total virtual school funding has significantly increased from $17.4 million in 2009 to $26.3 million in 2013.

The 2014 Legislature made two key changes that will affect virtual school funding beginning with the 2014-15 school year:

- *Districts will no longer be allowed to include the funding associated with virtual school students to determine the size of their local option budget.*
- *Districts will no longer receive funding associated with students who were not proficient on state assessments.*

To estimate the operating costs for each type of virtual school we built separate cost models based on the resources each requires.

We asked two consultants with extensive experience in virtual schools to provide us with feedback regarding the reasonableness of the resources we allocated to each type of virtual school.

A detailed explanation of our funding and costs comparison methodology is provided in Appendix E in the report.

Findings Related to Funding and Costs for the Part-Time K-12 Model

- We estimate the cost of providing individual courses to K-12 students is about $1,700 per FTE student.

- Part-time K-12 schools received an estimated $2,500 more per FTE student that it cost to operate.

- The number of minutes students reported on count dates was generally consistent with their yearly course load.

- Andover's eCademy has two distinct types of virtual school students, including the largest part-time K-12 model. The way its part-time K-12 model uses state funds and provides courses to students is inconsistent with the intent of the Virtual School Act.
  - ➢ Its arrangement with the Wichita-area Catholic schools takes advantage of a loophole in the way the state funds virtual schools.
  - ➢ The students are required to access virtual courses during a set time each day, which is inconsistent with intent of the law.

Findings Related to Outcomes for Students in All Three Models

- Full-time K-12 virtual school students performed similarly to traditional school students on state assessments.
  - ➢ Virtual school students perform similarly to traditional school students in reading before and after controlling for student demographics.
  - ➢ After controlling for demographic differences, virtual school students' performance in math was similar to that of traditional school students.

- The adult students in our sample made little progress in earning their high school diplomas.
  - ➢ On average, the students in our sample earned about half a credit a year, and many (55%) did not earn any credits at all.
  - ➢ Adult students often have unique challenges to earning their diplomas, including work and family responsibilities.
  - ➢ Schools serving adult students in this model are not accountable for student performance and there are no repercussions for schools if students fail to complete their courses.

Other Findings on Virtual School Funding, Costs, and Outcomes

- Including virtual school students in the calculation for assessed valuation per pupil (AVPP) allows some districts to receive more funding than intended.
  - ➢ Assessed valuation per pupil is intended to act as an indicator of how much property tax a district can raise.
  - ➢ Allowing districts to including virtual school students in the AVPP calculation allows districts with virtual schools to receive more supplemental equalization aid than was likely intended.
  - ➢ However, removing virtual school students from the AVPP calculation would increase the total amount of supplemental equalization aid the state provides to school districts.

- Statute currently provides a non-proficient weighting for virtual school students that should have been removed.

- Districts did not fully account for all of their virtual school expenditures in the appropriate fund as required by state law.

***QUESTION 3:** Has the Department of Education Provided Sufficient Oversight of Virtual Schools?*

- KSDE has implemented most, but not all, of our 2007 virtual school audit recommendations.

- KSDE approved two districts to operate virtual schools even though problems it identified had not been addressed.
  - ➢ KSDE staff identified problems with how two districts were planning to enroll and meet the needs of special education students, but approved the virtual schools anyway.
  - ➢ KSDE staff seemed to view their responsibility as that of providing support to school districts rather than providing oversight.

- We identified two additional legal requirements that most virtual schools have not complied with.
  - Districts failed to provide statutorily required vision, hearing, and dental exams to their virtual school students.
  - Districts did not submit statutorily required virtual school teacher training reports to KSDE.

SUMMARY OF RECOMMENDATIONS

- We made a number of recommendations to KSDE that included fully implementing all the recommendations from our 2007 audit and addressing the issues we identified with their oversight of virtual schools.

- We recommended the Legislature consider options to address several issues with funding virtual schools, including an alternative funding mechanism.

AGENCY RESPONSE

- KSDE officials had concerns about the sample sizes the audit's findings and conclusions were based on.

- Two school districts and one service center chose to respond. The Lawrence school district and the Andover school district agreed with the audit's findings and conclusions. The South Central Kansas Education Service Center had concerns with the students who were part of the sample.

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Legislative Post Audit Performance Audit Report Highlights

Highlights

The Kansas Eligibility Enforcement System: Evaluating Delays in the System's Implementation

Report Highlights

December 2015 ● R-15-019

Summary of Legislator Concerns

Legislators have expressed concerns that delays in implementing KEES may have increased the project's costs and affected the system's functionality.

Background Information

In 2011, officials from the Kansas Department of Health and Environment (KDHE) and the Department for Children and Families (DCF) combined two information technology projects, K-Med and Avenues, under a single project called the Kansas Eligibility Enforcement System (KEES).

The K-Med component of KEES is an eligibility determination system for medical assistance programs such as Medicaid and CHIP, whereas the Avenues component is an eligibility determination system for social service assistance programs such as TANF and LIEAP.

Managing the KEES project is a joint effort between KDHE and DCF officials, although the KEES project director works for KDHE. A private vendor, Accenture, is under contract with the state to build and maintain the KEES system.

***QUESTION 1**: Have Delays or Other Changes to the KEES Project Resulted in Additional Costs, Reduced Anticipated Savings, or Reduced System Functionality?*

- As of November 2015, the core of the Kansas Eligibility Enforcement System (KEES) project was approximately two and a half years behind schedule.
  - The first component of the project, the publicly available web portal for medical programs, was completed slightly ahead of schedule in July 2012.
  - The medical eligibility component of KEES (K-Med) was completed in July 2015, about a year and half behind schedule.
  - Assuming current deadlines are met, the social services eligibility component of KEES (Avenues) will be completed in August 2016, at least two and half years behind schedule.
- Once complete, KEES will likely exceed the original budget to build, maintain, and operate the system by at least $46 million through August 2016.
  - It was originally estimated to cost a total of $188 million to build and maintain KEES through August 2016. This included:
    - about $138 million to build KEES.
    - about $50 million to maintain the system through August 2016.
  - It will likely cost a total of about $234 million to build and maintain KEES through August 2016. This will include:
    - about $179 million to finish building KEES.
    - about $55 million to maintain KEES through August 2016.
- Although it appears the main functionality of KEES will work as planned, some important components have been significantly postponed or reduced.
  - KEES main functionality—its ability to centrally process medical and social service program eligibility—will be provided as originally planned.
  - However, two important components of KEES have been significantly postponed or will have their functionality significantly reduced.
    - The entire social services eligibility component has been postponed at least two and half years because of project delays.
    - KEES' ability to automatically verify eligibility information is limited because of variations in client data.
  - Finally, some less important features of KEES were postponed or removed entirely, including new reporting functionality and certain features related to eligibility notifications.

- The state is unlikely to realize all the estimated savings expected from KEES because estimates were based on faulty assumptions.

    - KDHE and DCF officials have consistently reported that implementing KEES could save the state about $300 million over about a ten-year period.
    - Because the assumptions behind four of the main cost savings estimates were overly aggressive, savings from KEES will likely be much less than the originally estimated $300 million.
    - We identified about $1 million in annual costs the state likely will avoid by replacing several legacy systems with KEES.

- Project management issues early in the KEES project and other changes led to many of the current problems we identified.

    - The original project schedule was unrealistic, making it difficult for the KEES project to meet the initial deadlines.
    - The unrealistic deadlines were exacerbated by poor communication between Accenture (the vendor) and state staff early in the project.
    - Accenture's software required more modifications than originally planned to meet the specific needs of the state and to accommodate recent federal and state policy changes.
    - However, it appears the project management of KEES has improved over time.

- State oversight bodies do not always receive complete information about IT projects like KEES.

    - Quarterly summary KITO reports are based on information that is self-reported by agency officials.
    - Quarterly summary KITO reports may be based on recast schedules which do not represent the original project deadlines.
    - The cost information for the KEES project in the KITO reports was incomplete.
    - The KITO reports also did not include the results of independent evaluations.

SUMMARY OF RECOMMENDATIONS

We recommended that KDHE officials stop reporting cost savings estimates to the executive branch chief information technology officer until they revaluate KEES current functionality and other relevant factors. We also recommended Legislative action to address issues with limited oversight and the continuing KEES' project deadlines and budget.

AGENCY RESPONSE

- Agency officials agreed to implement our recommendation and had no comments in their formal response that required us to change the report.

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As called for in the original project plan, KEES would provide a centralized way for applicants to apply for social and medical benefits. The original plan also called for KEES to provide a centralized way to determine applicant's eligibility for medical and social programs.

As originally planned, KEES was to be completed in 2014 and cost a total of $138 million to build and $50 million to maintain for five years. Federal grants pay for about 85% of KEES' build costs, and 75% of the maintenance costs. The remaining costs are paid for with state funds.

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Legislative Post Audit
Financial Audit
Report Highlights

Highlights

Kansas Lottery: Fiscal Year 2015

Report
Highlights

December 2015 ● R-15-015

Summary of Legal Requirements

State law requires an annual financial audit of the Kansas Lottery. This year's audit was conducted by RubinBrown, a CPA firm under contract with the Legislative Division of Post Audit.

Background Information

Kansas Lottery products are sold at approximately 2,000 retail locations. The lottery sells scratch tickets and instant pull tab games. Players may also purchase online game tickets through the Multi-State Lottery Association.

The Expanded Lottery Act authorizes operation of one gaming facility in each of four gaming zones. The first casino opened in Dodge City in December 2009. The second casino opened in Kansas City in 2011 and the third in the Wichita area in 2012. A contract has been awarded for a fourth casino in Southeast Kansas. However, construction has been delayed due to pending litigation.

AUDIT OBJECTIVES: Financial audits done in accordance with government audit standards assess (1) whether the audited organization's financial statements are fairly presented in accordance with applicable accounting principles, (2) whether there are any significant problems with the organization's internal controls, and (3) whether the organization complied with applicable legal requirements.

- The auditors expressed an unmodified opinion on the financial statements, meaning that, after the adjusting journal entries were made, the financial statements present the Kansas Lottery's financial position fairly in all material respects and in conformity with generally accepted accounting principles.

- The audit disclosed no deficiencies in the Kansas Lottery's internal control over financial reporting and applicable compliance areas.

- The audit disclosed no instances of noncompliance with applicable legal requirements that were material to the Kansas Lottery's financial statements.

SUMMARY OF RECOMMENDATIONS:

The auditors made no recommendations.

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Legislative Post Audit
Financial Audit
Report Highlights

Highlights

Kansas Public Employees Retirement System: Fiscal Year 2015

Report Highlights

December 2015 ● R-15-017

Summary of Legal Requirements

State law requires an annual financial audit of the Kansas Public Employees Retirement System. This year's audit was conducted by CliftonLarsonAllen, a CPA firm under contract with the Legislative Division of Post Audit.

Background Information

KPERS provides three statewide defined-benefit retirement plans for more than 290,000 active, inactive and retired state and local public employees:

- *Kansas Public Employees Retirement System*
- *Kansas Police and Firemen's Retirement System*
- *Kansas Retirement System for Judges*

In addition to retirement benefits, KPERS provides basic and optional life insurance and disability benefits for active members.

The Governmental Accounting Standards Board (GASB) has made significant changes in accounting standards in recent years regarding pension plans like KPERS.

AUDIT OBJECTIVES: Financial audits done in accordance with government audit standards assess (1) whether the audited organization's financial statements are fairly presented in accordance with applicable accounting principles, (2) whether there are any significant problems with the organization's internal controls, and (3) whether the organization complied with applicable legal requirements.

- The auditors expressed an unmodified opinion on the financial statements, meaning that the financial statements present KPERS' financial position fairly in all material respects and in conformity with generally accepted accounting principles.
- The audit disclosed no significant deficiencies in KPERS' internal control over financial reporting.
- The audit disclosed no instances of noncompliance with applicable legal requirements that were material to KPERS' financial statements.

SUMMARY OF RECOMMENDATIONS:

The auditors made no recommendations.

- *GASB 67 builds upon the existing framework for financial reports of defined benefit pension plans. The goal is to provide greater transparency, consistency, and comparability in the financial statements for similar types of pensions. GASB 67 became effective for KPERS for fiscal year 2014 and appeared on last year's financial report.*

- *The primary objective of GASB 68 is to better allocate responsibility for the net pension liability (an accounting version of the actuarial unfunded liability) among participating employers in a multi-employer pension plan (like KPERS). This does not affect the financial statements for KPERS, but it will require the state to recognize its share of the collective pension amounts (including the net pension liability) on its financial statements rather than less prominently in the notes to those statements. GASB 68 became effective for fiscal year 2015 and the changes are reflected in State of Kansas' annual financial statements that were released in December 2015.*

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Legislative Post Audit Financial Audit Report Highlights

Highlights

State of Kansas: Financial Audit of Fiscal Year 2015

Report Highlights

December 2015 ● R-15-018

Summary of Legal Requirements

State law requires an annual audit of the general purpose financial statements and "the financial affairs and transactions of a state agency required to comply with federal government audit requirements…" The results of the audit are presented in two parts. This first part is the report on the state's basic financial statements. The second part, the Report on Federal Awards in Accordance with OMB Circular A-133, will be issued separately.

Background Information

CliftonLarsonAllen, a CPA firm under contract with the Legislative Division of Post Audit, conducted this audit.

The Comprehensive Annual Financial Report (CAFR), including the ***Independent Auditor's Report*** *and the* ***Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters****, may be found on the Department of Administration's website.*

AUDIT OBJECTIVES: Financial audits done in accordance with government audit standards assess (1) whether the audited organization's financial statements are fairly presented in accordance with applicable accounting principles, (2) whether there are any significant problems with the organization's internal controls, and (3) whether the organization complied with applicable legal requirements.

- The auditors expressed unmodified opinions on the state's basic financial statements, meaning that, after the restatements and adjusting journal entries were made, the financial statements present the state's financial position fairly and in conformity with generally accepted accounting principles in all material respects.

- The auditors emphasized two matters with regard to the financial statements:
  - At the end of fiscal year 2015, the state had a deficit in its general fund balance of $285 million. This is the result of an operating deficit of $678 million over the last two fiscal years and raises concerns about the state's ability to meet its future financial obligations.
  - The financial statements reflect the state having adopted a new accounting guidance in accordance with changes to generally accepted accounting principles (GAAP).

- The auditors reported five material weaknesses in the state's internal control over financial reporting. As a result, adjusting entries and restatements of previous fund balances were needed to correct the financial statements. The five material weaknesses were as follows:
  - The auditors noted an error in the journal entry to record taxes receivable which would have materially affected the general fund balance and was not identified by management in a timely fashion (finding 2015-001). The Department of Administration disagreed with this finding (see the Agency Response section).
  - As a result of improvements in its processes, the state identified an error that occurred in prior years related to Economic Development Initiative Funds transfers from the Department of Commerce to two of the universities (finding 2015-002).The Department of Administration disagreed with this finding (see the Agency Response section).
  - The auditors identified a missing account receivable reflecting outstanding provider assessments paid by hospitals (finding 2015-003). The estimated amount of the receivable was $16.5 million.
  - Various errors occurred in the university system in prior years that were not noted or corrected (finding 2015-004). As a result, restatements of prior period balances were required.
  - Some universities do not have a comprehensive general ledger system (finding 2015-005).

- The audit disclosed no instances of noncompliance with applicable legal requirements that were material to the state's financial statements.

SUMMARY OF RECOMMENDATIONS:

- The auditors made recommendations aimed at addressing each of the findings.

AGENCY RESPONSES:

- The Department of Administration and the universities affected expressed disagreement with findings of material weaknesses as follows:
  - Finding 2015-001 – The Department of Administration agrees that the error occurred but contends it did not have the opportunity to complete later steps in the control process that would have detected the error before the financial statements were finalized.
  - Finding 2015-002 – The Department of Administration, Wichita State University and Kansas State University agree that the cash status of the EDIF fund was not properly recorded but disagree that the two universities are to receive funds as a reimbursement.

- The Department of Administration, Department of Health and Environment, Board of Regents, and state universities developed corrective action plans to address each of the findings.

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Legislative Post Audit
Financial Audit
Report Highlights

Highlights

State of Kansas: Federal Compliance (A-133)
Audit of Fiscal Year 2014

Report Highlights

March 2015 ● R-15-003

Summary of Legal Requirements

The federal government requires organizations that receive a significant amount of federal funding to undergo a "single audit" in accordance with OMB Circular A-133.

The Single Audit combines the audit of the state's financial statements with an organization-wide audit of compliance with federal regulations and award agreements. The Single Audit is presented in two parts. The first part was the audit of the state's basic financial statements for fiscal year 2014 (R-14-018 released in December 2014). This second part is the report on state agencies' compliance with federal awards requirements.

Background Information

CliftonLarsonAllen, a CPA firm under contract with the Legislative Division of Post Audit, conducted this audit.

Reported federal expenditures for fiscal year 2014 were $5.1 billion.

AUDIT OBJECTIVES: The federal A-133 audit has three major objectives: (1) evaluate state agencies' compliance with federal laws, regulations, contracts, and other requirements; (2) evaluate agencies' internal controls over compliance; and (3) identify any questioned costs associated with non-compliance.

- **The auditors reported that the state was in material compliance with the applicable requirements for all but one of the 20 federal programs audited.** The auditors found material non-compliance existed with the Foster Care program administered by the Department for Children and Families. The auditors found that the department had misclassified two subrecipients in the Foster Care program as contractors. As a result, the department applied its monitoring program for contractors, but did not comply with all requirements regarding subrecipient monitoring.

- **The auditors reported a total of 27 problem findings related to the federal awards including five material weaknesses** (the most significant type of problem finding).

  - The **Department for Children and Families** did not have adequate support documentation from the subrecipient for some of their claims (Foster Care), did not adequately monitor the subrecipients (Foster Care, this is the basis for the qualification above), and did not document and/or meet all eligibility requirements for some beneficiary payments tested (Adoption Assistance).
  - The cash draw reports submitted by the **Department of Health and Environment** did not agree with the Medicaid Management Information Systems reports in two instances (Medicaid).
  - The **Department of Labor** overstated the amount of federal funds spent to the Department of Administration by $30 million (Unemployment Insurance).
  - All 27 problem findings are listed in the separate document, Summary of Problem Findings from the FY 2014 OMB Circular A-133 Audit.
  - Of the 27 problem findings noted above, five are repeat findings from prior years.

- **The auditors estimated questioned costs as a result of some of the findings at just under $300,000.** Although the auditors initially identify the questioned costs, the applicable federal agency ultimately decides if the state will have to reimburse the federal government and how much. The questioned costs are listed in the separate document, Summary of Problem Findings from the FY 2014 OMB Circular A-133 Audit.

SUMMARY OF RECOMMENDATIONS:

- The auditors made recommendations to address the problem findings identified.

AGENCY RESPONSE:

- Each agency responded to its respective findings with a corrective action plan.
- The Department for Children and Families provided an additional response addressing some concerns about Finding 2014-008. This additional response should not be considered part of the audit report.

HOW DO I REQUEST AN AUDIT?

By law, individual legislators, legislative committees, or the Governor may request an audit, but any audit work conducted by the division must be directed by the Legislative Post Audit Committee. Any legislator who would like to request an audit should contact the division directly at (785) 296-3792.

Legislative Division of Post Audit

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Summary of Problem Findings
from the
OMB Circular A-133 Audit
Year Ended June 30, 2014

DEPARTMENT FOR CHILDREN AND FAMILIES

Description of Problem Findings	Classification	Questioned Costs	Year Originally Reported	Summary of Recommendation
US Department of Health and Human Services (Child Care and Development Fund)				
Did not have adequate documentation for the family share deduction in two of the 60 files tested.	Significant Deficiency	$ -	2014	Improve the internal control design to include better supporting documentation and a verification process of amounts paid to program participants.
Did not have adequate support documentation for eligibility or benefits in three of the 60 cases tested.	Significant Deficiency	2,060	2014	Expand the internal control design to include a review process and/or computerized edit checks to mitigate data entry errors.
US Department of Health and Human Services (Foster Care)				
Did not have adequate support documentation from the contractor (subrecipient) for three of 40 claims tested.	Material Weakness	1,047	2014	Emphasize documentation requirements to the contractor and develop an oversight program to monitor the contractors' compliance.
The A-133 report from the subrecipient that was avaible during the audit period did not contain the federal funds passed to the subrecipient from the State of Kansas and therefore had not been subject to audit.	Material Weakness	-	2014	Incorporate the subrecipient monitoring framework that is in place for other DCF programs.
Two subrecipients did not submit Federal Funding Accountability and Transparency Act (FFATA) reports.	Significant Deficiency	-	2014	Incorporate FFATA reporting requirements and information in the subrecipient agreements, and consider monitor procedures to ensure compliance with FFATA reporting.
US Department of Health and Human Services (Adoption Assistance)				
Did not document and/or meet all eligibility requirements in four of the 40 beneficiary payments tested.	Material Weakness	11,330	2014	Design additional internal controls that monitor the workflow of adoption processing and maintain documentation, and provide training to staff.
Department of Education (Vocational Rehabilitation)				
Did not determine eligibility within 60 days in three of the 40 cases tested.	Significant Deficiency	-	2014	Develop a more robust internal control to monitor the workflow of application processing.
Did not verify that contractors were not suspended or debarred for one of the 11 contracts examined.	Significant Deficiency	-	2014	Develop a more robust internal control that monitors the tracking of all purchases and related suspension and debarment verification.
Total Questioned Costs		$ 14,437		

DEPARTMENT OF COMMERCE

Description of Problem Findings	Classification	Questioned Costs	Year Originally Reported	Summary of Recommendation
US Department of Health and Human Services (Program of Competitive grants for Worker Training and Placement in High Growth and Emerging Industry Sectors)				
Did not adequately monitor the subrecipients. (Repeat finding)	Significant Deficiency	$ -	2012	Continue to use the process and related controls to effectively monitor subrecipients.
Did not provide identifying award information at the time of award to any of the four subrecipients tested. (Repeat finding)	Significant Deficiency	-	2013	Continue to use the process and related controls to effectively monitor subrecipients.
Total Questioned Costs		$ -		

DEPARTMENT OF EDUCATION

Description of Problem Findings	Classification	Questioned Costs	Year Originally Reported	Summary of Recommendation
US Department of Education (School Improvement Grants Cluster)				
Did not submit the Federal Funding Accountability and Transparency Act (FFATA) report timely. (Repeat finding)	Significant Deficiency	$ -	2013	Implement processes and controls to ensure that all required FFATA reports are submitted timely.
Total Questioned Costs		$ -		

DEPARTMENT OF HEALTH AND ENVIRONMENT

Description of Problem Findings	Classification	Questioned Costs	Year Originally Reported	Summary of Recommendation
US Department of Health and Human Services (Medicaid Cluster)				
The cash draws submitted for two of the 14 reports tested did not agree with the Medicaid Management Information Systems reports.	Material Weakness	$ -	2014	Strengthen the preparation and review process over cash draws.
Did not document review of either of the two financial reports tested for the State Survey and Certification of Health Care Providers and Suppliers program.	Significant Deficiency	-	2014	Continue to develop cross-training.
Did not submit either of the two quarterly expense reports tested timely.	Significant Deficiency	-	2014	Get written approval from the federal granting agency for any delays in submission of reports.
One of 60 files tested did not contain an application.	Significant Deficiency	-	2014	Provide training and consider additional cross-checks for documentation in case files.
US Department of Health and Human Services (State Grants to Promote Health Information Technology)				
Did not provide identifying award information at the time of award and did not receive a copy of the subrecipient's A-133 audit. (Repeat finding)	Significant Deficiency	-	2013	Continue to use the process and controls to monitor all subrecipients of federal grants.
Total Questioned Costs		$ -		

DEPARTMENT OF LABOR

Description of Problem Findings	Classification	Questioned Costs	Year Originally Reported	Summary of Recommendation
US Department of Labor (Unemployment Insurance)				
The amount of federal funds spent reported to the Department of Administration was overstated by $30 million.	Material Weakness	$ -	2014	Conduct additional training for the agencies involved with the federal expenditure reporting process.
Did not obtain approval from the US Department of Labor for some purchases and contractor payments.	Significant Deficiency	275,404	2014	Strengthen control process over disbursements to ensure that costs incurred are allowed by the federal awarding agency.
Did not document review of two of the five cash draws tested.	Significant Deficiency	-	2014	Continue to develop cross-training.
Seven of the 40 cases tested were not reviewed by the Benefits Accuracy Measurement program within the required timeframe.	Significant Deficiency	-	2014	Conduct training for all investigators, and include compliance with deadline requirements in the investigators' evaluation.
Did not properly classify three of the 40 overpayments tested.	Significant Deficiency	-	2014	Provide additional training and develop a checklist for all situations to consider.
Did not include payroll expenditures payable in four of the seven program and administrative expenditures reports.	Significant Deficiency	-	2014	Provide additional training and consider cross-training.
The amounts reported on both of the State Workforce Agency activity reports did not agree with underlying support.	Significant Deficiency	-	2014	Develop system generated information to reduce the time involved to manually generate the fields that were incorrect.
Did not document review of one of the two Contribution Operations reports tested.	Significant Deficiency	-	2014	Continue to develop cross-training.
Total Questioned Costs		$ 275,404		

BOARD OF REGENTS

Description of Problem Findings	Classification	Questioned Costs	Year Originally Reported	Summary of Recommendation
US Department of Education (Statewide Data Systems Cluster)				
Implemented a process to include a statement to certify that the contracted vendor is not suspended or debarred, but did not award any new contracts. (Repeat finding)	Significant Deficiency	$ -	2013	Continue to use the process and controls to ensure compliance.
US Department of Education (Student Financial Assistance Cluster)				
One service provider did not comply with the Third-Party Eligibility Compliance Requirement.	Significant Deficiency	-	2015	Review all service contracts to verify they comply with rules and regulations.
Total Questioned Costs		$ -		

PITTSBURG STATE UNIVERSITY

Description of Problem Findings	Classification	Questioned Costs	Year Originally Reported	Summary of Recommendation
US Department of Health and Human Services (Research and Development Cluster)				
Did not use effort reports or time sheets to support charges to the grant for staff salaries.	Significant Deficiency	$ 5,920	2014	Institute a policy requiring signed effort reports for time worked on projects funded by federal grants.
Total Questioned Costs		$ 5,920		