

House Local Government Committee

March 17, 2015

Department of Administration

Testimony in Support of SB 247

Good morning and thank you for the opportunity to present testimony in support of SB 247, that would increase the dollar threshold for requiring municipalities to conduct a financial audit. My name is Roger Basinger and I am a member of the Municipal Services Team in the Office of the Chief Financial Officer, which is part of the Department of Administration.

The proposal before you today is an issue that has been discussed in the Legislature in previous sessions as a means for relieving local units of government of the expense of conducting audits while still providing taxpayers with an independent review of the municipality's financial practices.

In SB 247, we propose changing the dollar threshold for requiring a financial audit from the current \$275,000 amount to \$500,000. In addition, the change would require that those municipalities with aggregate receipts or bond debt in excess of \$275,000 but less than \$500,000 to have agreed-upon procedures performed annually by a certified public accountant.

By doing so smaller jurisdictions – cemetery boards, townships, library systems – that don't meet the financial threshold of \$500,000 would no longer be required to commit a disproportionate amount of their resources to an GAAP or regulatory basis audit; but could rather design procedures in addition to the procedures prescribed by the Director of Accounts and Reports that could focus the review on those areas with greatest benefits to management and areas with the greatest risk to the governmental entity with the possibility of cost savings to the municipality.

The bill would also increase the dollar threshold for recreation commission audits from their current \$150,000 to \$500,000. Recreation commissions with aggregate gross receipts of \$275,000 to \$500,000 would also be subject to the agreed-upon procedures to be followed by all other municipalities. With the passage of this bill, recreation commission would be treated in the same manner as all other municipalities in regard to the audit law.

After reviewing the current version of the bill and consulting with the Board of Accountancy, we are offering the attached technical amendments to the bill. The majority of the amendments are removing the plural 'or accountants' from the language when the term certified public accountant or accountants is used. The concern is that if the statutes are not amended, the statutes could be interpreted to allow a public accountant to issue an audit report or agreed upon procedure report which they are not allowed to do. The plural form is not needed and has been changed in some of the statutes when previously amended. This amendment would make the language uniform though out the entire statute.

In closing, the changes proposed are intended to improve government efficiencies while still providing the transparency and accountability of public funds that is expected from Kansas residents.

Thank you for this opportunity and I would be pleased to answer any questions.

SENATE BILL No. 247

AN ACT concerning municipal audits; relating to audit procedures; amending K.S.A. 75-1120a, 75-1121, ~~and~~ 75-1123, 75-1125, 75-1126 and K.S.A. 2014 Supp. 75-1122 and 75-1124 and repealing the existing sections.

Be it enacted by the Legislature of the State of Kansas:

Section 1. K.S.A. 75-1120a is hereby amended to read as follows: 75- 1120a. (a) Except as otherwise provided in this section, the governing body of each municipality, as defined in K.S.A. 75-1117, and amendments thereto, shall utilize accounting procedures and fiscal procedures in the preparation of financial statements and financial reports that conform to generally accepted accounting principles as promulgated by the governmental accounting standards board and the American institute of certified public accountants and adopted by rules and regulations of the director of accounts and reports.

(b) The governing body of any municipality, which has aggregate annual gross receipts of less than ~~\$275,000~~ \$500,000 and which does not operate a utility, shall not be required to maintain fixed asset records.

(c) (1) The director of accounts and reports shall waive the requirements of subsection (a) upon request therefor by the governing body of any municipality. The waiver shall be granted to the extent requested by the governing body. Prior to requesting the waiver provided for in this subsection, the governing body, by resolution, annually shall make a finding that financial statements and financial reports prepared in conformity with the requirements of subsection (a) are not relevant to the requirements of the cash-basis and budget laws of this state and are of no significant value to the governing body or members of the general public of the municipality. No governing body of a municipality shall request the waiver or adopt the resolution authorized under this subsection if the provisions of revenue bond ordinances or resolutions or other ordinances or resolutions of the municipality require financial statements and financial reports to be prepared in conformity with the requirements of subsection (a). The governing body of any municipality which is granted a waiver under this subsection shall cause financial statements and financial reports of the municipality to be prepared on the basis of cash receipts and disbursements as adjusted to show compliance with the cash-basis and budget laws of this state.

(2) The provisions of this subsection do not apply to community colleges.

(d) The director of accounts and reports shall waive the requirements of law relating to the preparation and maintenance of fixed asset records upon request therefor by the board of trustees of any community college. The waiver shall be granted to the extent and for the period of time requested by the board of trustees. Nothing contained in this subsection shall be construed so as to exempt any community college from compliance with the provisions of K.S.A. 71-211, and amendments thereto, which requires the use by all community colleges of a standardized and uniform chart of accounts.

Sec. 2. K.S.A. 75-1121 is hereby amended to read as follows: 75- 1121. The director of accounts and reports shall:

- (a) Formulate, devise and prescribe a system of fiscal procedure, auditing, accounting and reporting for municipalities, applicable to those municipalities required by K.S.A. 75-1122, and amendments thereto, to have their accounts examined ~~and~~ or audited at least once each year.
- (b) Adopt rules and regulations to carry out the provisions of this act and, from time to time, to make, change, amend and enforce such system and forms of accounting and reporting and rules and regulations. No rules and regulations adopted pursuant to the provisions of this section shall prescribe any system of fiscal procedure or require the governing body of any municipality to have its accounts examined ~~and~~ or audited unless such municipality is required to have its accounts examined ~~and~~ or audited under the provisions of K.S.A. 75-1122, and amendments thereto.
- (c) Conduct either in person or by representatives such investigation as the director may deem necessary to determine if this act and the regulations issued pursuant thereto are being fully complied with.

Sec. 3. K.S.A. 2014 Supp. 75-1122 is hereby amended to read as follows: 75-1122. (a) The governing body of every unified school district, ~~the governing body of every recreation commission having aggregate annual gross receipts in excess of \$150,000~~ and the governing body of all other municipalities either having aggregate annual gross receipts in excess of ~~\$275,000~~ \$500,000 or which has general obligation or revenue bonds outstanding in excess of ~~\$275,000~~ \$500,000 shall have its accounts examined and audited by a licensed municipal public accountant ~~or accountants~~ or certified public accountant ~~or accountants~~ at least once each year. In the case of school districts, all tax and other funds such as activity funds and accounts shall also be examined and audited.

(b) *The governing body of every municipality, except school districts, having aggregate annual gross receipts in excess of \$275,000, but not more than \$500,000, or which has general obligation or revenue bonds outstanding in excess of \$275,000, but not more than \$500,000, shall have its accounts examined by a ~~licensed municipal~~ **certified** public accountant ~~or accountants~~ using agreed-upon procedures as determined by the director of accounts and reports at least once each year. **Each municipality subject to this subsection shall have its accounts examined by a certified public accountant using enhanced agreed-upon procedures as determined by the director of accounts and reports at least once every three years.***

(c) The governing body of any city of the third class required to have its accounts examined ~~and~~ or audited pursuant to the provisions of this section shall annually determine the total cost to be incurred by the city in complying with the requirements of this act and shall identify the same in the budget of the city.

Sec. 4. K.S.A. 75-1123 is hereby amended to read as follows: 75- 1123. In conducting examinations ~~and~~ or audits provided for by K.S.A. 10-1208, 12-866, 13-1243, ~~13-14412~~ or 75-1122, and amendments thereto, the licensed municipal public accountant or certified public accountant so engaged shall follow the municipal audit *and accounting* guide, or the applicable portions thereof, prescribed by the director of accounts and reports. The municipality so audited *or examined* shall install and put such standardized accounting system into effect as soon as possible after such *examination or* audit.

Sec. 5. K.S.A. 2014 Supp. 75-1124 is hereby amended to read as follows: 75-1124. (a) A copy of each audit report with recommendations, if any, rendered by any licensed municipal public accountant or certified public accountant upon the completion of any audits provided for by K.S.A. 10-1208, 12-866, 13-1243 or 75-1122, and amendments thereto, shall be filed with the secretary. The municipality's circular A-133 audit report, if required under the provisions of the federal single audit act amendments of 1996, 31 U.S.C. §§ 7501-7507, along with any other audit related documents deemed necessary by the secretary, shall also be filed with the secretary.

(b) On and after January 1, 2015, the audits and related documents required under subsection (a) shall be filed electronically with the secretary in a manner directed by the secretary.

(c) The audits required under subsection (a) are due within one year after the end of the audit period of the audit unless an extension of time is granted by the secretary. If federal law, state law or municipal contract provisions requires the audit reports and related documents to be filed in a period of less than one year, the municipality audit reports and related documents shall be filed in accordance with such laws or contract provisions.

(d) Final payment to any accountant performing any audit required under subsection (a) shall not be made until a copy of the audit reports and related documents have been so filed with the secretary, and is evidenced by a document from the secretary acknowledging receipt of the audit reports and related documents.

(e) Notwithstanding any provision of law to the contrary, upon the filing of the audit reports and related documents as required under subsection (a), the municipality is not required to submit any audit reports or related documents to any other state agency, office or official.

f) *A copy of each report resulting from a review of municipal accounts using **agreed upon or enhanced agreed upon** procedures as required by K.S.A. 75-1122, and amendments thereto, shall be filed electronically with the secretary within one year of the end of the municipality fiscal year for which the examination is performed unless an extension of time is granted by the secretary. Upon submission of the report, the municipality is not required to submit such report to any other state agency, office or official. Final payment to any accountant performing such an examination using **agreed upon or enhanced agreed upon** procedures shall not be made until a copy of such report has been filed as shown by a statement of the secretary.*

(g) For the purposes of this section, "secretary" means the secretary of administration or the secretary's designee.

(Sections 6 and 7 added)

Sec 6. K.S.A. 75-1125 is hereby amended as follows: 75-1125. The governing body of any municipality not covered by K.S.A. 75-1122 may employ a licensed municipal public accountant ~~or accountants~~ or certified public accountant ~~or accountants~~ to examine and audit the accounts of such municipality for such period as it may deem proper: *Provided*. That upon a written petition filed with the governing body of any such municipality not provided for by K.S.A. 75-1122 by 20% or more of the voters of said municipality who voted at the last election for officers of such municipality it shall be the duty of said governing body to employ a licensed municipal public accountant ~~or accountants~~ or certified public accountant ~~or accountants~~ to examine and audit the accounts of such municipality for a period of time as may be set out in the petition of the voters.

Sec 7. K.S.A. 75-1126 is hereby amended as follows: 75-1126. When any audit under this act indicates violation of a penal statute or discloses reasonable grounds for removal from office, it shall be the duty of the licensed municipal public accountant *signing the report of such audit* ~~or accountants~~ or the certified public accountant ~~or accountants~~ signing the report of such audit *or agreed upon procedures report* to file one copy of the audit *or report* with the county *or district* attorney.

Sec. ~~6-8~~. K.S.A. 75-1120a, 75-1121, ~~and~~ 75-1123, ~~75-1125, and 75-1126~~ and K.S.A. 2014 Supp. 75-1122 and 75-1124 are hereby repealed.

Sec. ~~7-9~~. This act shall take effect and be in force from and after its publication in the statute book.