



MEMORANDUM

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TO: Members, Senate Ways and Means Committee
FROM: Scott Frank, Legislative Post Auditor
DATE: January 27, 2015
SUBJECT: Review of Recent Performance Audit Reports

I appreciate the opportunity to appear before the committee to talk about Legislative Post Audit and our work. Our mission is to inform legislators by providing accurate and unbiased information through our audits. We hope that our audits will help the Legislature by focusing on three core areas: oversight, insight, and foresight. We provide oversight of state government by evaluating whether agencies are following laws, achieving intended results, and operating efficiently. We provide insight by helping legislators better understand how agencies and programs actually work. Finally, we provide foresight by helping assess how policy changes might affect state costs and program outcomes.

The Legislative Post Audit Committee directs the work of our 25-person staff who conduct about 9-10 performance audits each year to answer questions about potential problem areas in state and local government. Requests for the areas we audit come from individual legislators and legislative committees. Our staff work with each requestor to develop a scope statement that summarizes their request and how much staff time would be needed. Once a year, we compile a list of all the proposed scope statements, and have the Legislative Post Audit Committee select the audits it wants us to conduct for the coming year.

I have included the following documents which highlight some of our recent and upcoming audit work:

- a summary of key audit findings in recent years
- a list of upcoming audit reports
- a list of K-12 performance audits conducted since 2006

Legislative Post Audit
Summary of Key Audit Findings in Recent Years
January 14, 2015

Legislative Post Audit conducts performance audits to address legislators' concerns about potential problems in state government. These audits typically focus on issues of efficiency, effectiveness, and compliance. The final result of our work is our audit reports, which provide legislators and management with information that can be used to create, manage, oversee, modify, and occasionally eliminate agencies or programs. The following examples highlight some of the work we have conducted in recent years.

- **K-12 School Efficiency Audits (2014)** – K.S.A. 46-1133 requires our office to conduct a series of school district efficiency audits at the direction of the Legislative Post Audit Committee. The law requires us to audit three districts a year (one small, one medium, and one large) until fiscal year 2017. In 2014 we conducted the second round of efficiency audits under the recent requirements, looking at the operations of the Ashland (small), Parsons (medium), and Emporia (large) school districts. Those audits identified a number of potential savings opportunities for districts in such areas as food service (Ashland, Parsons), procurement cards (Parsons, Emporia), supplemental pay (Ashland), operations and maintenance (Parsons), and cell phones (Parsons).
- **Information Technology Security Audits (2014)** – Since 2003, the Legislative Post Audit Committee has directed our office to conduct a series of information systems audits to evaluate the security controls taken by state agencies. The current three-year plan began with a statewide assessment of the types of sensitive data state agencies maintain. One of the key findings of that report was that while the state is responsible for a vast number of sensitive datasets and payment systems, its approach to security is decentralized and fragmented, and the state needs an enterprise-level approach to security.
- **Office of Information Technology Services (OITS) (2013)** – Legislators had expressed concerns that the rates OITS charged state agencies for IT and telecommunications services may be excessive, in particular because it lacked any private sector competition. We found that although OITS had developed a complex model to ensure its rates reflected its actual costs, it did not actually use the model and instead manually set most rates to ensure budget and funding stability. More concerning was that the OITS had reported expenses for individual services to the federal government, which violated a number of federal reporting requirements. In November 2014 the U.S. Department of Health & Human Services notified the state of its intention to recoup just under \$2.5 million in improperly billed services and interest.
- **Economic Development Incentives (2013-2014)** – In 2013 and 2014 we released a series of three performance audits looking at the state's economic development incentive programs. The audits found that the state generally provided the types of incentives that stakeholders indicated were useful, and that the major incentive programs had generated significant returns

on investment. The audits also found problems with how the programs were managed, including a lack of good management data to oversee some programs, failing to enforce reporting requirements on companies, and exceeding the statutory cap intended to limit the initial growth of the Promoting Employment Across Kansas (PEAK) program. The final issue with the PEAK cap prompted the 2014 Legislature to pass H Sub for HB 2430, which clarified how the cap should be interpreted.

- **Community Developmental Disability Organization (CDDOs) (2014)** – Legislators had expressed concerns about an inherent conflict of interest built into the developmental disability system’s structure, the state’s oversight of the system, and whether the system was maximizing funding for those services. The audit found few problems associated with the inherent conflict of interest, but did find that the state’s system of oversight was weak. With regard to the use of resources, our review showed that redirecting \$5 million in state aid to CDDOs that is not currently matched with federal funding could increase federal revenues by as much as \$6.5 million a year. We also found that the system could save an additional \$500,000 a year by consolidating CDDOs. Finally, we determined that several CDDOs spent funds on lobbying-related activities, which the federal government has since determined violated federal grant requirements.
- **Kansas Commission on Veterans’ Affairs (KCVA) (2013)** – Legislators had expressed concerns about financial issues at the state’s two long-term residential care facilities for veterans—the Kansas Soldiers Home (Fort Dodge) and the Kansas Veterans Home (Winfield). The audit identified some areas of strong financial controls and others that were weak. More importantly, we found that a key problem was KCVA’s lack of central office oversight, primarily because nobody realized that the KCVA oversight commission had issued a directive clearly placing the facilities under the direction of the agency’s executive director. In part due to this audit, the 2014 Legislature passed HB 2681, which restructured the state’s veterans service agency, eliminating the oversight commission, placing the executive director under the Governor, and codifying that the two facilities are under the executive director.
- **Board of Veterinary Examiners (2012)** – Some unusual personnel actions taken by the agency director caused legislators concerns about how this small, three-person agency was managed. We confirmed that one personnel decision, which allowed the director to furlough himself for about half a year, was not appropriate. We also found that while the director was on his self-imposed furlough his staff were not adequately managed. Finally, we found significant problems with the agency’s cash-handling and inspection processes. In part to address the problems identified in the report, the 2014 Legislature passed SB 278, which eliminated the agency and folded its functions into the Department of Agriculture. This was the third small, agriculture-related agency to be consolidated with the Department of Agriculture in recent years as a result of our audits (the previous two were the Animal Health Department and the State Conservation Commission).

Legislative Post Audit
Upcoming Audit Reports
January 14, 2015

February 2015

- Virtual School Costs Performance Audit
- State Prescription Drug Plan (CVS/Caremark) Performance Audit
- Prairie Hills School District Efficiency Audit
- IT Security – Agency Specific Audits

March 2015

- Heartland Park (Topeka) STAR Bond Performance Audit
- Larned Sexual Predator Treatment Program Performance Audit (Part II)
- Marais des Cygnes Valley School District Efficiency Audit
- Statewide Single Audit (Federal Compliance) *[contracted]*
- IT Security – Agency Specific Audits

April-June 2015

- KPERS Fraud Controls Performance Audit
- Kansas Racing and Gaming Commission Performance Audit
- Kansas Juvenile Correctional Complex Follow-Up Audit
- Auburn-Washburn School District Efficiency Audit
- IT Security – Agency Specific Audits

Legislative Post Audit
Summary of K-12 Performance Audits
January 14, 2015

General School Finance

- Cost Study Analysis: Elementary and Secondary Education in Kansas, Estimating the Costs of K-12 Education Using Two Approaches (January 2006)
- K-12 Education: School Districts' Use of Additional State Funding (June 2008)

At-Risk Programs

- K-12 Education: Reviewing Free-Lunch Student Counts as the Basis for At-Risk Funding, Parts I & II (November/December 2006)
- K-12 Education: Reviewing School Districts' At-Risk and Professional Development Programs (December 2008)

Special Education

- K-12 Education: Reviewing Issues Related to Special Education Funding (December 2007)
- K-12 Education: Reviewing Issues Related to Catastrophic Funding for Special Education (October 2009)

English as a Second Language

- K-12 Education: Assessing the Quality of English as a Second Language Preparation in Kansas Teacher Education Programs (April 2008)

Vocational Education

- K-12 Education: Reviewing the Cost of Vocational Education Programs (August 2007)

Virtual Schools

- K-12 Education: Reviewing Virtual School Costs and Student Performance (January 2015)
- K-12 Education: Reviewing Issues Related to Virtual Schools (April 2007)
- K-12 Education: Determining the Reasons for Variations in Virtual School Costs (October 2007)

School District Efficiency

- Emporia (July 2014)
- Parsons (March 2014)
- Ashland (March 2014)
- Kansas City (July 2013)
- St. Francis (March 2013)
- Southeast (March 2013)
- Riley County (July 2010)
- Concordia (July 2010)
- Clifton-Clyde (July 2010)
- Renwick (April 2010)
- Winfield (April 2010)
- Ellinwood (January 2010)
- Derby (December 2009)
- Survey of Efficiency Measures Taken by Kansas School Districts (July 2013)

Miscellaneous K-12 Audits

- K-12 Education: Estimating Potential Costs Related to Implementing the No Child Left Behind Waiver in Kansas (December 2012)
- K-12 Education: Reviewing Issues Related to the Costs of the Health Care Benefits Provided by School Districts (April 2010)
- K-12 Education: Reviewing the Potential for Cost Savings From Reorganization of Kansas School Districts (February 2010)
- K-12 Education: Reviewing the Research on Charter School Performance (May 2007)
- K-12 Education: Reviewing the Staff Recruitment and Retention Strategies Used by Kansas School Districts (April 2007)
- K-12 Education: Alternative Models for Organizing Middle Schools and High Schools (February 2007)
- K-12 Education: Comparing the Centralization of School District Accounting in Different States (February 2007)
- K-12 Education: Reviewing Issues Related to Developing and Retaining Teachers and School Principals (July 2006)