

Approved

Stephen R. Cloud
Date 1-19-84

MINUTES OF THE HOUSE COMMITTEE ON GOVERNMENTAL ORGANIZATION

The meeting was called to order by Rep. Stephen R. Cloud at
Chairperson

9:07 a.m./p.m. on January 18, 1984 in room 522-S of the Capitol.

All members were present except:

Rep. Barr - Excused

Committee staff present:

Avis Swartzman - Revisor
Carolyn Rampey - Legislative Research Dept.
Jackie Brey Meyer - Committee Secretary

Conferees appearing before the committee:

Robert Haley, Director of Transportation Administration, KDOT

The meeting of the House Governmental Organization Committee was called to order at 9:07 a.m. by Rep. Stephen R. Cloud, Chairman. Copies of the Chairman's letter of March 31, 1983 to John Kemp, Secretary, KDOT (Attachment I) and that department's response (Attachment II) were distributed to the Committee.

Robert Haley, Director of Transportation Administration, KDOT began his briefing with a short history of the KDOT accounting system and went through attachment II and highlighted each item on a page-by-page basis. At the end of his briefing, Mr. Haley answered questions from Committee members.

The Chairman thanked Mr. Haley and asked for action on the minutes of January 17. The minutes were approved.

The meeting was adjourned at 10:12 a.m.

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STATE OF KANSAS



TOPEKA

COMMITTEE ON GOVERNMENTAL ORGANIZATION
GOVERNMENTAL ORGANIZATION
MEMBER: STEPHEN R. CLOUD
TOPEKA, KANSAS

STEPHEN R. CLOUD
MEMBER OF THE HOUSE OF REPRESENTATIVES
GOVERNMENTAL ORGANIZATION
MEMBER: STEPHEN R. CLOUD
TOPEKA, KANSAS
SHAWNNEE MICHON-KATZ, CLERK

HOUSE OF REPRESENTATIVES

March 31, 1983

John Kemp, Secretary
Department of Transportation
State Office Building
Topeka, KS 66612

Dear Secretary Kemp:

Enclosed please find a copy of the Subcommittee Report on the Department of Transportation. Please note on the second page, paragraph 12, where the Subcommittee directed me to request an annual report on the status of the Department developing a new accounting system for each of the next four years. I would sincerely appreciate receiving a copy of that annual update by January 15 of each of the next four years.

I sincerely appreciate your willingness to work with the Committee during our sunset review of your department. As a result of that review, our Committee was pleased to recommend a full eight years extension for your department.

Sincerely,

Stephen R. Cloud
Chairman, Governmental
Organization Committee

SRC/jb
Enclosure

Attch. I

TO: HOUSE COMMITTEE ON GOVERNMENTAL ORGANIZATION
FROM: KANSAS DEPARTMENT OF TRANSPORTATION
RE: Annual Report on the Status of the KDOT Accounting System.

Background

Purpose of Report. The 1983 House Committee on Governmental Organization reviewed the "Sunset Audit" of the Kansas Department of Transportation (KDOT) and concluded that the accounting system should be revised. The minutes of March 24, 1983, state:

The Subcommittee does not feel that adequate improvements will be made in the accounting system during the next year because of the extended time frame for developing a new accounting system. Therefore, the Subcommittee recommends that an annual report on the status of developing a new accounting system be submitted ... for the next four years.

This report is in compliance with the Committee request.


Brief History of the KDOT Accounting System. The KDOT accounting system appears to have developed over time without a strong central focus. The thrust appears to have been on meeting various external requirements, particularly requirements relating to federal funding. The result is a very complicated set of systems that are not flexible, do not support management decision making to the degree now desired, and do not comply with all of the generally accepted accounting principles (GAAP). It should be stressed that this is not unique to KDOT. Many other transportation agencies in the nation and other governmental units in the state have similar problems.

Prior to the Legislative Division of Post Audit's review of the KDOT accounting system in 1982, KDOT employed a certified public accountant to evaluate the accounting system. Both studies concluded that major revisions were required. Post Audit suggested that the use of consultants was an option that should be considered; however, the CPA study concluded that the use of an outside firm was the only option.

KDOT requested, and the Governor recommended, funds to contract with an accounting firm. Funding was not approved by the Legislature for such a contract. KDOT will proceed with its staff until an evaluation can be made of the work accomplished. If adequate progress has not been made or KDOT believes that it is in the best interest to again request contractual authority, KDOT will request such authority from the 1985 Legislature.

Proposed Plan

Major Concerns. While KDOT supports the need for major revisions to the accounting system, the revisions will take time and KDOT must continue to function with the current system. Therefore, KDOT must continue to refine and improve the current systems.



It should also be noted that many projects that attempt to replace entire systems at one time fail. It is anticipated that the revisions will be done in modules so that each unit can be implemented and tested without having to have all the other units completed.

It will also be necessary to integrate the KDOT system with the State Accounting System. Efforts will be made to work closely with the Department of Administration to reduce duplication of work.

Task Force. The Assistant Controller, who has system development experience, will be assigned full time to manage a task force. The other three members of the task force will also be assigned full time to the project. The task force will use a modified version of Systems Development Methodology/70 (SDM/70) which is a proprietary product which has been purchased by the state. The first activities of the task force will be to document the current system and then evaluate the system against the needs of the agency and the basic accounting principles. The first two projects of the task force will be an operating manual for the current accounting system and an SDM/70 document titled "System Requirements Definitions".

Review of Past Concerns

Introduction

This section reviews many of the concerns that have been expressed in regard to the KDOT accounting system. The report shows the concern, the progress that has been made, and the action that KDOT proposes to take. The listing should not be considered exhaustive and does not include the payroll problems resulting from KIPPS.

General Ledger

Improving the Operation of the General Ledger: The General Ledger system used at KDOT is a stand-alone system operating independently of other systems such as the federal aid billing system, the inventory system and other State systems such as CASK and KIPPS. As a stand-alone system, reconciliation from other systems to the ledger must be performed manually. As a result, production of the general ledger tends to lag behind the other systems, and since reconciliations must be performed manually, significant amounts of clerical time must be devoted to performing these reconciliations. Several recommendations have been made at different times concerning the operation of the general ledger.

Concern: Sub-accounting systems should be subsidiary to the general ledger. The subsidiaries should be reconcilable to the general ledger. (Source: Assessment of Accounting System, by Richard Daily, CPA, issued September 3, 1982, pg. 11.) The general ledger is not automated and is not available on a timely basis. It was recommended that the general ledger be automated in order that current reconciliations and financial statements be prepared. (Source: Internal Audit of Federal Participating Interim Period Costs, by KDOT Internal Audit, issued July, 1982, pg. 2, discussion beginning on pg. 6.) The accounting system changes incorporated at the beginning of FY 1983 must be fully implemented and developed as soon as possible in order to re-establish the integrity and use of the general ledger. (Source: Program Review and Evaluation of Current Billing and Selected Financial Management Areas of KDOT, by Don Wilson, FHWA, issued

October, 1983, pg. 6.) It was recommended procedures be established to distribute revenue to the general ledger and credits to projects, when necessary, in a more timely manner. (Source: Internal Audit of Federal Participating Interim Period Costs, by KDOT Internal Audit, issued July, 1982, pg. 2, discussion on pg. 12.)

Actions to Date: The accounting system changes mentioned in the third recommendation above have been fully implemented and tested. As a result, a general ledger has been built for FY 1983 and is being maintained current in FY 1984, and reconciliations to the general ledger are being performed in accordance with the prescribed procedures. However, since the general ledger is a manual system, the ledger is only built on a month-by-month basis. That is the reason receipt transaction records are accumulated for a month before they are entered into the ledger. This practice, however, does not delay production of the ledger. In addition, the distribution of the receipts credits to the federal aid billing system is not dependent upon distributing the receipts credits to the general ledger. Thus, receipts credits can show on the federal aid billing several weeks before the ledger is closed.

Future Actions: Though through its actions-to-date KDOT is in compliance with the audit recommendations cited above, KDOT intends to take further actions on the general ledger issue. Foremost among these actions is to automate the general ledger and to have it serve as the controlling system for all other financial systems. These objectives must be accomplished in accord with the total redesign of the financial management system.

Financial Management System Redesign

Concern: A certified public accountant who conducted an independent assessment of the Department of Transportation financial processing system recommended that the Department support and expand its cost center feedback system (Source: Kansas Department of Transportation, Assessment of Accounting System, by Richard D. Daily, Certified Public Accountant, issued September, 1982). The Cost Center Feedback Resource Utilization is a system to provide a consolidated systematic approach to its collection, balancing, editing, posting and the archival of accounting related resource utilization/expenditure data, thereby creating a pool of corrected, reconciled accounting transactions to all other accounting related systems.

Actions to Date: The basic system was installed in FY 1983 and became fully operational at start of FY 1984.

Future Action: Expansion of the cost center feedback system will be considered in the re-design of the accounting system.

Policy Concerns

State Highway Fund Interest

Concern: The Legislative Division of Post Audit questioned the practice of the Kansas Department of Transportation of transferring to the State Highway Fund certain motor fuel tax revenue initially deposited to the State Freeway Fund while not transferring to the State Highway Fund any of the money certified

to be equivalent to the interest on the State Highway Fund which is deposited to the State Freeway Fund. (Source: Sunset Audit Report, Kansas Department of Transportation, issued September, 1982, pg. 33)

Actions to Date: The Kansas Department of Transportation and the Office of the State Treasurer requested an Attorney General's opinion on the propriety of the practice in June, 1982. The Attorney General's response (numbered A/G Opinion 83-35) issued in March, 1983 affirmed the practice of the Department.

Future Action: No further action is necessary for this issue.

Financial Information

Concern: The Legislative Division of Post Audit recommended that the Department study areas in which financial information cannot be easily produced for management decisions and develop methods to produce that information. (Source: Sunset Audit Report, Kansas Department of Transportation, Legislative Division of Post Audit, issued September, 1982, pg. 44).

Action to Date: The Department is continually attempting to identify material deficiencies in its ability to produce timely and reliable information as well as to identify methods to improve its financial management information system. Major undertakings consistent with this objective include implementation of the Equipment Management System (EMS), which maintains KDOT's inventory of equipment and monitors related costs, and the Maintenance Management Implementation Unit (MMIU) system, which contains the features inventory of the highway network and tracks maintenance work done on each road section.

Future Action: As part of its major redesign of the financial management system, the Department will conduct a study to identify the areas where the system is deficient so that these areas are addressed in the redesign. In addition, efforts are currently underway to expand the EMS system to include KDOT's complete inventory of equipment. Efforts are also underway to fully integrate the EMS, MMIU and KIPPS systems into the project files in order to reconcile these systems to the general ledger. KDOT also plans to take full advantage of the opportunities available with the implementation of KIPPS to expand its use beyond simple payroll and personnel functions so that certain existing systems can be eliminated through the use of KIPPS generated information (such as employee status reports sent to bureau managers and division directors as well as to generate special reports for items such as turnover).

OMB Circular A-102; Attachment P

Concern: Office of Management and Budget Circular A-102, titled Uniform Administrative Requirements for Grants-in-Aid to State and Local Governments, has been revised to include Attachment P. Attachment P establishes audit requirements for state and local governments that receive federal-aid assistance. The requirements are established to ensure that audits are made on an organization-wide basis as opposed to the grant-by-grant basis that was required prior to inclusion of Attachment P. Audits performed under Attachment P are to establish that:

- a) financial operations are conducted properly

- b) the financial statements are presented fairly
- c) the organization has complied with laws and regulations affecting the expenditure of federal funds
- d) internal procedures have been established to meet the objectives of federally assisted programs
- e) financial reports submitted contain accurate and reliable information

The audits are to be conducted annually but not less frequently than every two years. After careful review of the Attachment, it has been determined the requirements of Attachment P will affect the Department of Transportation in two ways. First, at the agency level, KDOT will no longer be required to perform individual audits of each of the grant categories from which it receives federal funds. Instead, the Legislative Division of Post Audit, with a consultant, will perform agency-wide audits that will encompass all of the grant categories from which federal aid is received as well as address the overall financial status of the agency.

Second, through its being designated as a cognizant agency, KDOT will be responsible for ensuring that sub-recipients who receive federal funds through KDOT are in full compliance with the Attachment P provisions. In this regard, KDOT will be responsible for notifying sub-recipients of the Attachment P requirements, monitoring sub-recipients efforts in performing the audit, and evaluating the completed audits to ensure the audits are in compliance.

Action to Date: KDOT is developing procedures for fulfilling its responsibilities as the cognizant agency for sub-recipients receiving federal funds through KDOT. These procedures will be incorporated into the KDOT standard operating manual (SOM). The SOM developed delineates duties and responsibilities among the sub-recipients, program administrators, the KDOT contractual audit staff, and the independent auditors who are responsible for performing the audit, as directed by an Attachment P provision. Key provisions of the SOM relate to ensuring contractual provisions are contained within contracts between KDOT and sub-recipients requiring the audit, as well as describing the manner in which progress on the audits will be monitored and the finished audit to be evaluated. The Department of Administration Municipal Accounting Section has consented to be the entity responsible for collecting, classifying and distributing all audits performed in compliance with Attachment P in the state.

Future Action: KDOT will keep abreast of revisions to Attachment P in order to incorporate the provisions into its procedures as it becomes necessary.

Budget

Revenue Presentation

Concern: The Legislative Division of Post Audit recommended that in order to improve the accuracy of its budget, the agency should show budgeted and actual revenue for the current year and projected revenues for the coming year

by source category or by fund. (Source: Sunset Audit: Kansas Department of Transportation, Legislative Division of Post Audit, issued September, 1982, pg. 38.)

Action to Date: Revenue in KDOT's FY 1985 budget has been displayed by the source of the revenue and its fund disposition. This comparison includes the past four fiscal years and includes the current and upcoming fiscal year as well. In addition, interfund and interagency transfer of monies, subsequent to receipt, are shown in tabular form and justification concerning the nature of the receipt, its authorization, and the basis of its estimate is included.

Future Action: KDOT has complied with this recommendation through its actions to date and intends to refine its estimates as an on-going process in the future.

Liquidation of Encumbrances

Concern: The Legislative Division of Post Audit recommended that in order to improve the accuracy of its budget, the agency should compare anticipated revenue to total expenditures and include a liquidation schedule of obligations to be incurred in the current year but are to be paid-out in future years. (Source: Sunset Audit: Kansas Department of Transportation, Legislative Division of Post Audit, issued September, 1982, pg. 38.)

Action to Date: A liquidation schedule of prior year obligations and current and upcoming construction projects has been included in the FY 1985 budget. In addition, Fiscal Services has prepared listings of obligations that are circulated to parties responsible for the obligations so that the liquidation of the obligation can be monitored so that projections can be refined. The total value of contractual obligations is still shown as an expenditure against the year of the contract, because it is a requirement of the Division of Accounts and Reports. Beginning and ending cash balances, however, are now shown in the budget for the various cash funds, including the State Highway Fund, State Freeway Fund and State Freeway Construction Funds.

Future Actions: Procedures are to be developed, and the system redesigned, so that the liquidation of obligations can be more closely monitored and projections refined. As part of this process, it is intended to tie the system for monitoring project costs to the project files so that adjustments to projections are made from the most current information available.

Tracking of Federal Aid

Concern: The Legislative Division of Post Audit recommended the Department develop a system to track the use of federal aid reimbursement received on highway and freeway fund projects. (Source: Sunset Audit Report, Kansas Department of Transportation, Legislative Division of Post Audit, issued September, 1982, pg. 44). This recommendation concerns the Department's ability to determine federal aid reimbursement received for expenditures made on items such as administration and overhead. The Legislative Division of Post Audit recommended that the budget reflect estimated and actual amounts of reimbursements received

at the subprogram level. Though this information is currently provided for construction reimbursement, it is neither estimated nor accounted for in these ancillary activities.

Action to Date: The budget submitted for FY 1984 contained estimates of federal aid reimbursement received identified to the subprogram. The Budget Division and Legislative Research noted, however, the information did not add to their ability to analyze the budget so the practice was discontinued in the FY 1985 submission.

Future Action: Consideration will be given to incorporating the ability to track the use of federal funds in the redesign of the financial information system.

Federal Railway Administration

Concern: The Office of Inspector General (OIG) recommended that KDOT monitor future Federal Railway Administration (FRA) grants for compliance with the approved budget, and prepare and request approval of revised budgets as conditions warrant during the grant period. (Source: Internal Audit of Federal Participating Interim Period Costs, issued July, 1982, pg. 20.) At the time of the audit Federal Railway Administration (FRA) grants were administered by the Bureau of Transportation Planning. The Bureau was responsible for the preparation of the initial budgets and for subsequent revisions to the budget, upon approval of the FRA. The internal audit staff noted actual expenditures of two FRA grants for the State Rail Planning Program varied significantly between the budget categories approved.

Action to Date: An automated system has been developed to enable KDOT to better monitor individual FRA projects, including a breakdown of the various categories of costs. Before automation, tracking individual projects and categories of costs was not feasible. Closer monitoring can now be done so that revised budgets will be requested ahead of time, rather than later.

Future Action: No further action is necessary for this issue.

Federal Aid Billing

Reconciliation to the General Ledger

Concern: The Office of Inspector General recommended that the Fiscal Section of the Bureau of Management Services begin periodically to reconcile project costs within the Federal-aid Billing System to the General Ledger. (Source: Internal Audit of Federal Participating Interim Period Costs, issued July, 1982, pg. 6)

Action to Date: Procedures were developed to perform the recommended reconciliation.

Future Actions: Reconciliations will be performed in FY 1984 and for subsequent fiscal years.

Basic grants

Concern: The Office of Inspector General recommended that the Federal-Aid Billing System be modified so that it will accept receipt of basic federal grants, as well as federal aid reimbursement. (Source: Internal Audit of Federal Participating Costs, issued July, 1982, pg. 12). The auditors noted the instance where a basic federal grant was coded as a reimbursement on expenditure, rather than as a grant. This coding was necessary because the system would only accept codes for a reimbursement.

Action to Date: The coding sequence for federal aid receipts has been adjusted so that federal grants will be accepted by the system.

Future Action: As a result of its actions to date, KDOT is now in compliance with the OIG's recommendation on this issue. KDOT intends to take further action on this issue, however. Coding sequences and expenditure/receipts category classifications are to be an explicit, high priority aspect of the redesign of its financial management system.

Automate Billing

Concern: The Office of Inspector General recommended that the Fiscal Section of the Bureau of Management Services completely automate the billing of all federal funds. (Source: Internal Audit of Federal Participating Interim Period Costs, issued July, 1982, pg. 6) During the time of the audit, the automated federal aid billing system billed FHWA projects and other funding categories that were not under letters of credit. Projects under letters of credit include Federal Railway Administration (FRA), Urban Mass Transit Funds (UMTA), National Highway Transportation Safety Funds (NHTSA) and Metropolitan Planning (PL) funds. These projects were out under letters of credit in order to expedite reimbursement on the expenditures. While FHWA federal aid reimbursement is electronically transferred to the state, these other categories of projects are not. Previously, vouchers on this other category of projects had to be sent to Washington for approval. They were put under letters of credit so that the regional administrators for FHWA could approve the reimbursement and thus expedite reimbursement. The system of automated billing, however, had not been modified to provide for billing on those projects, so they continued to be billed manually.

Action to Date: At the time of the audit the system was being modified to provide automated billing for certain portions of FRA and UMTA funds. Since then, the system has been further modified to provide NHTSA automated billing. At the beginning of FY 1984, PL funds were also included, but the system could be modified only to include FY 1984 and future year projects.

Future Action: Manual billings are still necessary for PL projects that were begun prior to FY 1984. This category will continue to be billed manually until the existing projects are closed through attrition. The number of projects of this nature is minimal, however, and a concerted effort will not be required for the manual billing of these projects.

Credit of Federal Funds

Concern: The Office of Inspector General recommended that credits due the Federal government be handled in a manner that will allow the credit to be made on a timely basis. (Source: Internal Audit of Federal Participating Interim Period Costs, issued July, 1982, pg. 15) When the FHWA participates in the funding of a project, and there is a sale of excess right of way associated with the project, federal regulations require that the FHWA receive a credit for its pro-rata share of the proceeds, minus its pro-rata share of the expenses associated with the sale. At the time of the audit, an instance was noted where such a credit was given to an active project other than the project with which the sale was associated. The project to which the sale was associated was a closed project and the FHWA will not accept credit to a closed project, so it was the practice of the Department, with concurrence of the FHWA, to apply the credits to an active project instead. To meet the audit recommendation, however, it became necessary to develop procedures whereby a warrant would be issued to the FHWA for the amount of the credit instead of crediting the obligation authority associated with a project. These procedures, however, were unacceptable to the FHWA. In addition, the FHWA later decided that the credit should be applied to the obligation authority of the appropriation funding category associated with the project. This became a problem since many sales of excess right of way are associated with projects that not only have been closed for a number of years, but, in addition, the funding category associated with the project was no longer active. However, since the time of the Internal Audit, the FHWA has imposed another requirement relative to this issue. In its Program Review and Evaluation (PR&E) of Current Billing and Selected Financial Management Areas of KDOT (issued by the Kansas Division Office of the FHWA, on October 19, 1983, pg. 8) the FHWA notified KDOT that, though the six month basis for distributing credits was sufficient in general, FHWA would prefer that credits be distributed anytime the accumulated amount of credits equals or exceeds \$20,000, or every six months, whichever comes first.

Action to Date: Procedures have been established whereby the Bureau of Right of Way notifies Fiscal Services of any pending sales of excess right of way. At the time of notification, Fiscal Services will determine whether there was federal participation on the project associated with the sale. If there is federal participation, a special project number is created for the funding category by which the federal government participates. Then, every six months, Fiscal Services reviews receipts to identify receipts received from sales of excess right of way, and credits are applied to the special project numbers created at the time of notification. This procedure applies to all funding categories whether they are currently operating or not, and also applies to all projects whether they are active or inactive. These procedures meet with the concurrence of the FHWA. Action is pending on the \$20,000 accumulated credit amount since the FHWA in its review (supra) stated detailed instructions on this issue would be forthcoming in writing. Written instructions have just been received as of January, 1984.

Future Action: Procedures can now be developed so that anytime credits accrue in an amount equal to or exceeding \$20,000, they will be distributed to the projects.

Segregate Non-participating Costs from Billings

Concern: The Federal Office of Inspector General recently requested that KDOT either revise its current billing system or implement other procedures to exclude non-participating costs. (Source: OIG Audit of Voucher Examination Activities, issued October 19, 1983, pg. 2.) The OIG noted that Title 23 requires that progress payments to a state shall at no time exceed the Federal share of eligible costs of construction on a project and, further, that KDOT's project accounting file did not segregate participating and non-participating construction costs, so that, as a result of failure to segregate the costs, overclaims on federal aid reimbursement might be made.

Actions to Date: KDOT responded to the OIG that it would accede to the audit recommendation. KDOT responded further that its federal aid billing system currently in use has the capability of capturing non-participating costs. KDOT noted that this capability was being tested to ensure its accurate operation and that, upon final testing, instructions would then be sent to the various field locations throughout the state to inform the field representatives of the coding sequence that will need to be used in order for the system to segregate those costs. It was concluded that the time frame necessary for full implementation of this modification would depend upon the time needed for the instruction to be distributed. As of January, 1984, the system has been tested, and the written instructions are soon to be forthcoming.

Future Action: While it is in compliance with the audit recommendation, KDOT intends to take further action on this issue in its redesign of the financial management system by streamlining procedures used to segregate participating from non-participating construction costs.

PL & HPR Funds

Concern: The Office of Inspector General recommended that prompt follow-up action be taken with cities (Metropolitan Planning Organizations), requesting their submission of final cost statements on Metropolitan Planning (PL) funds, and, further, that final vouchers on Highway Planning and Research (HPR) funds be submitted promptly at the close of the fiscal year. (Source: Internal Audit of Federal Participating Interim Period Costs, issued July, 1982, pg. 16). PL funds are received by cities as reimbursement on certain planning expenditures. HPR funds are received by KDOT as reimbursement on certain of its planning expenditures. Amounts authorized as reimbursement are determined as certain percentages of Interstate and non-Interstate apportionments for a year. It is therefore necessary to close-out each fiscal year for which funds had been received. At the time of the audit, each year was closed-out only when all final vouchers were received.

Action to Date: Fiscal Services of the Bureau of Management Services developed procedures for actively monitoring the status of projects for which PL and HPR funds are being received in order to facilitate the closing of the projects at the end of the fiscal year. In addition, Fiscal Services routinely contacts the Planning Division requesting either the status of HPR projects or that final vouchers be submitted on projects determined to be closed. In addition, the Planning Division actively monitors the status of projects of cities receiving PL funds and requests final vouchers on projects determined to be closed.

Future Action: No future action is required for this issue.

Project Records

Concern: The Office of Inspector General recommended that project records should reflect all costs associated with the project, and that all costs should be updated to the project records even after the maximum allowable reimbursement has been received. (Source: Internal Audit of Federal Participating Interim Period Costs, issued July, 1982, pg. 11.) An instance was noted during the audit where a certain portion of construction engineering costs associated with a project were not updated to the project records. While reconciling project records to the general ledger, the auditors noted this occurrence and inquired about it. They were told it was not necessary to update the records since the maximum reimbursement had been received for construction engineering costs, but the auditors recommended that the costs be updated to the records regardless whether the maximum reimbursement had been received.

Action to Date: The construction engineering costs were updated to the appropriate project records. It is the policy of the Department to update project records with all associated costs regardless whether the maximum reimbursement has been received. The system has been designed to ensure that transactions of this nature are accommodated in the processing of transactions through the use of error validation checks which flag transactions that for one reason or another had not been updated to the project records.

Future Action: No further action is needed on this issue.

Receipts Handling

Concern: The Legislative Division of Post Audit recommended that mail-opening personnel should list incoming receipts received from the various district offices on a control sheet before forwarding the receipts to the account clerk who deposits the receipts. (Source: Financial and Compliance Audit Report, Legislative Division of Post Audit, issued March, 1981, pg. 6). At the time of the audit, the account clerk who deposited the receipts was solely responsible for recording receipts.

Action to Date: The secretary to the Controller is now responsible for listing receipts received on a control sheet. The control sheet totals are then reconciled to the account clerk's record sheet to ensure full deposit of receipts.

Future Action: Though as a result of its actions to date KDOT is in compliance with the Post Audit Division's recommendation, KDOT intends to take further action on this issue. Processing policies and procedures are to be an explicit aspect of the Department's redesign of its financial management system and, in accordance with the redesign, detailed, written descriptions of processing procedures are to be incorporated into the overall accounting manual to be developed.

Accounts Receivable

Concern: The Legislative Division of Post Audit recommended that someone other than the employee who handles and records receipts should maintain the accounts receivable records, and, further, that reconciliation of the accounts receivable records to daily receipts records continue to be performed. (Source: Financial and Compliance Audit Report, Legislative Division of Post Audit, issued March, 1981, pg. 44)

Action to Date: Procedures have been established where, now, an account clerk prepares the deposit. An accountant then reconciles the deposits made to the money that had been recorded as having been received according to the mail-opening personnel on a monthly basis. Changes in batch totals (i.e., a returned check) are made in the batch book by either an accountant or the Controller. Each adjustment is initialed and dated.

Future Action: Though as a result of its actions to date KDOT is in compliance with the Post Audit Division's recommendation, KDOT intends to take further action on this issue. Processing policies and procedures are to be an explicit aspect of the Department's redesign of its financial management system and, in accordance with the redesign, detailed, written descriptions of processing procedures are to be incorporated into the overall accounting manual to be developed.

Receipts Coding

Concern: The Office of Inspector General recommended that more thorough instructions be provided to employees who are assigned to code the source of receipts received by the Department, and, further, that the supervisor responsible for the coding periodically review the vouchers to ensure their accuracy. (Source: Internal Audit of Federal Participating Interim Period Costs, issued July, 1982, pg. 12). Auditors noted several instances during the audit period where state source revenues were miscoded. None of the instances of miscoding involved federal aid, however.

Action to Date: The current receipts clerk asks her supervisors for the proper coding on any questionable receipts. The receipts are monitored by the Accountant I each month when balancing to the Department of Administration. Any unusual receipts coding is noted at that time.

Future Action: Though as a result of its actions to date KDOT is now in compliance with the OIG's recommendation on this issue, KDOT intends to take further action on this issue. KDOT plans to develop a complete accounting manual describing the duties, responsibilities and procedures to be performed by personnel who handle receipts.

Fringe Benefits

Concern: The Office of Inspector General recommended that for the sake of consistency the Fiscal Section of the Bureau of Management Services bill fringe benefits on all federal aid reimbursement at the approved cumulative cost rate. (Source: Internal Audit of Federal Participating Interim Period Costs, issued July, 1982, pg. 6). At the time of the audit, the Contract Compliance Section of

the Bureau of Construction and Maintenance was calculating actual fringe benefit rates incurred and using the actual cost calculated, instead of using the approved rate when billing for Federal reimbursement on the costs.

Action to Date: Effective from the beginning of FY 1982, the approved cost accumulation rates for fringe benefits are used on all billings.

Future Action: No future action is necessary on this issue.

Transaction Document Approval

Concern: The Office of Inspector General recommended that the Department of Transportation establish a central approving authority to review and formally approve documents that result in adjustments to the financial and inventory records. It was further recommended that all adjusting documents contain an explanation of the purpose for the document as well as identification of the person initiating the adjustment in order to facilitate reconciliation of the document and to provide an audit trail. (Source: Internal Audit of Federal Participating Interim Period Costs, issued July, 1982, pg. 11).

Action to Date: Documents that result in adjustments to the financial and inventory records are processed by the General Accounting Unit of the Fiscal Section, Bureau of Management Services. The unit supervisor is now responsible to act as the central approval authority to sign-off on these documents. In addition, an explanation column on the document is to be filled out sufficiently to explain the purpose of the document and is to include the name of the person initiating the adjustment.

Future Action: Through its actions to date KDOT is in compliance with the OIG's recommendation. However, KDOT plans further actions on this issue. As part of its redesign of the financial management system, KDOT intends to develop a complete accounting manual which will include a section on responsibilities, duties and procedures for processing documents that result in adjustments to financial or inventory records.

Freeway Fund Expenditure Records

Concern: The Legislative Division of Post Audit recommended that the Department update its expenditure records from each freeway bond issue monthly. (Source: Sunset Audit Report of the Department of Transportation, Legislative Division of Post Audit, issued September, 1982, pg. 44). Post Audit noted that arbitrage laws require that a government entity selling bonds must reasonably expect the proceeds of the bonds will be spent within a specified period of time if the bond proceeds are to be invested for a return that materially exceeds the interest paid on the bonds. Post Audit further noted that it felt the Department was not updating expenditures of the bond proceeds in a timely enough fashion to demonstrate compliance with that law. However, upon its review of the expenditure history and future plans for expenditures of the proceeds, Post Audit concluded there was no arbitrage law violation.

Action to Date: The arbitrage folder is now updated as the Federal Aid Section provides a summary of expenditures on the projects funded by the bond proceeds.

Future Action: Though as a result of its actions to date KDOT is now in compliance with the arbitrage requirements, KDOT plans to take further action on this issue. KDOT plans to develop a complete accounting manual in conjunction with its redesign of the financial management system, and as part of that manual, KDOT intends to incorporate a section into the manual describing the exact procedures and providing an explicit schedule for updating expenditure records from each freeway bond issue.

Records of Financial Activity

Concern: The Legislative Division of Post Audit recommended that the Department, in conjunction with the Division of Accounts and Reports, improve records to reflect more clearly the actual financial activities of the freeway and highway funds. Post Audit noted particular attention should be placed on ensuring that financial information is not distorted by the way in which revenues, expenditures and transfers are stated. (Source: Sunset Audit Report of the Kansas Department of Transportation, Legislative Division of Post Audit, issued September, 1982, pg. 44). The Legislative Division of Post Audit noted: (1) freeway fund balances were understated because they did not include invested fund balances, (2) salary and wage expenditures for the agency were understated as a result of transfers from the State Freeway Fund to the State Highway Fund to reimburse the State Highway Fund for salary and wage expenditures on State Freeway Fund projects; it is the practice of the department to pay all salary and wages from the State Highway Fund with reimbursement of the expenditures on State Freeway Fund projects to go to the State Highway Fund by means of a transfer, and (3) Legislative Post Audit felt it was inappropriate to classify State Freeway Construction Fund earnings deposited to the State Freeway Fund as non-operating revenue of the State Freeway Fund, instead of interest earnings. This recommendation impacts both recordkeeping and budget presentation functions.

Action to Date: State Freeway Fund invested fund balances have always been maintained as a recordkeeping function. Prior to FY 1984, however, the invested funds were not included in the agency's budget on the Resource Estimate (DA-404R). They were not included on the DA-404 because the 404-R is reconciled to the 404 worksheet for prior year actual expenditures and the Division of Administration does not include invested fund balances in its revenue and expenditure calculations for the 404 worksheet. For FY 1984 the agency has included the invested fund balances for informational purposes on its 404R submission, and if this practice is deemed acceptable, it is the agency's intention to continue the practice. Also, beginning with FY 1984, the Department and the Division of Administration changed the manner in which the records are processed for the maintenance transfers from the State Freeway Fund to the State Highway Fund. Now, instead of treating the transfers as a reduction of expenditures to the State Highway Fund, they are processed under separate source codes that classify these transfers as to their nature. Thus, there is no longer the possibility that the transfers can be treated in a manner which could inflate the agency's budget authority as Legislative Post Audit had implied. The Department of Transportation, upon consultation with the Division of Accounts and Reports, continues to contend that it is necessary to classify State Freeway Construction Fund earnings deposited to the State Freeway Fund as non-operating revenue. To do otherwise would raise the potential for these earnings to be

misclassified as State Freeway Fund earnings and thus would be double counted, once as State Freeway Construction interest earnings and then again as State Freeway Fund interest earnings.

Future Action: As part of its redesign of the financial management system, KDOT intends to streamline many of these transaction processes, and in particular those that relate to invested fund transactions, in order to alleviate much of the confusion the detailed transaction processing under current practices seems to create.

Inventory

HPR Inventory

Concern: The Office of Inspector General recommended that a perpetual inventory system be developed which will meet the requirements of OMB Circular A-102, Attachment N, and that the involved personnel perform the necessary actions for the development and maintenance of the system. (Source: Internal Audit of Federal Participating Costs, issued July, 1982, pg. 18.) The recommendation suggested by the OIG concerns the non-expendable property purchased with Highway Planning and Research funds administered by the KDOT Planning Division. This equipment is not currently maintained within the KDOT inventory of non-expendable equipment purchased with state funds since this equipment is distinct in that it had been purchased with planning funds. To comply with Attachment N, the following is required:

1. That recipients submit an annual inventory listing of federally-owned property in their custody to the Federal grantor agency.
2. That property records be maintained accurately and include, among other information, a description, serial number, source (grant number), date acquired, location and ultimate disposition date.
3. That property owned by the Federal government be marked to indicate Federal ownership.
4. That a "physical inventory of property be taken and the results reconciled with the property records at least once every two years".

The auditors noted that the equipment maintained did not have assigned property identification numbers; the inventory listing did not include all the required information; and there was not a schedule set for submitting the annual inventory listing to the grantor nor for the taking of the physical inventory.

Action to Date: The Division of Planning is currently in the process of taking a physical inventory of non-expendable equipment purchased with HPR funds. Property identification numbers are being assigned to the equipment in the process.

Future Action: Once the physical inventory is complete, this information will be entered into, and become part of, KDOT's automated equipment inventory. Procedures will be developed to maintain the inventory as well as to submit the annual inventory listing to the grantor agency and to reconcile the inventory with the property records.

Salvage of Inventory

Concern: During their Internal Audit of Federal Participating Interim Period Costs, the Office of Inspector General noted an instance where highway lighting equipment for a project had been dismantled and brought back into inventory. In order to bring the equipment back into the inventory, a transfer document had been prepared at the district level. The transfer document effects the transaction by debiting the stock accounts and crediting the project account for the value of the equipment. When the computer processed the transfer document, it applied the higher unit value of the equipment to the debit transaction but used the lower estimate salvage value of the equipment for the credit transaction to the project. Therefore, an amount equal to the difference between the two values was left as a debit imbalance. The Office of Inspector General recommended that this imbalance could be corrected by physically inspecting the equipment to determine its value, and if it is determined that the equipment is of minimal value, then the equipment should be removed from inventory and charged back to the project. (Source: supra, issued July, 1982, pg. 11)

Action to Date: Procedures developed by the Department require a district engineer to physically inspect any inventory to be returned to inventory once that equipment has been charged to a project. In accordance with FHWA guidelines, equipment is returned to inventory only if it has 60% of its useful life left or if it is at least 60% of its original cost value. If it does not have a 60% useful life remaining, or if it has depreciated to below 60% of its original value, then the equipment is either junked or sold. The equipment noted in the audit report still had 60% of its useful life remaining, so it was correct to re-inventory the equipment. The error in the transaction appears to be the result of miscoding the transfer document. It appears the transaction document was coded as a salvage transaction rather than a receipt transaction. For a salvage transaction, the estimated value of the equipment is added to the existing unit cost of that category of equipment and then a new unit cost for that category of equipment is calculated. The new unit cost for that category of equipment is then applied to the equipment that is being brought back into inventory. A receipt transaction, however, uses the actual estimated value of the equipment and the equipment is maintained in inventory at that value. The occurrence noted by the auditors was corrected by submitting an adjustment transaction through the system that in effect recoded the document submitted from a salvage transaction to a receipts transaction. In order to better insure the correct coding of these types of transactions, a section was added to the Procurement and Inventory Control Manual kept by the district offices providing more explicit directions.

Future Action: Through its actions to date, KDOT is in compliance with the OIG's recommendation; however, KDOT plans future action on this issue. As part of the redesign of its financial management system, KDOT intends to review its Procurement and Inventory Control Manual, which describes the procedures for maintaining the Department's inventory, and revise the manual in accordance with the redesign of the entire system.