

Approved: 2-7-97

Date

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS.

The meeting was called to order by Chairperson Dave Kerr at 11:00 a.m. on January 27, 1997 in Room 123-S of the Capitol.

All members were present except: Senator Jordan (Excused)

Committee staff present: Alan Conroy, Legislative Research Department
Kathy Porter, Legislative Research Department
Mark Burenheide, Legislative Research Department
Norman Furse, Revisor of Statutes
Michael Corrigan, Revisor of Statutes
Judy Bromich, Administrative Assistant
Janet Henning, Committee Secretary

Conferees appearing before the committee: Barb Hinton, Legislative Post Auditor
Trish Pfannenstiel, Legislative Post Auditor
Jeff Wagaman, Deputy Secretary of Administration
Randy Tongier, Audit Manager, Legislative Post Audit

Others attending: See attached list

SB 11: Legislative Post Audit, relating to audits of the Kansas Public Employees retirement system

Barb Hinton, Legislative Post Auditor, addressed the Committee as a proponent of SB 11 (Attachment 1). She explained the bill addresses audits of the Kansas public employees retirement system (KPERS). It would eliminate the requirement for an annual performance audit of KPERS and allow consolidation of performance topics into the annual finance-compliance audit. In response to questions regarding audits, Ms. Hinton advised an annual performance audit is required as well as an audit for K-GOAL and comparisons were made with other states who have aggressive investment policies. Ms. Hinton related to the Committee that three different types of portfolios were reviewed which would be relatively similar among the different states which have retirement systems. The portfolio manager was reviewed for domestic equity mid-cap growth, for a domestic large cap growth, and a domestic fixed income. Kansas was higher than all on the types of portfolios, second highest on another and almost the lowest on the third.

It was moved by Senator Feleciano and seconded by Senator Salisbury that SB 11 be recommended favorably for passage. The motion carried on a roll call vote.

SB 14: Department of Administration, relating to administration of the deferred compensation plan for public officers and employees

Trish Pfannenstiel, Legislative Post Auditor, appeared before the Committee to explain that SB 14 (Attachment 2) relates to the administering of the deferred compensation plan for public officers and employees. Ms. Pfannenstiel related to the Committee that Kansas has only one provider for deferred compensation. This provider is both the third party administrator and the investment provider. The Committee was told that any additional providers would increase the cost incurred for the program on the state side.

Jeff Wagaman, Deputy Secretary, Department of Administration appeared before the Committee to request an amendment to strike new section 2 in SB 14. This section established an administrative oversight committee for the deferred compensation program. Mr. Wagaman reviewed his written testimony (Attachment 3 and Attachment 4) and answered questions as requested by members of the Committee.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS, Room 123-S Statehouse, at 11:00 a.m. on January 27, 1997.

Senator Salisbury moved, Senator Morris seconded, that SB 14 be recommended favorably for passage. The motion carried on a roll call vote without amendments.

SB 16: Kansas Highway Patrol motor vehicle program, annual performance audits

Randy Tongier, Legislative Post Auditor, appeared before the Committee as a proponent of **SB 16** (Attachment 5). He explained that **SB 662**, passed by the 1996 Legislature, called for three annual performance audits of the Highway Patrol motor vehicle program. Mr. Tongier responded to questions from the Committee by stating that after the first audit was completed at a cost of \$28,000, the Post Audit Committee agreed additional audits probably were not necessary and cancelling them would be a savings of approximately \$20,000 per audit.

Senator Petty moved, Senator Morris seconded, that SB 16 be recommended favorably for passage. The motion carried on a roll call vote.

The Chairman adjourned the meeting at 12:00 P.M.

The next meeting is scheduled for January 28, 1997.

SENATE WAYS AND MEANS COMMITTEE GUEST LIST

DATE: 1-27-97

NAME	REPRESENTING
<i>Sam Jaunt</i>	<i>Kansas Highway Patrol</i>
<i>Dyan Brumlee</i>	"
WALT DARLING	KANSAS HIGHWAY PATROL
RANDY TONGIOR	LEGISLATIVE POST AUDIT
<i>Paul Hinton</i>	" " "
<i>Trish Hannenstiel</i>	" " "
<i>Jack Hawn</i>	<i>KIERS</i>
Jeff Wagsman	DOA
TERRY D. BERNATIS	DOA
B. Mariani	Dept of Adm.
Basil Covey	KRTA
Don Ryan	S. E.H. K.
Robert Tyson	SEN
<i>Sen. Tim Melstang</i>	
JASON PITSENBUR	BRAD SMOOT

**Senate Bill 11--Relating to Audits of KPERS
Testimony by Barb Hinton, Legislative Post Auditor
to the Senate Ways and Means Committee
January 27, 1997**

As you know, the Legislative Post Audit Committee introduced SB 11, which you have before you today. I'm here to provide some background information on that bill.

Last February, at the request of Representative Lowther, who was Vice-Chair of the Committee at the time, our office prepared a list of options for reducing the audit requirements relating to KPERS. By law, KPERS currently is subject to a financial-compliance audit and a performance audit each year. In addition, a performance audit of KPERS was required under the Kansas Governmental Operations Accountability Law (K-GOAL) for consideration by the 1997 Legislature. (A list showing audit requirements relating to KPERS and the options prepared by staff is attached to this testimony.)

The Legislative Post Audit Committee considered this list of options at its meeting April 3. Senator Oleen appointed a subcommittee consisting of Representative Lowther and Senators Steffes and Hensley to study the options presented in the staff memo.

Besides the number of audits currently being performed of KPERS, the Subcommittee considered and discussed such factors as:

- the high level of legislative and Board of Trustees' oversight already provided over KPERS
- the ready availability of some information (i.e., rates of return comparisons against standard indices) from KPERS' in-house investment staff
- the lack of any major problems being identified in the four performance audits conducted so far. (Although each audit has pointed out that KPERS pays more than other similar-sized states on investment manager fees, it's very difficult to get good information about why.)
- the ability of a contracted CPA firm to handle the narrowly defined performance audit requirements currently specified in law
- the cost-efficiency of having the auditors who conduct the financial-compliance audit also address the performance audit requirements

Following its deliberations, the Subcommittee made the following recommendations for minimizing KPERS' audit requirements, while still providing for sufficient oversight:

Senate Ways and Means Committee

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Attachment # 1

1. Continue the annual financial-compliance audit of KPERS. *(This audit is contracted to a CPA firm, and KPERS pays the cost of the audit. By law, it must include a review of "alternative investments of the system, with any estimates of permanent impairments to the value of such alternative investments reported by the system..." Alternative investments were KPERS' major problem area in the early 1990s.)*

2. Eliminate the requirement to have Legislative Post Audit conduct an annual performance audit of KPERS. In its place, consolidate the performance and financial-compliance audit requirements into a single, contracted financial-compliance audit. *(Over a two-year period, those performance audit requirements now include evaluations of investment managers' performance and compensation, and evaluations of rates of return on investments, all by manager and by type of investment. They also include a comparison of KPERS' investment practices and performance with those of other state pension programs by asset type, including alternative investments.)*

3. Allow the Legislative Post Audit Committee to designate the performance issues to be conducted as part of the financial-compliance audit. The performance issues would be audited once every two years, unless the Committee decided to extend that requirement to once every three years.

The full Legislative Post Audit Committee voted to accept the Subcommittee's recommendations, and to introduce the legislation you see before you.

The Committee recognizes the need to provide adequate legislative oversight of KPERS. Committee members and staff think this bill would accomplish that goal in a cost-effective manner, while freeing up the Legislature's audit resources for what may be considered more productive work.

I'd be happy to answer any questions you may have about Senate Bill 11.

**Background Information on
Current KPERS Audit Requirements**

Annual Financial-Compliance Audit (K.S.A. 74-4921(12)(a)). Requires an annual financial-compliance audit, "to include, but not be limited to, a review of alternative investments of the system, with any estimates of permanent impairments to the value of such alternative investments reported by the system..."

On a three-year basis, this audit is contracted to a certified public accounting firm under contract with the Division. KPERS pays the cost of the audit.

Annual Performance Audit (K.S.A. 74-4921(12)(b)). Requires annual performance audits, as directed by the Legislative Post Audit Committee, "which shall include, but not be limited to, one or more of the following subjects:

- an evaluation of the performance of investment managers
- an evaluation of the rates of return of investments reported by the system
- an evaluation of the total compensation received for the planned year by investment managers, by individual investment classification
- a comparison of the system's investment practices and performance with those of other state pension programs by asset type, including all asset types described as alternative investments..."

Each of the subjects listed must be included in an audit at least once every two fiscal years. (This was done to try to limit the amount of audit work the Division was required to perform each year.)

The first year this audit was required (1992), it was conducted by a CPA firm under contract with the Division. Our staff have done the audit every year since then. The cost of this audit is paid by the Division, even when it is contracted.

K-GOAL Performance Audit (K.S.A. 1995 Supp. 74-7285 et seq.). Requires the Committee to direct staff to conduct a performance audit of each State agency subject to legislative review and evaluation under K-GOAL. The agencies left to be audited are as follows:

Scheduled to be done in 1996 for the 1997 Legislature	Conservation Commission KPERS Dept. of Revenue
Scheduled to be done in 1997 for the 1998 Legislature	Kansas Corporation Commission Dept. of Education
Scheduled to be done in 1998 for the 1999 Legislature	Dept. of Human Resources Dept. on Aging
Scheduled to be done in 1999 for the 2000 Legislature	Dept. of Corrections

The Committee specifies the scope of the audit, which may be general and address all the agency's operations, or which may be restricted to a particular operation of the agency. These audits must be done before the 30th calendar day of the regular session.

Options for Reducing the Division's Involvement in Performance Audits of the Kansas Public Employees Retirement System

1. Change the law to delete the annual requirement for a performance audit of KPERS. For the following reasons, this annual requirement may no longer be necessary.

- Information about rates of return and investment managers' performance compared with standard indices is readily available without an audit. KPERS staff provide it periodically to their Board, the Joint Committee on Pensions, Investments and Benefits, and others.
- Very broad comparison data about other states' investment performance and investment manager fees is available (but not necessarily by asset class). Although it's not very reliable when you try to compare specific states with each other, it can provide a broad-level indicator of how KPERS compares with all other public employee retirement systems across the country. (We've invested a significant amount of time each year trying to get comparable information from a sample of states with similar-sized investment portfolios.)
- A financial-compliance audit of KPERS is conducted each year. Alternative investments--which were the major problem areas in the early 1990s--are reviewed as part of that audit work.
- The four performance audits conducted since this law was passed haven't identified major problems. Each audit has pointed out that KPERS pays more than other similar-sized states on investment manager fees, but it's very difficult to get good information that would allow us to definitively say why.
- KPERS now has professional in-house investment staff, who can provide some level of oversight of outside investment managers.
- The Joint Committee on Pensions, Investments and Benefits provides ongoing legislative oversight.
- The Post Audit Committee can authorize a performance audit any time specific concerns or problem areas arise.

2. Change the law to consolidate the performance and financial-compliance audit requirements into a single contracted financial-compliance audit. If the Legislature wants to continue reviewing KPERS' investment performance and investment manager fees as part of its oversight process, it could consider adding those requirements to the financial-compliance audit, which is contracted out. There are a number of advantages to this option:

- Contracting this work out would free up the Legislature's audit resources for what may be considered more productive performance audit work.
- The performance audit requirements are fairly well-defined, and qualified CPA firms should be able to handle them. (In fact, the first performance audit conducted under the law was contracted.)
- Combining these two audits may be more efficient. The auditors doing the financial-compliance audit already would be familiar with information pertaining to KPERS' rates of return, investment performance, and fees. In addition, having only one audit firm involved would minimize disruption of KPERS ongoing activities.

- Contracting out this audit could provide a “fresh” look at the Retirement System, and would address the somewhat adversarial relationship that has developed.
- Out of pocket costs would go up under this option. However, that increase wouldn't be as much as if both audits were contracted out (see option 3). Also, contracting costs under this option would be paid by KPERS, whereas current law would require the Division to pay for any contracted performance audits.

If you're interested in this option, you also may want to consider option four at the same time.

3. Consider contracting out the performance audit of KPERS. If the Legislature wants to continue having a separate performance audit of KPERS conducted as part of its oversight process, it could consider contracting that audit out as a performance audit. No change in law would be required.

This option has the same advantages as listed above, except it's possible that two audit groups would get the contracts. In such cases, any efficiencies from having one auditor perform the work would be lost.

One possible disadvantage from a budgetary perspective: current law makes no provision for KPERS to pay for a contracted performance audit. Thus, if this performance audit were contracted, the money to pay for it would have to be added to the Division's general fund budget.

4. Change the law to require a performance audit of KPERS only once every three-to-five years. If the Legislature wants to continue having Legislative Post Audit conduct performance audits of KPERS as part of its oversight process, those audits could be done less frequently.

To minimize the impact of KPERS performance audits on the Division's audit resources, the law could be changed to require an audit covering all areas once every three or five years.

One possible downside if we continue to use a sample of other states' data for comparison purposes: states generally don't have historical data readily available, and must go back into their records to compile it. By not surveying those other states every year, we'd be less likely to get complete historical data for these three-to-five year periods. In addition, the rapport we've developed with other state investment staff has increased our chances of getting them to respond (they get lots of surveys each year).

5. Consider deleting the statutory requirement for a K-GOAL audit of KPERS. We're scheduled to conduct three K-GOAL audits this summer and fall-- Conservation Commission, Revenue, and KPERS. Depending on the audits' scopes, these three audits could keep up to two of our four audit teams busy through December 1996.

We aren't required to do another performance audit of KPERS during the year a K-GOAL audit is required, so there won't be any duplication in that sense. Nonetheless, KPERS has had a total of 8 audits in the last four years, and some may think that doing a K-GOAL audit for 1997 is overkill.

As part of every K-GOAL audit process, we survey members of legislative committees and talk with agency officials to identify potential areas the audit could address. We haven't yet begun that process for KPERS. The only issues we hear frequently from other legislators are complaints about the cost and time-consuming nature of the lawsuits. We've reported lawsuit costs and recoveries in each of the last 2-3 performance audits. We probably can't do anything very informative on why the lawsuits are taking this long, or whether they should take this long.

Other areas we've thought of: whether KPERS is doing any social investing (I think it can't), how its Retirement benefits compare with other states (this may be "out there" somewhere already), and how its costs and operations on the benefits side compare with other states (all the audits have focused on the investments side).

If legislators are particularly interested in these or other areas of KPERS, then the K-GOAL audit may be useful. However, if they aren't particularly interested in anything right now, it may make sense to put off the K-GOAL audit for the short-term, and consider deleting the statutory requirement next session. Again, the Post Audit Committee can authorize a performance audit any time specific concerns or problem areas arise.

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TESTIMONY BEFORE THE SENATE WAYS AND MEANS COMMITTEE

SENATE BILL No. 14

Legislative Division of Post Audit
Trish Pfannenstiel, Senior Auditor
January 27, 1997

When the Legislative Post Audit Committee reviewed the Statewide Single Audit, members of the Committee noted that the assets of the Kansas Public Employees' Deferred Compensation Program exceeded \$175 million in fiscal year 1995. That amount increased by 20% to more than \$210 million at the end of fiscal year 1996. Committee members raised a number of questions about how those moneys were being administered, including what oversight the State exercised over Aetna, the Program's third-party administrator and investment provider.

In response to those concerns, the Committee directed our office to conduct a performance audit entitled, *Reviewing the Kansas Public Employees' Deferred Compensation Program*. During that audit, we found that the legislation that established the Program provided for an Advisory Committee comprised of the Director of the Budget, the Secretary of Administration, the State Commissioner of Insurance, and two employees appointed by the Governor—the Secretary of Revenue and Executive Secretary of the Kansas Public Employees' Retirement System.

The Advisory Committee was charged with various statutory duties and responsibilities including those needed to set up the Program such as:

- *advise and consult*—with the Director of Accounts and Reports in the implementation and administration of the Program
- *assist in the preparation of the rules and regulations*—for participation in the Program
- *approve or disapprove insurers or other contractors*—for participation in the Program
- *recommend consultants*—to assist the Director of Accounts and Reports in the administration of the Program

However, the statute also provided for continued oversight of the operation of the Program with a requirement that the Committee:

- *review and analyze*—the Program's operation, and make recommendations to the Director of Accounts and Reports and the Legislature for improvements

Senate Ways and Means Committee

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Attachment # 2

On July 1, 1988 the Advisory Committee was abolished, and the duties and responsibilities of the Committee were delegated to the Director of Personnel Services. However, the specific oversight duties and responsibilities that had been mentioned in the statute were removed.

During the audit, we found that the Director of Personnel Services performs limited oversight of the Program, and told us he views oversight as unnecessary. In addition, the Department of Administration's legal department concluded the State doesn't appear to have a duty to provide oversight of the Program. However, we noted that oversight of the deferred compensation program was the general practice in the six surrounding states we reviewed for the audit.

Such oversight can help ensure that the deferred compensation "benefit" being offered to State employees continues to provide good customer service, generate investment performance comparable to that of the market, and is offered at a reasonable cost. Such oversight could include:

- reviewing participants' access to a number of investment options with varied risk levels
- periodically comparing the rates of return earned on investment options to standard investment performance indices
- reviewing administration and investment management (fund) fees for reasonableness
- reviewing audits conducted on the program and other reports to ensure its operations are following all applicable rules and regulations
- deciding whether, or how, to revise the Program, including the option of opening the Program for bids
- reporting findings to State decision-makers, including the Legislature

To ensure that oversight and administration responsibilities are clearly defined, we recommended that specific language about those responsibilities be added to K.S.A. 75-5523. After discussion, Committee members decided to introduce legislation—Senate Bill No. 14—that would specify in statute the oversight requirements regarding the Deferred Compensation Program. The Legislative Post Audit Committee discussed the option of also re-establishing some type of oversight committee. When the audit was presented, the Department of Administration indicated it had established an administrative oversight committee comprised of officers and employees of the Department of Administration. As a result, Committee members included that provision in the bill.

I think it is fair to say, however, that their primary interest was in ensuring that adequate oversight was being provided, not the mechanism for providing it. I think one concern behind this bill is that Committee members remember the problems with the Retirement System, and don't want this Program to be self-monitored which may or may not lead to problems in the future.

SENATE WAYS & MEANS COMMITTEE
Honorable Dave Kerr, Chairman

Testimony By
Jeff Wagaman, Deputy Secretary
Department of Administration

January 27, 1997

Thank you Mr. Chairman and members of the Committee. I appreciate you allowing me to testify as an opponent of Senate Bill 14.

Senate Bill 14 is sponsored by the Legislative Post Audit Committee as recommended this Fall following the audit entitled "Reviewing the Kansas Public Employees' Deferred Compensation Program." The Department of Administration was very pleased to read the audit's findings. We concur with most of the Post Auditors findings that the state's Deferred Compensation Program is in very good shape and provides significant investment opportunities and services to state employees. In summary, the Post Auditors found that generally employees were very satisfied with the program, services and performance of the many funds. The Post Auditors found that the rates of returns for fixed rate and variable funds were very comparable to other funds based on market performance and industry averages. We also discovered that fees charged to Kansas employees in the variable return funds were actually lower than fees charged in other states. Management fees were some of the lowest charged compared to other states.

We were not surprised to learn the State of Kansas does not have a liability for losses, if losses were to occur. Deposits from state employees are held in trust and used by the Aetna Company for investment. Following one of the recommendations, we introduced legislation, Senate Bill 98, to bring state law into compliance with recent changes in the federal law regarding the Internal Revenue Code 457 Deferred Compensation Plans. It appears that this proposal has also been included in section 3 of your legislation. The agency is very supportive of section 3 of the bill.

Also in response to the Post Audit, an Administrative Oversight Committee was established to increase monitoring of the Deferred Compensation Program. This Committee is composed of three standing members: the Director of Personnel Services, who will serve as chair; the Director of Accounts & Reports; and the manager of the Compensation and Benefits section of Personnel Services. This group will meet on a quarterly basis and will represent employees' interests in the retirement program. They will monitor legal and contractual requirements and interface with the vendor. Approximately ten topics have been established to provide increased monitoring and oversight of the Deferred Compensation Program.

You may be aware there previously was a statutory committee created by the legislature to oversee the Deferred Compensation Program. For reasons unknown to me, the legislature chose to abolish this committee in 1988 and transferred the duties to the Director of Personnel Services. The Director has carefully monitored the program from 1988 to October of 1996. It appears section 2 of this bill would propose to re-establish a statutory committee.

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Attachment # 3

We believe that the current administrative oversight committee provides responsible oversight. Ultimately, of course, the responsibility of the program rests with the Secretary of Administration Dan Stanley. The agency feels the proposal in this bill to legislatively mandate an AOCS is not necessary. Currently, the committee meets at least quarterly or at the discretion of the Secretary. We feel the Deferred Compensation Program can and should be monitored by the Secretary of Administration with input from the legislature. Secretary Stanley would be happy to discuss any aspect of the program with the committee.

Therefore, we would suggest an amendment to strike new section 2 in the bill.

Thank you for the opportunity to appear before you today. Attached to my testimony is a copy of the October 22nd memorandum establishing the Deferred Compensation Oversight Committee.

Thank you very much and I stand for questions.



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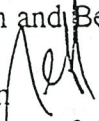
DEPARTMENT OF ADMINISTRATION

MEMORANDUM

TO: Bill McGlasson, Director
Division of Personnel Services

Shirley Moses, Director
Division of Accounts and Reports

Terry Bernatis, Manager
Compensation and Benefits

FROM: Jeff Wagaman 
Acting Secretary of Administration

DATE: October 22, 1996

RE: Establishing Deferred Compensation Oversight Committee

The recently completed Legislative Post Audit titled "Reviewing the Kansas Public Employees' Deferred Compensation Program" has given the Department of Administration a valuable analysis of the Deferred Compensation Program. I was pleased to read their findings. In summary, they report a high level of employee satisfaction with the program and the services, a very high average for returns of the funds compared to comparable funds offered by other companies, and, finally, clarification that the state is not liable in the unlikely event of insolvency by Aetna. This seems especially unlikely given that several national organizations have rated Aetna as A+ or superior/excellent.

Nonetheless, the auditors made several recommendations that may benefit our agency. Generally, the auditors have recommended increased monitoring of Aetna and the Deferred Compensation Program. I concur this increased monitoring could be beneficial.

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Attachment # 4

The Post Audit study provides a good history of oversight of the Deferred Comp Program. When the Deferred Compensation Program was created in the late 1970s, the legislation provided for an Advisory Committee on Deferred Compensation. This committee was comprised of the Director of the Budget, Secretary of Administration, the Commission of Insurance, two employees appointed by the Governor, the Secretary of the Revenue, and the Executive Secretary of KPERS. For reasons unknown to me, on July 1, 1988, the law establishing the advisory committee was repealed and all duties and powers of the committee were transferred to the Director of Personnel Services or their designee. However, statutes giving the Director this responsibility no longer lists duties and responsibilities for oversight.

Therefore, I am establishing an Administrative Oversight Committee to monitor the Deferred Comp Program. This committee will be composed of three standing members: the Director of Personnel Services, who shall also serve as Chair; the Director of Accounts & Reports; and the Manager of Compensation/Benefits currently within the Division of Personnel Services. I ask for this group to meet on a quarterly basis. Of course, you may wish to invite other staff members (such as legal counsel or advisors) to attend as well. I suggest support staff be at each meeting and for minutes to be taken. Copies of these minutes should be distributed to members of the committee and the Office of the Secretary of Administration.

The broad mission of this committee is to provide increased monitoring and oversight of the Deferred Comp Program. I see this group as representing state employees' interests in the retirement program and monitoring legal and contractual requirements.

It is my hope this committee will self-organize and establish their agenda for study. However, I suggest the following topics for discussion and oversight.

- ◆ Assess program operations in the areas of customer service and operations.
- ◆ Evaluate investment performance as it relates to comparable options.
- ◆ Evaluate program operations in light of legal and contractual requirements and as compared with other deferred compensation programs.
- ◆ Review overall administration of the program by the vendor and the investment management (fund) fees for reasonableness compared with other deferred compensation programs.
- ◆ Review audits conducted on the program and other reports to assure operations are following all applicable rules and regulations.
- ◆ Assess the overall performance of Aetna and determine whether or not competition should be initiated with other vendors.

Memorandum
October 22, 1996
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- ◆ Work with Aetna to draft legislation to incorporate recent changes made in federal law regarding IRL § 457 Deferred Compensation Plans and revise the State Plan to incorporate these changes.
- ◆ Review the current procedure for handling complaints about the program to ensure customer satisfaction and sharing of complaint information.
- ◆ Investigate the August 1992 letter sent by the former directors of A&R and DPS stating that monies invested in Aetna's fixed rate return accounts are covered by Kansas Guarantee Association up to \$100,000. According to the audit there is questions whether or not these funds are insured.
- ◆ Report these findings to state decision makers, including the legislature as appropriate.
- ◆ Evaluate on a continuous basis the need to provide participants with information regarding requirements of the program.

I want to thank you in advance for your work on this quarterly committee. If you have questions or comments about the goals or missions of this committee, please feel free to contact me.

Thank you.

JSW:dp

cc: Art Griggs
Bob North

SENATE BILL 16
SENATE WAYS AND MEANS COMMITTEE
Randy Tongier, Audit Manager
Legislative Division of Post Audit
January 27, 1997

Senate Bill 662, passed by the 1996 Legislature, calls for three annual performance audits of the Highway Patrol's Motor Vehicle Program. Those audits are to include a review of the number and purchase price of new motor vehicles, the number and resale value of retired motor vehicles, and the average number of miles the motor vehicles are driven before retirement. The bill also requires the Patrol to pay for the cost of the audits.

At the suggestion of the Division of Post Audit, the Post Audit Committee authorized contracting for only the first of the three annual audits. That decision was made because it seemed that the Legislature's concerns in this area probably could be addressed by one audit, and that any further about the Motor Vehicle Program most likely could be provided by the Highway Patrol's staff without incurring the additional cost of two more audits. If, after completion of the first audit, the additional audits seemed to make sense, the Post Audit Committee could then authorized those audits.

After the first audit was done, at a cost of \$28,000 to the Highway Patrol, the Post Audit Committee decided that additional audits probably weren't warranted, and introduced Senate Bill 16, which would repeal the requirement for two more performance audits of the Highway Patrol's Motor Vehicle Program.

Senate Bill 662 also calls for three annual performance audits of the Department of Revenue's Vehicle Information Processing and Computer-Assisted Mass Appraisal Systems. Those audits are to include a review of the operations, maintenance, and improvements of the equipment and software of these two systems. The bill also requires the Department to pay for the cost of the audits.

Because the concerns in this area focused on activities that would take place during several fiscal years, it seemed that one audit for the 1997 Legislature wouldn't fully address those concerns. For that reason, the Post Audit Committee authorized

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Date 1-27-97

Attachment # 5

contracting for all three annual audits of the Vehicle Information Processing and Computer-Assisted Mass Appraisal Systems. The total contract amount is \$41,900, \$8,400 for the first year, and \$16,750 for each of the other two years.

The first annual audit, covering the period from July 1, 1996, through September 30, 1996, indicated that the Department had begun taking in additional moneys to fund system enhancements (almost \$600,000). However, spending was limited to about \$8,900. That expenditure was made to begin hardware procurement for upgrading the Vehicle Information Processing System.