Approved: 5/29/98
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 March 25, 1998 in

Room 123-S of the Capitol.

All members were present except:

Committee staff present: Alan Conroy, Legislative Research Department
Russell Mills, Legislative Research Department
April Holman, Legislative Research Department
Norman Furse, Revisor of Statutes
Michael Corrigan, Revisor of Statutes
Judy Bromich, Administrative Assistant
Ann Deitcher, Committee Secretary

Conferees appearing before the committee:

Others attending: See attached list

Leo Hafner of the Legislative Post Audit, spoke to the Committee on the Performance Audit Report regarding the KQM program. He reported that most agencies had purchased computer equipment. Only one, the State Fire Marshall, had used funds for bonuses. (Attachment 1).

Appearing next before the Committee, was Alan Conroy, Chief Fiscal Analyist, who explained the Kansas Quality Management Program/Savings Incentive Program. (Attachment 2).

Senator Ranson asked what the policy of the Fiscal Staff was when preparing the data for the Subcommittees to examine budget requests.

Mr. Conroy explained that it would be by request of the Governor to include an item in their overview. He said they work closely with the Budget Director in terms of justifying KQM amounts.

Gloria Timmer, Budget Director, spoke to the Committee of the policies in place in regard to the Kansas Quality Management Program/Savings Incentive Program.

Ms. Timmer explained that the program began because with all the cuts in agency funding, there was very little that could be done to reward people. Agencies were spending down any leftover money at the end of the fiscal year that may or may not have been the best use of the money. She said there was absolutely no evidence that the agencies were cutting services in order to have savings. The Budget Department keeps a very close eye on agencies and knows that any attempt at "padding" would be easily discovered.

When the program was developed, it was called KQM. It was not intended that it be tied to KQM projects. Because computers were becoming such an issue and were so difficult to plan for, this would allow agencies to carry money over to work toward computer projects. These purchases still have to go through JCCT and all other channels of purchasing.

A copy of the Department of Transportation KQM Funding status was passed out. (Attachment 3).

Assistant Secretary of Transportation, Mike Lackey, explained the reason for the salaries savings shown in their report. This was caused in part, by unfilled positions. He said they don't budget the same positions every year. They budget what they have and what they expect to have. To give an example, Mr. Lackey, said that a position that isn't needed until May, will not be filled in December, when it becomes open.

Roger Aeschliman, Deputy Secretary of Human Resources, spoke briefly of how his department had spent their money. The first one was personal computers. The second was that they were able to implement personnel training. Previously there had been zero training going on in their agency.

The meeting adjourned at 12:10 p.m. The next meeting is scheduled for March 26, 1998.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

SENATE WAYS AND MEANS COMMITTEE GUEST LIST

DATE: 3/25/98

NAME	REPRESENTING
Ken Bahr	Ks. Governmental Consulting
Leo Hafner	Legislative Post Audit
Mike Larkey	KDOT
Bill Watts	KDOT
Gloria Timmer	D.o Budget
Cindy Denton	Budget
Jerry Sloan	OJA
Shirley Moses	DOA
Roger Rooker	D of A
Janelle Wilhite	Budget
Roger Aeschliman	KDHR

LEGISLATURE OF KANSAS

LEGISLATIVE DIVISION OF POST AUDIT

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April 22, 1997

To: Members, Legislative Post Audit Committee

Representative Eugene Shore, Chair
Representative Richard Alldritt
Representative Doug Mays
Representative Ed McKechnie
Representative Dennis Wilson

Senator Lana Oleen, Vice-Chair
Senator Anthony Hensley
Senator Pat Ranson
Senator Chris Steineger
Senator Ben Vidricksen

This report contains the findings, conclusions, and recommendations from our completed 100-hour performance audit, *Reviewing State Agencies' Use of Cost Savings From the Kansas Quality Program.*

The report also contains an appendix showing how much agencies spent of their reappropriated savings through March 6, 1997, and what they spent those moneys on.

This report includes a recommendation to ensure that agencies don't make salary bonus payments for more than the amount allowed in appropriation acts. We would be happy to discuss this recommendation or any other items in the report with any legislative committees, individual legislators, or other State officials.

Barbara J. Hinton

Barbara J. Hinton
Legislative Post Auditor

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Attachment 1-1

EXECUTIVE SUMMARY
LEGISLATIVE DIVISION OF POST AUDIT

Question 1: How Are State Agencies Using the Money Generated From Cost Savings Resulting from the Kansas Quality Program, and Do They Use Reasonable Methods for Determining Those Cost Savings?

Most of the moneys available for agencies to spend under the Kansas Quality Program don't have to be tied to actual "cost savings" or efficiencies by those agencies. *Two "Kansas Quality Programs" exist. One is a statutory program enacted in 1994 to encourage improved quality and efficiencies in State government. That program allows participating agencies to give cash and non-cash awards to employees who work on approved quality improvement projects.* .... page 2

Under the second program, agencies participating in the statutory Kansas Quality Program are allowed to carry forward half the money they were reappropriated during a fiscal year but didn't spend. This money, which is deposited in a Kansas Quality Management Account, can be used for salary bonuses to employees who work on approved quality improvement projects (limited to $1,000 per employee), for professional development training, and for technology equipment, such as computers.

Agencies have retained about $5.3 million of the amounts they were appropriated but didn't spend in fiscal years 1995 and 1996. For a sample of six agencies, these savings generally didn't appear to be the result of any pre-planned efficiencies or cost-cutting projects.

To-date, agencies have spent most of the moneys in their Kansas Quality Management Accounts on capital outlay purchases. *A total of $1.3 million of the $1.5 million spent from these accounts (86%) has been used to purchase computers, parole office automation equipment, or other technology. In addition, in fiscal year 1997, five agencies paid their employees $38,000 in salary bonuses.* .... page 6

Agencies made most expenditures appropriately, but we identified problems with the salary bonus payments. *Of the three agencies we reviewed that paid salary bonuses, only the Consumer Credit Commissioner based salary bonuses on actual cost savings the agency experienced as a result of an approved quality improvement project. The Department on Aging based its bonuses on extra work done by employees that wasn't tied to an approved quality improvement project. It also paid four of those employees twice what the law allowed. The Fire Marshal's Office based its salary bonuses on reductions in employees' compensatory time balances below a prescribed level.* .... page 8

Even though the salary bonus payments for these two agencies don't appear to be in accordance with current statutory requirements, under the Kansas Savings Incentive Program proposed by the Governor for fiscal year 1998, such bonus payments likely would be allowed.

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Attachment 1-2

Question 2: Does It Appear Reasonable to Expand the Program to Additional State Agencies?

The Governor has proposed expanding the budgetary savings program to all State agencies. The expanded program wouldn't be tied to any Kansas Quality Management initiatives. There are positive aspects to the program, as well as risks.

Positive aspects to the Savings Incentive Program .... page 12

- *The Governor's proposal could provide an incentive for State agencies to save money at the end of the fiscal year, rather than spend down all their appropriations. In addition, the program would give agencies the opportunity to save money to purchase bigger-ticket items that can be difficult to get funded during any one fiscal year.*
- *The proposal would give agencies greater flexibility to manage their own internal operations. Agencies would have a contingency fund available to address unanticipated needs or take advantage of unexpected opportunities that may arise.*

Risks related to the Savings Incentive Program .... page 12

- *To generate budgetary "savings," State agencies could take actions that don't seem to be in the best interest of the State or the people being served, such as decreasing the level of services they provide, padding their budgets, or deferring spending. The Governor, through his Division of the Budget, would be in a position to make adjustments to agency budgets if they generate savings in an inappropriate manner.*
- *Under the Governor's proposed program, State agencies won't have equal opportunities to pay salary bonuses to their employees, or buy additional training or equipment, simply because of the difference in the size of agency budgets and the amount of opportunity for savings.*
- *There will be less accountability for certain agency expenditures. Because the expenditures are made outside the normal budgetary process, there will be no up-front scrutiny of such purchases by the Governor or the Legislature, although the Division of the Budget could exercise some control in this area.*

This audit was conducted by Ellyn Sipp. If you need any additional information about the audit's findings, please contact Ms. Sipp at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call (913) 296-3792, or contact us via the Internet at: **LPA@mail.ksleg.state.ks.us.**

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Reviewing State Agencies' Use of Cost Savings From the Kansas Quality Program

The 1994 Legislature established the Kansas Quality Program to enhance the efficiency and quality of services provided by State government. As part of the Program, participating agencies can pay individual or teams of employees cash or non-cash awards based on actual reduced costs or on improvements in the level of services provided.

In his fiscal year 1996 budget, the Governor proposed incentives for budget savings for those agencies that had approved quality improvement plans. The Governor recommended that half the amount agencies saved from efficiencies initiated in fiscal year 1995 be used in fiscal year 1996 for the employee cash awards described above, professional development training in support of the Kansas quality program, and technology equipment, such as computers. These provisions were made part of various appropriations acts, and also were included in agencies' fiscal year 1997 appropriations.

For fiscal year 1998, the Governor has proposed replacing the current incentives program with an expanded and renamed Kansas Savings Incentive Program that would apply to all agencies, not just those involved with the Kansas Quality Program. Before this legislation is considered, legislators have expressed an interest in knowing how savings have been determined in the past, how savings have been spent, and whether an expansion of the Program was warranted. This 100-hour performance audit addresses the following questions:

1. **Have officials responsible for administering the Kansas Quality Program developed reasonable methods for assessing actual cost savings or improvements in service attributable to the Program?**

2. **How are State agencies using the money generated from cost savings resulting from the Kansas Quality Program?**

3. **Does it appear reasonable to expand the Program to additional State agencies?**

For reporting purposes, questions 1 and 2 have been combined. In answering these questions, we reviewed State laws, regulations, and policies. We also reviewed State accounting records, and interviewed accounting and budget staff. Finally, we interviewed staff at a sample of six agencies that have retained half their budgetary savings.

In addressing these questions, we followed all applicable government auditing standards set forth by the U.S. General Accounting Office.

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How Are State Agencies Using the Money Generated from Cost Savings Resulting from the Kansas Quality Program, and Do They Use Reasonable Methods for Determining Those Cost Savings?

Actually, two programs are referred to as Kansas Quality Programs. Under the statutory program, agency employees work on approved "quality initiatives" that are designed to reduce costs or improve services at no extra cost. If their efforts are successful, State agencies may pay them cash or non-cash awards. For fiscal years 1996 and 1997, agencies spent almost nothing on employee cash awards tied to approved quality improvement projects.

Under the other program—which is set out in agencies' appropriations acts—agencies are allowed to keep half the difference between the amount they were appropriated for a fiscal year and the amount they spent, whether or not that difference was tied to a quality initiative or to any costcutting actions. Those moneys must be spent on cash bonuses tied to an approved quality improvement project, on professional development training in support of the Kansas quality program, or on technology equipment, such as computers. Agencies have retained about $5.3 million in these "reappropriated" moneys the past two fiscal years. For the six agencies we reviewed during this audit, these reappropriations generally weren't due to any specific cost-cutting actions the agencies had taken. Overall, State agencies spent about 86% of their "reappropriated" moneys on capital outlay for computers and other technology equipment. Although most expenditures appeared to be appropriate, agencies didn't make bonus payments to employees in accordance with statutory requirements. These and other findings are discussed in the sections that follow.

Most of the Moneys Available for Agencies To Spend Under the Kansas Quality Program Don't Have To Be Tied to Actual "Cost Savings" or Efficiencies By Those Agencies

The Kansas Quality Program (K.S.A. 75-37,115) was enacted into law in 1994 to encourage improved quality and efficiencies in State government. It's administered by the Secretary of Administration through the Division of Personnel Services. Agencies wanting to participate must submit for the Secretary of Administration's approval a "quality improvement plan" that contains proposed activities and "quality goals" that are based on performance standards and other objective measures.

The law allows each agency with an approved quality improvement plan to give cash and non-cash awards to employees who work on "quality improvement projects" approved by a steering committee within the agency. The awards can be based on the following:

- reducing an agency's operating costs
- producing a higher level of services or improving services for the public, with no increase in the agency's operating costs
- a combination of any such circumstances that constitute enhanced quality

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Under the law, the bonuses employees can receive are limited to 10% of their salaries, and must be paid from the agency's operating funds for the next fiscal year.

In his fiscal year 1996 and 1997 budget requests, the Governor also proposed separate incentives for "budget savings" for those agencies that had approved quality improvement plans. For these agencies, the Governor recommended that half the amount they saved from "efficiencies initiated" in the previous year be available to them the next year for making expenditures in certain areas. The Legislature included the Governor's proposal in provisos in the agencies' appropriations acts for these two fiscal years, and called the provisos the "Kansas quality program."

The proviso language stipulates that these "reappropriated moneys" could be used to pay salary bonuses tied to a quality improvement project described above (but limited to $1,000 per employee). The money also could be used for professional development training in support of the Kansas quality program, and for improved technology, such as computer equipment. Expenditures for professional development and technology weren't tied to any savings resulting from approved quality improvement initiatives or projects.

Agencies have retained about $5.3 million of the amounts they were appropriated for agency operations but didn't spend in fiscal years 1995 and 1996. At the end of each fiscal year, Division of Accounts and Reports officials determined the difference between the amount each participating agency was appropriated and actually spent or encumbered for its operations during the year. The Division then sent a letter to agency heads asking them to specify if they wanted all or any part of these budgetary "savings" to be reappropriated to a separate Kansas Quality Management (KQM) account. That money is available to the agency in addition to its regular budget, and all the money left in a Kansas Quality Management account at the end of one fiscal year is carried forward to the next.

In fiscal year 1996, the Legislature reappropriated $2.2 million to 13 eligible agencies that had spent less than they were appropriated from their fiscal year 1995 budgets. Of that amount, $740,000 came from the State General Fund and $1.5 million came from various special revenue funds. In fiscal year 1997, the Legislature reappropriated $3.1 million to 26 eligible agencies that had spent less than the amount appropriated to them in their regular budgets for fiscal year 1996. In all, $491,000 of that amount came from the State General Fund, and $2.6 million came from other funds. For these two years, agencies were reappropriated a total of $5.3 million because of budgetary savings.

The table on the next page shows the amounts available to the agencies who participated in this program for the most recent two fiscal years.

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Kansas Quality Management Account Spending and Appropriations for Fiscal Years 1996 and 1997

	Fiscal Year 1996		Fiscal Year 1997			
Agency	KQM Funds Available To Spend	KQM Funds Spent	Carry Over From FY96	New KQM Reappropriation	KQM Funds Available To Spend	KQM Funds Spent To-Date (a)
Bank Commiss.	$ 0	$ 0	$ 0	$25,661	$25,661	$ 0
Bd. of Mortuary Arts	0	0	0	3,000	3,000	0
Board of Nursing	0	0	0	6,097	6,097	0
Bd. of Optometry Exam.	0	0	0	3,580	3,580	0
Bd. of Tech. Prof.	0	0	0	6,220	6,220	2,511
Bd. of Vet. Exam.	0	0	0	3,064	3,064	0
Conservation Comm.	0	0	0	2,001	2,001	1,587
Cons. Credit Comm.	0	0	0	7,214	7,214	6,524
KCC	0	0	0	91,730	91,730	4,560
Correctional Ind.	99,585	0	99,585	3,161	102,746	13,125
Dental Board	0	0	0	13,534	13,534	4,309
Dept. of Admin.	259,869	21,385	238,484	33,170	271,654	4,948
Dept. of Agriculture	46,576	13,031	33,545	33,726	67,271	29,526
Dept. of Comm.& Hous.	42,243	2,887	39,356	184,909	224,265	63,757
Dept. of Corrections	471,467	196,820	274,647	333,017	607,664	302,702
Dept. of Credit Unions	0	0	0	7,358	7,358	0
KDHE	46,870	5,690	41,180	61,192	102,372	23,517
Dept. of Human Res.	289,591	19,303	270,288	355,333	625,621	121,805
Dept. of Rev.	16,619	12,500	4,119	7,875	11,994	0
SRS	5,555	0	5,555	14,391	19,946	0
KDOT	796,357	239,479	556,878	1,660,927	2,217,805	218,104
Dept. on Aging	75,307	14,516	60,791	51,667	112,458	42,275
Fire Marshal	16,462	16,462	0	24,623	24,623	22,028
Highway Patrol	0	0	0	97,617	97,617	612
Kansas Lottery	85,613	75,531	10,082	29,915	39,997	19,125
Real Estate Comm.	0	0	0	3,000	3,000	0
Total	$2,252,114	$617,604	$1,634,510	$3,063,982	$4,698,492	$881,015

(a) These are the expenditures for fiscal year 1997 as of March 6, 1997.

To determine why agencies had spent less than they were appropriated for their operations, we contacted a sample of six agencies whose Kansas Quality Management accounts contained nearly 77% of the total available in fiscal year 1997. The agencies and the moneys available to them were as follows:

KQM Account Moneys Available in Fiscal Year 1997 For a Sample of Six Agencies

Agency	"Reappropriation" Available to Spend in Fiscal Year 1997
Department of Transportation	$2,217,805
Department of Corrections	607,664
Department of Human Resources	625,621
Department on Aging	112,458
Consumer Credit Commissioner	7,214
State Fire Marshal	24,623
Total, Six Agencies	**$3,595,385**

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For the six agencies in our sample, most of the moneys in their KQM accounts didn't appear to be the result of any direct efficiencies or cost-cutting measures they initiated. Agencies can have money left-over in their budgets for any number of reasons. Because of inherent uncertainties in the budget process, good-management practices dictate that some cushion be built in so that an agency will have enough money for unexpected contingencies. Agencies also could take specific actions to reduce their overall costs and increase their efficiency, while providing the same or a higher level of services. For example, an agency might consolidate programs in a central location and reduce rent charges.

Externally imposed constraints also could result in reduced agency expenditures, but not because of any action the agency initiated. For example, in an attempt to streamline and downsize State government, the Legislature passed a law in 1993 allowing agencies to replace only three of every four employees who retired. Thus, agencies with a lot of retirements during a year will have lower-than-expected expenditures.

At the same time, savings also could be the result of such things as deferring expenditures from one year to the next, providing a lower level of service than expected, or even inflating budgetary requests, rather than any real cost-reductions or efficiency efforts. For example, an agency could spend less than it expected simply because the number of clients to be served dropped unexpectedly from one year to the next.

We talked with officials in our six sample agencies and reviewed budget documents to find out why they had moneys leftover at the end of the fiscal year. Here's what we found:

- *Department of Transportation*
  Transportation officials told us that the Department didn't deliberately try to save money in fiscal year 1996, but that the savings occurred in the normal course of business. Most resulted from the mandatory downsizing of the Department's staffing levels as retirements occurred, which meant the Department didn't have to spend all the money it budgeted for salaries and wages. The Department also spent less for contractual services, such as travel and fees for professional services.

- *Department of Corrections*
  Corrections officials told us they always have savings at the end of a fiscal year. In fiscal year 1996, in recognition of the fact that half its unspent moneys could be reappropriated, the Department decided not to spend down its appropriations so that in fiscal year 1997 it could purchase technology equipment it wasn't able to buy because of resource limitations. Department officials said they spent less on salaries and wages, primarily because of reduced staffing levels as employees retired or quit. In addition, the Department spent less than it anticipated for contractual payments for the inmate medical and mental health program and the community substance abuse treatment program. The Department also spent less than it budgeted for a contract for food services, because there was a large inventory of food supplies on hand.

- *Department of Human Resources*
  Human Resources officials told us they tried to save money in fiscal year 1996 so they would have reappropriated funds available to use for quality initia-

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tives. Most of the savings occurred because of cutbacks in staffing levels, again because of retirements and the resulting reduction in staff. In addition, the Department spent more than $500,000 less than it had planned for other operating expenses. One reason for these lower expenditures was that the agency had planned to have a contractor conduct "peer reviews" in its workers compensation program, but didn't get the contractor started on these reviews as soon as it had anticipated. As a result, the contractor didn't do as many reviews as the agency had budgeted for.

- *Department on Aging*
  The Department spent only 80% of its budget in fiscal year 1996; in all, it spent about $1 million less than it was appropriated. Most of the savings occurred in contractual services, professional fees, and travel. Department officials told us part of the reason for the large unexpended balance was the agency was starting a new program and had had to estimate how much that program would cost. The Department asked for only about $52,000 of its savings to be reappropriated.

- *Consumer Credit Commissioner's Office*
  Most of the budgetary savings for this Office can be attributed to changes in the way the agency uses its travel funds. Several years ago, the Office identified ways to reduce its travel expenses, such as having its employees use cheaper hotels when traveling, and having the employees arrange their travel so they make one visit to an area of the State, rather than several. As a result, the Office reduced its travel costs from $26,000 in fiscal year 1993 to about $19,500 in fiscal years 1994 and 1995 and to about $20,800 in fiscal year 1996. During those same years, however, the Office's budgeted travel expenditures rose from about $27,500 to about $34,400. Officials told us they kept the Office's travel budget high for two years after they instituted their savings efforts to ensure the savings would continue. Since then, they said, the agency has gotten additional staff and responsibilities that likely will increase their travel expenses.

- *State Fire Marshal*
  Officials told us most their savings came from reduced expenditures for salaries and wages. In part, these expenditures were lower than expected because of a health insurance rate adjustment. They also were lower because of staff retirements. The agency also saved money because two projects it had budgeted for—a fire safety handbook and a fire incident reporting handbook—were not completed during the fiscal year.

As the above examples show, agencies can save money in a lot of ways. These examples also show, however, that savings frequently result from unexpected events that may be outside agencies' control, rather than from specific actions agencies take to increase their efficiency.

To-Date, Agencies Have Spent Most of the Moneys in Their KQM Accounts on Capital Outlay Purchases

As the table on page four showed, 11 agencies spent $617,000 of the $2.2 million in reappropriated moneys available to spend during fiscal year 1996. To-date in

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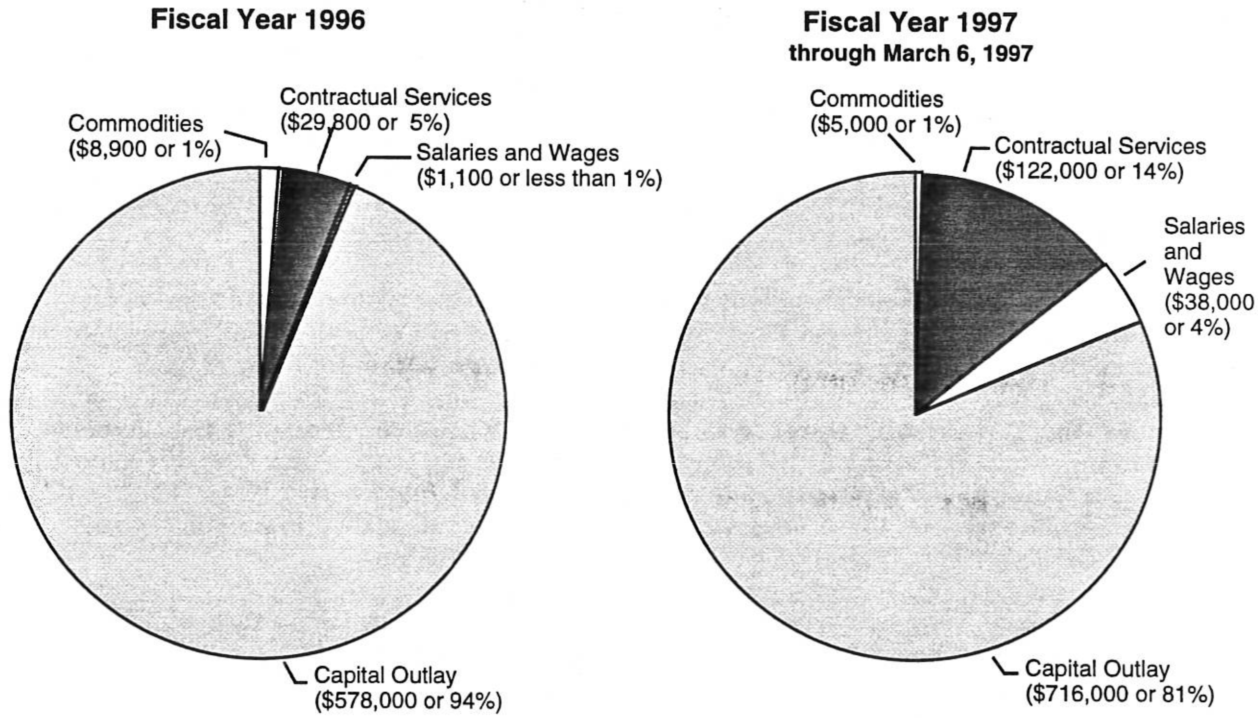
fiscal year 1997, a total of 17 agencies have spent nearly $900,000 of the $4.7 million available to spend.

Overall, State agencies have spent about 86% of their "reappropriated" moneys on capital outlay for computers over the past two fiscal years. As the accompanying pie charts show, during fiscal year 1996—the first year agencies could retain some of their budgetary "savings"—nearly all the reappropriated moneys spent (nearly $580,000, or 94% of the total) went to buy capital outlay items. Only about $1,000 was spent for salary bonuses.

Spending for the Kansas Quality Program



Agencies spent more than $617,000 during the first year they could retain some of their savings. Most of the savings was spent on capital outlay expenditures. Only a small proportion was spent for salary bonuses.

During this fiscal year, which is the second year agencies could retain some of their savings, agencies have spent about $880,000 as of March 6, 1997. Most of the savings continued to be spent on capital outlay. However, the agencies have spent more funds on other items, including salary bonuses.

Most of the money spent through the first week of March 1997 (about $700,000, or 81% of the total) also has been spent for capital outlay. For example, officials of the Department of Corrections have purchased equipment to automate the parole offices and to connect them to the Department's central computer. Department of Transportation officials said they had purchased personal computers and software for some employees. The Department of Human Resources spent money on computers, printers, and memory upgrades, and used part of its funds for employee training.

As of March 6, a total of $38,000 in bonuses had been paid to employees in five agencies: Department on Aging, Department of Agriculture, Department of Ad-

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ministration, State Fire Marshal, and the Consumer Credit Commissioner. Appendix A provides more detail about these expenditures.

Agencies Made Most Expenditures Appropriately, but We Identified Problems With the Salary Bonus Payments

The appropriations acts provisos say that agencies can spend their savings on salary bonus payments for quality improvement activities, technology equipment included in the agencies' budget estimates submitted to the Division of the Budget, and professional development training in support of the Kansas quality program.

Agencies purchased technology equipment in an appropriate manner. The Departments of Transportation, Corrections, and Human Resources spent the most money for technology equipment. Through the first week in March 1997, these agencies had spent more than $604,000 in this area. We contacted the budget analysts at the Division of Budget who were assigned to these agencies. They told us these agencies had included requests in their budget documents for the types of technology equipment they purchased with the moneys in their KQM accounts.

Professional development training expenditures also appeared to be done in accordance with the provisos. The Departments of Corrections and Human Resources also had large expenditures in the area of contractual services. These agencies spent nearly $35,000 for such services. Corrections officials said their expenditures were primarily for travel costs for employees who attended quality management training. The Department of Human Resources has used its money to pay for employee training in various types of software and in computer networking. These expenditures appeared to be consistent with that agency's quality improvement plan, and, therefore, were in support of the Kansas quality program.

Salary bonuses were paid in accordance with statutory requirements in only one of the three agencies we reviewed. Five agencies paid a total of $38,312 in quality management bonuses to their employees in fiscal year 1997. Three of those agencies—the Department on Aging, State Fire Marshal's Office, and Consumer Credit Commissioner's Office—paid 94% of those salary bonuses. Because of time constraints, we focused our review on how these three agencies computed their savings. (Agencies also provide non-cash awards. Information on those awards is shown in the accompanying profile.)

The proviso language places a number of requirements on agencies who pay salary bonuses with moneys from their KQM accounts. Such bonus payments are limited to $1,000 per employee per year, and are to be paid according to subsection (c) of the Kansas Quality Program statute. In essence, that subsection allows salary bonuses to be paid only if there are documented cost savings or improvements in service that resulted from an approved quality improvement project.

We contacted officials at each agency to find out the basis for paying salary bonuses. We also contacted officials at the Department of Administration who are responsible for reviewing agencies' quality improvement plans. Our reviews showed that only one of the three agencies —the Consumer Credit Commissioner's office— met the requirements spelled out in the proviso language.

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- **The Consumer Credit Commissioner's Office based its salary bonuses on actual cost savings the agency experienced as a result of an approved quality improvement project.** The Office paid $1,000 bonuses to six employees for their work in producing the agency's Uniform Consumer Credit Code in-house. This publication contains the statutes and regulations regarding consumer credit and other information the agency provides to people in the consumer credit industry. The agency must update the book every time there's a legislative or other change, and according to agency officials, changes occur frequently. This means the book is usually out-of-date within a few months, or even weeks, after every printing.

  Before taking this project on as a quality improvement project, printing costs ran more than $5,000 for each printing. Currently, the agency produces the books in-house for less than $1,000 per printing. It prints only a few copies at a time, and all changes are made on the agency's computers. This allows the agency to keep the books up-to-date at a minimal cost. We reviewed how the agency came up with these cost savings, and the method appeared to be reasonable to us.

  Department of Administration officials told us this Kansas Quality Management project had gone through the normal approval process, and it was acceptable for the agency to pay bonuses to the employees who worked on this project.

Agencies Have Statutory Authority to Pay Cash and Noncash Awards To Employees Who Work on Kansas Quality Management Projects

K.S.A. 75-37,115 gives agencies the authority to pay cash or noncash awards to employees for any idea they propose that is implemented and results in actual reductions in operating costs for an agency, or helps the agency provide a higher level of services or improved services with no increase in operating costs. The awards, which are limited to $1,000 per employee per fiscal year, may be given to permanent full-time or regular part-time employees.

According to the Department of Administration, several agencies have paid awards to employees as a result of approved quality management projects. The Consumer Credit Commission paid cash awards of $1,000 each to six employees. In addition, four agencies have given noncash awards to some employees as follows:

- The Kansas Highway Patrol gave a coffee mug to one employee and a car tag to another for their participation in the quality program.
- The Department of Human Resources gave eight employees their choice of awards such as coffee mugs and portfolio covers.
- The Department of Revenue gave awards to 125 employees. The awards included certificates of recognition, insulated containers for beverages, and a luncheon paid for by the Department.
- The Department of Social and Rehabilitation Services gave awards to 38 employees. Most of the employees received a certificate of recognition. In addition, a few were treated to a Department luncheon.

- **The Department on Aging based its bonuses on extra work done by employees that wasn't tied to an approved quality improvement project, and paid four of those employees more than the law allowed** The Department on Aging paid salary bonuses to 14 employees for extra work they did in transferring some programs from the Department of Social and Rehabilitation Services to the Department on Aging. The bonuses weren't based on any documented cost savings or improvements in the level of service. Officials at the Department of Adminis-

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Attachment 1-12

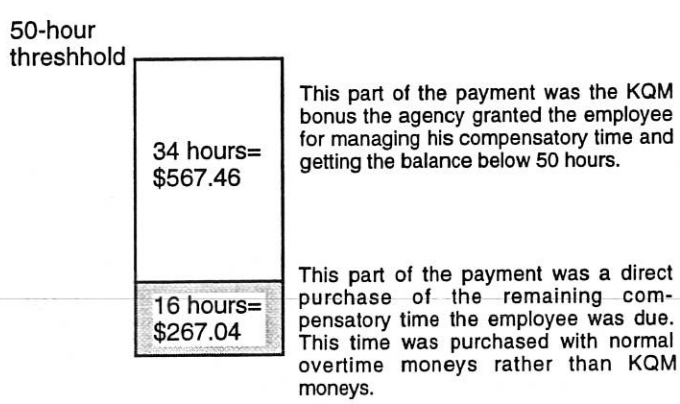
tration told us Kansas Quality Management salary bonuses should never be given to employees for doing extra work. Rather, an employee should get a bonus only if he or she works on an approved quality improvement project. The project should improve agency services or cut agency costs.

The Department also paid four employees salary bonuses of $2,000 each from its KQM account. The proviso language limits salary bonuses to $1,000 per employee per year. Division of Accounts and Reports officials told us there are no controls in SHaRP (the State's payroll system) to ensure that the $1,000 limit isn't exceeded. The control on such bonus payments lies with the agency head.

- **The Fire Marshal's Office paid KQM bonuses to employees for reducing their compensatory time balances.** The Fire Marshal had a number of employees with excessive compensatory time balances. Agency officials told us if these employees had quit, the agency would have had to pay for this time. They also said the large balances had an impact on the agency's productivity, because employees ultimately would be taking this time off. To avoid these problems, the Fire Marshal asked employees to voluntarily reduce their compensatory time balances to a prescribed level (50 or 25 hours, depending on the employee's job classification). To reward employees who reduced their compensatory time to 50 hours or less, the Fire Marshal later offered to buy back any remaining compensatory time, and also to give a KQM bonus for any compensatory time the employee had taken off below 50 hours. The accompanying graphic shows how the program worked.

How the State Fire Marshal Paid KQM Bonuses to Its Employees

One employee had only 16 hours of compensatory time on the books as of the date the Fire Marshal made the bonus payments. Given his job, he was asked to reduce his balance to 50 hours. According to agency officials, this employee managed his compensatory time by using it throughout the year, rather than building up a large balance. The employee received a payment of $834.50. As shown in the graphic below, part of this money was a quality bonus. The rest of the money resulted from the agency "buying back" some compensatory time hours.



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Attachment 1-13

Department of Administration officials told us this wasn't an approved Kansas Quality Management project, so the agency probably shouldn't have paid these bonuses. (Agency officials told us they had called staff in the Divisions of Budget, Accounts and Reports, and Personnel Services, and were told these salary bonus payments were appropriate. Department of Administration officials agree they spoke to Fire Marshal personnel and answered general questions about the agency's authority to pay overtime, longevity, and bonuses. However, Department officials told us they never specifically approved the payment of these bonuses.) The savings identified didn't result from any efforts to improve the agency's efficiency. In addition to those bonus payments, a total of 13 employees also received $300 bonuses based on their job performance. As noted in the case of the Department on Aging, job performance isn't supposed to be a basis for paying quality bonuses.

It should be noted that even though these salary bonus payments don't appear to be an appropriate use of the moneys in an agency's KQM account, under the Governor's proposed Kansas Savings Incentive Program, bonus payments aren't tied to quality management initiatives. Under that Program, such bonus payments likely would be appropriate.

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Does It Appear Reasonable To Expand the Program To Additional State Agencies?

The Governor has proposed allowing all State agencies to keep half the moneys they are appropriated but don't spend in any year for their operations. That money could be used the next year to buy technology and professional development services, and to pay bonuses (limited to $1,000 per employee per year) to employees. Unlike the current program, the Kansas Savings Incentive Program wouldn't be tied to any Kansas Quality Management efforts. On the plus side, this program could provide an incentive for State agencies to save money, and would give them greater flexibility to manage their internal operations and reward their employees. On the other hand, it also could result in agencies generating "savings" only on paper or at the expense of other needs, would result in agencies having unequal opportunities for paying their employees salary bonuses, or buying additional training or computers, and provides less accountability for how agencies spend their money. These different perspectives are described briefly below.

Positive Aspects to the Savings Incentives Program

- **The Governor's proposal could provide an incentive for State agencies to save money at the end of the fiscal year, rather than spend down all their appropriations.** Without this Program, agencies have a stronger incentive to spend all their General Fund appropriations before the end of the fiscal year, because generally any moneys that aren't spent revert back to the State Treasury.

  In addition, the program would give agencies the opportunity to save money over several years to buy bigger-ticket items—such as computers or videoconferencing equipment. For instance, Department of Corrections officials told us it often was difficult to get the authority to purchase such bigger-ticket items in a particular fiscal year. However, by using these "savings," the Department could accumulate enough money over several years to get the equipment it needed. Officials in our six sample agencies also noted the program encouraged agencies to operate more efficiently.

- **The Governor's proposal would give agencies greater flexibility to manage their own internal operations.** The Director of the Budget told us the Governor's Program would allow agencies to take a longer-term view of their needs, and to spend moneys as they saw fit on historically underfunded areas—employee bonuses, training, and capital outlay. The Director also noted that budgets are prepared 18 months before they actually are used, and that this type of contingency fund would let agencies address unanticipated needs or take advantage of unexpected opportunities during that timeframe, without reducing their current-year budgets.

Risks Related to the Savings Incentives Program

- **To generate budgetary "savings," State agencies could take actions that don't seem to be in the best interest of the State or the people being**

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served. Agency heads and financial managers generally can be relied on to make reasonable and appropriate budgetary decisions. In tight economic times, however, agencies may come under a lot of internal pressure to find ways to reward employees, provide needed training, or purchase new computer systems. Under this program, there's a risk that seemingly inappropriate decisions could be made to help generate "savings" in a particular year. These could include the following:

—agencies could decrease the level of services they provide to generate budgetary savings

—agencies could pad their budgets, leading to savings that aren't real

—agencies could defer spending in one year, retain these "savings," and then ask for the full amount of money the next year

The Governor, through his Division of the Budget, would be in a position to make adjustments to agencies' budgets if the agencies have generated "savings" in an inappropriate manner, however.

- **Under the Governor's proposed program, State agencies won't have equal opportunities to pay salary bonuses to their employees, or buy additional training or equipment.** For a number of very legitimate reasons, some agency heads may prepare budgets that are relatively frugal, while others may build more cushion into their budgets. Still other agencies may experience external forces that cause a lower—or higher—level of expenditures than anticipated. The forced reductions in staffing levels because agencies are allowed to replace only three of every four retiring employees is one example. In each case, the amount of money that can be carried forward will be different, and not necessarily because one agency was more efficient or effective than another. As a result, agencies won't have the same opportunities to pay their employees salary bonuses, or to pay for additional training or new computers. This limitation exists under the current program as well.

- **Under the Governor's proposed program, there will be less accountability for certain agency expenditures.** The program allows agencies to make purchases outside the normal budgetary process. Those purchases won't show up in the agency's formal budget request, because they'll be made with moneys that are in addition to what the agency is requesting to spend for a particular fiscal year. As a result, there will be no upfront scrutiny of such purchases by the Governor and the Legislature, although the Division of the Budget could exercise some control in this area. In addition, agencies could spend money for items the Governor or the Legislature don't approve of.

Conclusion

The Governor's proposed Kansas Savings Incentive Program would give more State agencies greater control over their budget and spending decisions, and greater latitude to reward their employees, all

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in a fairly non-bureaucratic fashion. If the Legislature shares that goal, and thinks the benefits of the program outweigh any potential risks, expanding the proposed program would seem to be a reasonable step in that direction.

In making that decision, however, legislators need to be fully aware that the moneys agencies would be "saving" under the Governor's proposed Kansas Savings Incentive Program won't necessarily be tied to anything agencies have done to streamline or downsize their operations, or to make them more efficient. These moneys simply would be the difference between what an agency spent on its operations in one year, and the amount it was appropriated to spend. As the examples from question one showed, agencies oftentimes have moneys left over at the end of a fiscal year because of circumstances they have little control over (i.e., not as many clients needed services, or a new program or contractual service simply cost less than agency officials had estimated).

Agency officials also could make some decisions under this program that legislators or the public might think are questionable, but that possibility exists under the current program as well. The Legislature could consider placing certain restrictions on the program—either in specifying what types of "savings" can be carried forward, or what types of expenditures can be made within the three broad categories proposed—but such restrictions would negate the flexibility currently built into the program.

Recommendation

To ensure agencies aren't making salary bonus payments for more than allowed in appropriation acts or for more than allowed in the Governor's proposal, if it passes, the Department of Administration should develop a method to ensure that agencies adhere to statutory requirements. Possible methods could include establishing controls in the State's payroll processing system (SHaRP), or annually notifying agencies of the specific statutory requirements and limitations.

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Attachment 1-18

Appendix A

Agencies' Kansas Quality Management Account Expenditures As of March 6, 1997

This Appendix shows how much agencies have spent through March 6, 1997, from their Kansas Quality Management Accounts, and what categories those expenditures have been in.

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Attachment 1-18

Agencies' Fiscal Year 1997 Kansas Quality Management Account Expenditures, as of March 6, 1997

	Salaries and Wages			Contractual Services		
Agency	SGF	Other	Total	SGF	Other	Total
Bank Commissioner	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Board of Mortuary Arts	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Board of Nursing	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Board of Optometry Examiners	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Board of Technical Professions	$0.00	$0.00	$0.00	$0.00	$2,511.05	$2,511.05
Board of Veterinary Examiners	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Conservation Commission	$0.00	$0.00	$0.00	$1,586.60	$0.00	$1,586.60
Consumer Credit Commission	$0.00	$6,523.60	$6,523.60	$0.00	$0.00	$0.00
Corporation Commission	$0.00	$0.00	$0.00	$0.00	$4,560.00	$4,560.00
Correctional Industries	$0.00	$0.00	$0.00	$0.00	$637.10	$637.10
Dental Board	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Department of Agriculture	$1,280.24	$0.00	$1,280.24	$14,706.51	$0.00	$14,706.51
Department on Aging	$19,756.80	$0.00	$19,756.80	$39.00	$0.00	$39.00
Dept. of Administration	$1,092.12	$0.00	$1,092.12	$3,140.22	$0.00	$3,140.22
Dept. of Commerce/Housing	$0.00	$0.00	$0.00	$3,989.72	$42,850.28	$46,840.00
Dept. of Corrections	$0.00	$0.00	$0.00	$15,382.14	$0.00	$15,382.14
Dept. of Credit Unions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dept. of Health/Environment	$0.00	$0.00	$0.00	$3,966.63	$0.00	$3,966.63
Dept. of Human Resources	$0.00	$0.00	$0.00	$295.64	$19,245.63	$19,541.27
Dept. of Revenue	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dept. of Social/Rehab Services	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dept. of Transportation	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Fire Marshal	$0.00	$9,659.66	$9,659.66	$0.00	$9,048.15	$9,048.15
Highway Patrol	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Kansas Lottery	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Real Estate Commission	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Totals	$22,129.16	$16,183.26	$38,312.42	$43,106.46	$78,852.21	$121,958.67

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Commodities			Capital Outlay			**Total for**
SGF	Other	Total	SGF	Other	Total	**All Funds**
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	**$0.00**
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	**$0.00**
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	**$0.00**
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	**$0.00**
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	**$2,511.05**
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	**$0.00**
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	**$1,586.60**
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	**$6,523.60**
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	**$4,560.00**
$0.00	$66.13	$66.13	$0.00	$12,421.70	$12,421.70	**$13,124.93**
$0.00	$0.00	$0.00	$0.00	$4,309.27	$4,309.27	**$4,309.27**
$0.00	$0.00	$0.00	$13,538.97	$0.00	$13,538.97	**$29,525.72**
$135.00	$0.00	$135.00	$22,344.21	$0.00	$22,344.21	**$42,275.01**
$715.58	$0.00	$715.58	$0.00	$0.00	$0.00	**$4,947.92**
$0.00	$0.00	$0.00	$0.00	$16,916.93	$16,916.93	**$63,756.93**
$335.00	$0.00	$335.00	$286,984.74	$0.00	$286,984.74	**$302,701.88**
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	**$0.00**
$188.00	$0.00	$188.00	$19,362.18	$0.00	$19,362.18	**$23,516.81**
$2,920.92	$58.47	$2,979.39	$0.00	$99,284.12	$99,284.12	**$121,804.78**
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	**$0.00**
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	**$0.00**
$0.00	$0.00	$0.00	$0.00	$218,103.73	$218,103.73	**$218,103.73**
$0.00	$0.00	$0.00	$0.00	$3,320.42	$3,320.42	**$22,028.23**
$611.53	$0.00	$611.53	$0.00	$0.00	$0.00	**$611.53**
$0.00	$0.00	$0.00	$0.00	$19,125.12	$19,125.12	**$19,125.12**
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	**$0.00**
$4,906.03	$124.60	$5,030.63	$342,230.10	$373,481.29	$715,711.39	**$881,013.11**

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Attachment 1-20

Appendix B

Agency Responses

On March 26, 1997, we sent a copy of the draft audit report to the Departments of Administration, Corrections, Transportation, and Human Resources, the Department on Aging, the State Fire Marshal, and the Office of the Consumer Credit Commissioner for their review and comment. Those agencies' responses are included in this appendix.

After carefully reviewing the responses, we made some minor changes to the draft audit for clarification.

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Attachment 1-20

STATE OF KANSAS

DEPARTMENT OF ADMINISTRATION
State Capitol
Room 263-E
Topeka, Kansas 66612-1572
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FAX (913) 296-2702

DAN STANLEY, *Secretary*
JEFF WAGAMAN, *Deputy Secretary*

BILL GRAVES, *Governor*

April 2, 1997

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APR 2 1997
LEGISLATIVE POST AUDIT

Barbara J. Hinton
Legislative Division of Post Audit
Mercantile Bank Tower
800 SW Jackson Street, Suite 1200
Topeka, Kansas 66612-2212

Dear Ms. Hinton:

Thank you for providing me a draft copy of the March 26, 1997 audit *Reviewing State Agencies' Use of Cost Savings From the Kansas Quality Program*. I appreciate the opportunity to respond to the audit and its recommendation. We have completed our review of the report and would like to clarify items that relate to the Department of Administration and respond to the audit finding.

Clarifications

1. Page 2, paragraph 3: The Secretary of Administration administers the Kansas Quality Management (KQM) program. The KQM Administrative and Training Office in the Division of Personnel Services oversees day to day administrative and training functions.

2. Page 9, paragraph 3: Agency KQM Boards establish Quality Action Teams for agency quality improvement initiatives. State KQM materials and training include information that can help KQM Boards determine what topics are appropriate for quality projects. The agency is also responsible for any bonus payments paid to agency employees. The KQM Administrative and Training Office is not responsible for approving agency quality projects or bonus payments.

We appreciate the changes made on pages 10 and 12 of the report based on our discussion concerning agency budgets and bonus payments made by the fire marshal's office.

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Attachment 1-22

Audit Conclusion

We agree with the audit conclusion that the Governor's proposed Kansas Savings Incentive Program would give more agencies greater flexibility to reward their employees. The Governor proposes to expand the program to all agencies, not just those participating in Kansas Quality Management. This would allow agencies to give a bonus to any employee, not just those participating on an approved quality project. It would also maximize the agency's flexibility in taking advantage of the program and can motivate employees to higher levels of performance and productivity by linking performance to financial incentives.

Response to Audit Finding

The audit recommends that the Department of Administration should develop a method to ensure that agencies adhere to bonus payment statutory requirements. One audit suggestion was to establish a control in SHARP to monitor bonus payments. We considered modifications to SHARP that would ensure agencies limit bonus payments to $1,000. However, this is not prudent for several reasons.

- This edit could not be made in isolation; it would require several different kinds of programming modifications to truly prevent overpayment.

- The cost of a modification to the current system would also be incurred in any future upgrade.

- It does not seem prudent to expend considerable time and money for a process that only affects a relatively small number of people.

A second audit suggestion was that the department annually notify agencies of specific statutory requirements and limitations. The department will adopt this recommendation, and if the Kansas Incentive Program becomes law, we will determine the most efficient and effective manner of annual notification to agencies.

Thank you again for the opportunity to comment on this report.

Sincerely,

Dan Stanley

Dan Stanley
Secretary of Administration

DS:kw

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3/25/98
Attachment 1-22

STATE OF KANSAS

DEPARTMENT OF CORRECTIONS
OFFICE OF THE SECRETARY
Landon State Office Building
900 S.W. Jackson — Suite 400-N
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Bill Graves
Governor

Charles E. Simmons
Secretary

April 1, 1997

Ms. Barbara Hinton
Legislative Post Auditor
Legislative Division of Post Audit
800 S.W. Jackson, Suite 1200
Topeka, Kansas 66612-2212

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APR 2 1997
LEGISLATIVE POST AUDIT

Dear Ms. Hinton:

Thank you for the opportunity to review the draft report on the performance audit, *Reviewing State Agencies' Determination of Cost Savings From the Kansas Quality Program.* I am writing to provide some clarification about some of the discussion regarding the Department of Corrections (DOC).

On page 5 of the audit report, the statement is made that "the Department tried to save extra money to get a larger reappropriation so it could purchase technology equipment it wasn't able to buy out of a normal year's appropriation." Decisions were not made to generate extraordinary savings in FY 1996 in order to increase the amount of funds reappropriated. However, decisions were made to not spend down all of the appropriations, in recognition of the fact that 50 percent of the amount saved would be available for expenditure in FY 1997. We have plans under consideration to acquire and install a video conferencing system for use by the Kansas Parole Board and DOC, and we were aware that 50 percent of any savings reappropriated to FY 1997 would be available to assist in the acquisition of the system. We believe our decisions were in accordance with the incentive basis of the program that encourages agencies to save money at the end of the fiscal year.

In addition, I believe that the wording "purchase technology equipment it wasn't able to buy out of a normal year's appropriation" could lead to the interpretation that the DOC has or would use these funds to purchase technology equipment not approved by the Governor and/or the Legislature. The inability to purchase out of a normal year's appropriation should be interpreted to refer to the fact that during the budget process, some requests to purchase

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Attachment 1-24

technology equipment are denied because of resource limitations and not because of the merits of the request. This explanation applies to both of the projects for which the DOC has utilized or would like to utilize prior year budget savings, i.e. automation of parole offices and video conferencing. Prior to the expenditure or the budgeting of funds, the DOC asked for and received approval from the Division of the Budget that use of prior year budget savings for these projects was appropriate. The DOC would not purchase technology equipment that had previously been rejected by the Governor or the Legislature based upon the merits of the request.

On page 7, the audit report states that "the Department of Corrections has purchased video conferencing equipment to connect all the correctional facilities." The equipment that has been purchased to-date has been for the automation of the parole offices and to connect the parole offices to the host computer located in the DOC central office. The moneys still reserved for acquisition of the video conferencing system have not yet been expended.

Thank you, again, for the opportunity to comment.

Sincerely,

Charles E. Simmons
Secretary of Corrections

CES:DW:lw

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3/25/98
Attachment 1-25

STATE OF KANSAS

KANSAS DEPARTMENT OF TRANSPORTATION
Docking State Office Building
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E. Dean Carlson
Secretary of Transportation

Bill Graves
Governor of Kansas

April 3, 1997

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APR 3 1997
LEGISLATIVE POST AUDIT

Barbara J. Hinton, Legislative Post Audit
Legislative Division of Post Audit
800 SW Jackson, Suite 1200
Topeka, Kansas 66612-2212

Dear Ms. Hinton:

Thank you for the opportunity to comment on the performance audit, Reviewing State Agencies' Determination of Cost Savings From The Kansas Quality Program. The Legislative Division of Post Audit has again done a fine job of reviewing a very complex program.

We are pleased the audit finds that the Kansas Department of Transportation purchased technology equipment in an appropriate manner under the Kansas Quality Program. We also would concur that not all qualifying savings can be directly attributed to specific Quality Program initiatives.

The Department believes that both, the current Kansas Quality Program and the proposed Savings Incentive Program, generally encourage efforts to achieve budget savings and that the concern expressed in the report suggesting that agencies might reduce productivity to generate "savings" need not be a concern if appropriate performance measures are in place to hold agencies accountable.

This Department makes every effort to address and meet its commitments to the people of Kansas. The Kansas Quality Program and the proposed Savings Incentive Program simply encourage us to do it in the most efficient manner possible.

Thank you, again, for the opportunity to comment.

Sincerely,

E. Dean Carlson

E. Dean Carlson
Secretary of Transportation

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3/25/98
attachment 1-28

STATE OF KANSAS

DEPARTMENT OF HUMAN RESOURCES

Bill Graves, Governor

Wayne L. Franklin, Secretary

OFFICE OF THE SECRETARY

401 S.W. Topeka Boulevard, Topeka, Kansas 66603-3182

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FAX..............(913) 368-6294

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APR 11 1997
LEGISLATIVE POST AUDIT

April 9, 1997

Ellyn Sipp
Legislative Post Audit
800 S.W. Jackson Suite 1200
Topeka KS 66612-2212

Dear Ms. Sipp:

Thank you for sending me a copy of the draft report of the Legislative Post Audit concerning KQM funds. After a multi-level review by my staff, I am pleased to report we believe it to be a true and accurate accounting of program as operated in the Kansas Department of Human Resources.

I have no corrections to suggest or ideas for incorporation. I again thank you for allowing us to see the draft report and for the professional manner in which the audit was conducted. It is always a pleasure to work with the Division of Post Audit.

Sincerely,

Wayne L. Franklin

Wayne L. Franklin
Secretary, Human Resources

cc: Barb Hinton

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3/25/98
Attachment 1-27

KANSAS
DEPARTMENT ON AGING

Docking State Office Building
915 S.W. Harrison, 150-S
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Bill Graves
Governor

Thelma Hunter Gordon
Secretary of Aging

April 1, 1997

Barbara J. Hinton
Legislative Post Auditor
Legislative Division of Post Audit
Mercantile Bank Tower
800 SW Jackson, Suite 1200
Topeka, KS 66612-2212

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APR 2 1997
LEGISLATIVE POST AUDIT

Dear Ms. Hinton:

I and several members of my staff have reviewed the draft performance audit entitled *Reviewing State Agencies' Use of Cost Savings From the Kansas Quality Program* that you sent me under letter dated March 26, 1997.

The Kansas Department on Aging appreciates the hard work which your auditor put into her review. We found the report to be very informative and educational. We will use your report and the lessons it teaches as a guide when this Department works with the Department of Administration on future Kansas Quality Program projects.

Thank you for this opportunity to comment.

Sincerely,

Thelma Hunter Gordon

Thelma Hunter Gordon

THD:djg
(H:dg0223.wpd)

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3/25/98
Attachment 1-28

Kansas State Fire Marshal
Suite 600; 700 S.W. Jackson
Topeka, KS 66603-3714

State Fire Marshal Gale Haag

Telephone: 913-296-3401
FAX: (913)-296-0151

Governor Bill Graves

"Where Fire Safety is a way of life"

March 31, 1997

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APR 9 1997
LEGISLATIVE POST AUDIT

Barbara J. Hinton
Legislative Post Audit
800 SW Jackson, Suite 1200
Topeka, KS 66612-2212

Dear Ms. Hinton:

I have reviewed the report from your agency, *Reviewing State Agencies' Determination of Cost Savings From the Kansas Quality Program* and I offer the following comments. It is a step in the right direction to allow agencies more flexibility in the budget process, to encourage agency thrift regardless of the reason and reward that thrift as KQM is doing. Agencies use to go on spending sprees at the end of a fiscal year so they wouldn't be punished by having the next years budget reduced, I would hate to see government take a step back, we are heading in the right direction. Reward savings and good management, discourage waste and spending for the sake of spending.

The purpose of the State Fire Marshal's program was to reduce compensatory time on the books in an effort to improve efficiency. For every hour of time compensated at time and one half the agency losses the productivity of that employee for the additional half time. As a small agency with only 40 employees statutorily mandated to be "in all places people live, work and congregate, with the exception of one and two family dwellings" as well as "investigate all fires with suspicious causes" we are unable now to do everything the law intends us to do. When the average investigator has in excess of 100-150 hours of compensatory time on the books, it has the potential to cripple the agency. If an investigator can't do the job in 171 hours in 28 days how will they do it in less time, the reality, comp time reduces productivity.

If any one of these employees retires, quits, gets permanently injured or leaves the agency under any circumstances, the agency must pay all sums owed, this would of course include any compensatory time on the books. In an effort to get this compensatory time problem under control the Fire Marshal requested and received some overtime funding. In addition, the Fire Marshal had staff begin checking on whether some of the agency KQM money could be used as rewards to employees who had complied with his request to voluntarily reduce compensatory time balances.

Staff contacted the Division of Personnel Services to see if this money could be used for such a bonus, they said it was an appropriate expense but could not exceed $1,000 per employee. The only stipulation was that an agency had to be able to justify savings to the State. We also contacted the Department of Administration's Legal Section to assure us that this would not interfere with meet and confer negotiations that were going to begin in the near future. Again we were told there would be no problem since the State Fire Marshal had initiated his efforts to reduce the compensatory time on the books in November of 1995. Rewarding employees who'd voluntarily reduced their comp time was a sound management decision, the SFM also rewarded 5 exempt employees who had been averaging 50-60 hours/ week in an effort to keep the

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agency projects on schedule and 8 support staff who had taken on more duties as a result of changes in the agency structure. Our agency also contacted the Division of the Budget, Accounts and Reports, and Kansas Public Employees Retirement System to see how to handle these bonuses. Not once did anyone from any of these departments tell us that our plan was not in compliance with the KQM guidelines.

I know Tracy Elmore worked hard to understand our program and although I thought she did, the report is misleading. To clarify the way the program worked, the intent was not to reward employees for taking time off, the intent was to reward employees for voluntarily reducing their compensatory time balances which decreases the number of hours they are then available to respond to the needs of the people of Kansas. Fire Investigators were asked to voluntarily reduce their time to 50 hours, anyone who agreed would then be paid for the remaining 50 hours at the current rate of pay out of our overtime funding, investigators who had already complied with the Fire Marshal's request and had zero balance were rewarded for having done so by receiving a bonus equal to 50 hours. Anyone who had under the 50 hours could voluntarily allow the agency to purchase those hours and they would then receive a bonus equal to 50, so if an employee had 22 hours on the books the bonus would be 28 hours. The same was true with our Fire Prevention Inspectors, the limit was 25 hours since by the nature of the job they are not allowed to accumulate as many hours.

The example used in the report seemed to be inaccurately analyzed. This employee had never allowed his compensatory time to get out of hand, he had always managed his time and had taken compensatory time off during slow periods rather than stock piling it. He agreed to allow the agency to purchase the 16 hours of compensatory time he had remaining on the books and was rewarded with a KQM bonus equivalent to 34 hours the result was 50 hours of pay. No employees were allowed to reduce their compensatory time to below the 50 or 25 hour mark, the agency could not allow an employee to take all of their time off then receive a bonus.

The savings identified and the productivity increase were the direct result of our agency efforts to improve efficiency and increase productivity. Having huge amounts of compensatory time on the books can be crippling. An example, two years ago we temporarily lost two fire investigators to heart attacks, both men suffered these incidents around the same time. If memory serves, both men were gone from work for around six months, both used compensatory time and only barely had to use any sick or vacation time. The very nature of their job seldom requires these employees to use any sick or vacation time. Most maintain the maximum vacation allowance on the books, and the majority have hundreds of hours in sick time accumulated. These coupled with months of compensatory time could leave our agency without any fire investigators. The SFM is of the opinion that reducing the compensatory time balances on the books with a move toward paying overtime is in fact a measure to provide Kansans with a more efficient system.

I think Governor Graves suggestion that agency efforts bee rewarded regardless of a link to efficiency, is a sign of maturity in our state. Trust state employees to do the best job possible, audit performance, reward achievements, eliminate problems, and overall hold all state employees accountable. As an individual who selected public service I'm dedicated to do what is in the best interest of the people of this state, as a taxpayer I am often enraged by the level of customer service I receive from some individuals but I am equally impressed by others. I appreciate the opportunity to respond on behalf of my agency.

Respectfully,

Elena C. Nuss

Elena C. Nuss
Assistant State Fire Marshal

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KANSAS

OFFICE OF CONSUMER CREDIT COMMISSIONER

Bill Graves
Governor

Wm. F. Caton
Commissioner

April 2, 1997

RECEIVED
APR 3 1997
LEGISLATIVE POST AUDIT

Ms. Barbara J. Hinton, Legislative Post Auditor
Legislative Division of Post Audit
Mercantile Bank Tower
800 SW Jackson, Suite 1200
Topeka, Kansas 66612

Dear Ms. Hinton:

Thank you for the opportunity to respond to your performance audit regarding our agency's use of the Kansas Quality Program. It gives this agency great satisfaction to know that your review found that this agency appropriately utilized this program. I would like for you to know that it took extra effort for this small agency to comply with all the statutes and regulations. Our contacts with the various agencies and departments did not give us consistent information which made it difficult to determine if our use of the KQM savings was appropriate. I almost feel like we were "lucky" to have complied completely with all the rules and regulations. I would recommend that there be a single source that knew all the requirements of the budget process, the payroll process and all other aspects of compliance with the Kansas Quality Program. Our biggest frustration was that nobody would definitely tell us that we were in compliance with all aspects of this program. The creation of a review panel prior to implementation might be a solution to this problem and would be most helpful to small agencies.

I wish to commend Tracey Elmore for her positive attitude and spirit of cooperation she displayed during this performance audit. If you have any further questions, please do not hesitate to contact me.

Sincerely,

Wm F Caton

Wm. F. Caton
Commissioner

WFC:dr

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KANSAS LEGISLATIVE RESEARCH DEPARTMENT
Rm. 545N–Statehouse, 300 SW 10th Ave.
Topeka, Kansas 66612-1504
(785) 296-3181 ◆ FAX (785) 296-3824
KSLegRes@lr01.wpo.state.ks.us
http://www.kumc.edu/kansas/ksleg/KLRD/klrd.html

Kansas Quality Management Program/Savings Incentive Program

Currently, this program allows agencies participating in the Kansas Quality Management Program to keep one-half of the amount saved from the approved budgets and authorizes them to spend it in the following fiscal year in three budget areas: (1) salary bonuses of up to $1,000 for regular, permanent employees; (2) professional development training; and (3) purchase of technology equipment. The Governor proposes five changes to this program in FY 1999:

- Eligibility would be expanded to include all state agencies, not just those participating in the Kansas Quality Management Program.
- The program would include agencies with "no-limit" accounts.
- The title of the program would be changed to the "Savings Incentive Program" to reflect the expansion.
- The appropriation bills will clarify authorization to expend funds for official hospitality in connection with professional development training.
- The law would be clarified to ensure that the maximum salary bonus is a net amount after tax withholdings.

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Appropriations for KQM Expenditures FY 1998

Agency No.	Agency Name	Fund	Bud. Unit	General Fund	Other Funds (1)	Total
039	Dept. on Aging	1000	0309	119,923.99		119,923.99
046	Dept of Agriculture	1000	0058	29,835.99		29,835.99
094	Bank Commissioner	2811	4009		89,115.21	89,115.21
143	Corporation Commission	2019	1009		425.00	425.00
143		2130	2099		83,410.00	83,410.00
	Subtotals				83,835.00	83,835.00
159	Dept. of Credit Unions	2026	0109		7,357.80	7,357.80
167	Dental Board	2708	0109		14,405.53	14,405.53
173	Dept. of Administration	1000	0529	74,643.93		74,643.93
173		1000	0539	6,893.08		6,893.08
173		1000	0559	1,483.19		1,483.19
173		6148	4109		371,617.49	371,617.49
173		6151	5509		2,606.16	2,606.16
	Subtotals			83,020.20	374,223.65	457,243.85
177	Ellsworth Correctional Fac.	1000	0309	1,400.00		1,400.00
195	El Dorado Correctional Fac.	1000	0309	2,900.00		2,900.00
204	Board Of Mortuary Arts	2709	0109		4,194.29	4,194.29
234	Fire Marshal	2330	2009		16,851.96	16,851.96
234		3199	3109		No Limit	No Limit
	Subtotals				16,851.96	16,851.96
264	Dept. of Health & Environ.	1000	0103	7,538.89		7,538.89
264		1000	0203	118,007.74		118,007.74
264		1000	0206	64,435.79		64,435.79
264		2912	2718		58,942.48	58,942.48
264		2912	2719		4,430.50	4,430.50
	Subtotals			189,982.42	63,372.98	253,355.40
276	Dept. of Transportation	4100	0409		4,231,349.01	4,231,349.01
280	Highway Patrol	1000	0059	28,605.07		28,605.07
280		2213	2409		82,033.15	82,033.15
280		2829	2609		53,093.14	53,093.14
	Subtotals			28,605.07	135,126.29	163,731.36
296	Dept. of Human Resources	1000	0509	53,270.63		53,270.63
296		2124	2228		518,479.34	518,479.34
296		2124	2229		31,657.61	31,657.61
	Subtotals			53,270.63	550,136.95	603,407.58
300	Dept. of Commerce & Housing	1000	0509	1,134.19		1,134.19
300		2610	2602		124,010.20	124,010.20
	Subtotals			1,134.19	124,010.20	125,144.39
313	Hutchinson Correctional Fac.	1000	0309	2,320.00		2,320.00
400	Lansing Correctional Fac.	1000	0309	5,400.00		5,400.00
408	Larned Correctional MH Fac.	1000	0309	1,300.00		1,300.00
450	Kansas Lottery	5123	5900		17,453.49	17,453.49
482	Board of Nursing	2716	0209		6,290.69	6,290.69
488	Board of Optometry Examiners	2717	0109		3,579.86	3,579.86
521	Dept. of Corrections	1000	0159	89,031.71		89,031.71
521		1000	0309	9,119.71		9,119.71
521		1000	0609	85,307.38		85,307.38
	Subtotals			183,458.80		183,458.80
522	Dept of Corr.-Correctional Ind.	6126	7309		280,309.64	280,309.64
549	Real Estate Commission	2721	0109		3,000.00	3,000.00
565	Dept. of Revenue	1000	0309	350.00		350.00
565		2089	2029		2,145.33	2,145.33
	Subtotals			350.00	2,145.33	2,495.33
581	Norton Correctional Fac.	1000	0309	1,800.00		1,800.00

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629	Social & Rehab. Services	1000	0019	41,803.66		41,803.66
629		1000	3049	1,769.84		1,769.84
629		2195	0119		2,424.25	2,424.25
	Subtotals			43,573.50	2,424.25	45,997.75
660	Topeka Correctional Fac.	1000	0309	2,100.00		2,100.00
663	Board of Technical Professions	2729	0109		8,114.94	8,114.94
700	Board of Veterinary Examiners	2727	1109		4,299.17	4,299.17
710	Dept. of Wildlife & Parks	1000	0009	609.61		609.61
712	Winfield Correctional Fac.	1000	0309	900.00		900.00
	Grand Totals			751,884.40	6,021,596.24	6,773,480.64

Footnotes: (1) The appropriation amounts (spending authority) is only the limit on expenditures. It does not mean the cash is on hand.

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Kansas Department of Transportation
KQM Funding

1) FY 1997 savings as determined by the Director of Accounts and Reports:

	Savings	Reappropriated to KQM
Salaries	$4,521,909	$2,260,954
OOE	$938,037	$379,916*
Total	$5,459,945	$2,640,870

*Less $178,205 Maintenance OOE Savings

2) Total KQM funds available in FY 1998 and the purpose for which it will be used:

a) Total available: $4,231,349
b) Expenditure: $1,909,764
c) Expenditures in FY 1998 will be made for technology equipment and software.

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KANSAS DEPARTMENT OF TRANSPORTATION
INCENTIVE SAVINGS PROGRAM

UNENCUMBERED BALANCE 7–1–96: $2,217,805

TOTAL QUALIFYING ITEMS OF EXPENDITURE IN FY 1997: $682,294

TOTAL QUALIFYING ITEMS OF EXPENDITURE IN FY 1998: $1,909,764

CATEGORY	FY 1997	FY 1998 *
Microcomputers	$ 0	$ 129,654
Software	215,190	371,510
Computer Systems Equipment, Information Processing Equipment, & Reprographic Equip.	467,104	1,408,600
TOTAL	$ 682,294	$ 1,909,764

* These are equipment items requested in the respective year budget but not funded by the Agency Operations account. Section 107 of 1997 HB 2160 authorizes FY 1998 expenditures for technology equipment as well as salary bonus payments and professional development training. No expenditures are anticipated for the later two categories.

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