

MINUTES OF THE SENATE WAYS AND MEANS COMMITTEE

The meeting was called to order by Chairman Dwayne Umbarger at 10:30 A.M. on January 24, 2005 in Room 123-S of the Capitol.

All members were present.

Committee staff present:

Jill Wolters, Senior Assistant, Revisor of Statutes
Alan Conroy, Director, Kansas Legislative Research Department
J. G. Scott, Kansas Legislative Research Department
Julian Efird, Kansas Legislative Research Department
Susan Kannarr, Kansas Legislative Research Department
Matt Spurgin, Kansas Legislative Research Department
Judy Bromich, Administrative Analyst
Mary Shaw, Committee Secretary

Conferees appearing before the committee:

Glenn Deck, Executive Director, Kansas Public Employees Retirement System (KPERS)
Barbara Hinton, Legislative Post Auditor, Legislative Division of Post Audit

Others attending: See attached list

Bill Introductions

Senator Barone moved, with a second by Senator Taddiken, to introduce a bill relating to the Kansas Department of Wildlife and Parks; providing for the funding thereof (3rs0446). Motion carried on a voice vote.

Senator Schodorf moved, with a second by Senator Kelly, to approve the minutes of January 11 and January 12, 2005, as amended with two technical corrections to the minutes of January 12. Motion carried on a voice vote.

The Chairman welcomed Glenn Deck, Executive Director, Kansas Public Employees Retirement System (KPERS), who presented an overview and legislative issues regarding KPERS (Attachment 1). Mr. Deck's overview included the following items:

- KPERS Overview (membership, benefits and service, and investments)
- Death and Disability Program (benefits, funding, KPERS recommendations and Joint Committee on Pensions and Investments recommendations)
- Retirement Funding (background, funding progress and current status, and contribution increases)
- Alternative Retirement Plan Design

Committee questions and discussion followed. Senator Wysong requested a copy of KPERS investment policy plan. Mr. Deck responded that he would get copies of their Conference of Annual Reports, which would be the first item he would provide for all the committee members.

Chairman Umbarger welcomed Barbara Hinton, Legislative Post Auditor, Legislative Division of Post Audit, who presented a briefing on Audit-Related Issues for the Senate Ways and Means Committee (Attachment 2). Ms. Hinton addressed performance audits of interest to the committee with key findings and audit-related issues since the last session and audits issued during the last three years.

Ms. Hinton provided copies of the following information:

CONTINUATION SHEET

MINUTES OF THE Senate Ways and Means Committee at 10:30 A.M. on January 24, 2005 in Room 123-S of the Capitol.

- Legislative Division of Post Audit, Summary of Performance Audit Reports, Calendar Years 2002 - 2004 (Attachment 3)
- Legislative Post Audit Summary of Performance Audits Currently Underway or Approved, January 18, 2005 (Attachment 4)

Committee questions and discussion followed. Senator Barone asked about the tax amnesty that was given a couple of years ago and how that figured in the audit. Senator Morris mentioned that it is a subject that should be pursued. It was noted by the committee that the Subcommittee on the Department of Revenue would be the entity to take a look at the issue.

The meeting adjourned at 12:00 noon. The next meeting is scheduled for January 25, 2005.

**SENATE WAYS AND MEANS
GUEST LIST**

Date January 24, 2005

NAME	REPRESENTING
OPARD	Division of Budget
Julie Thomas	JOB
KELAND B. Caldwell	KPERL
Mary Beth Green	KPERS
Glenn Dock	KPERS
Paul Ambr	Post Audit
Mark Dezetti	KNETA
Don M. Rezac	S. E. A. K.
JAN SIDES	SEAK & AARP
Pat Lehman	KFSA
Judy Shaw	FOP / KSTU
Amy Thornton	KDWP
Dick Koerth	KDWP
Diane Gjerstad	Wichita Public Schools
John Josseland	KU
ROB MEALY	HEIN LAW FIRM
Rob Woodard	KPERS
Mike Huttles	KGC
Mark Tomb	League of Kansas Municipalities
Gayle Young	DofA
Karen Watney	DofA
Kevin Fowler	Judicial
Dennis Phillips	KSCFF

Senate Ways and Means
1-24-05
Attachment 1

Kansas Public Employees Retirement System

KPERS Overview & Legislative Issues

Presented to the Senate Ways and Means Committee

•

January 24, 2005

Presentation Outline

- KPERs Overview
 - Membership
 - Benefits & Service
 - Investments
- Death and Disability Program
 - Benefits
 - Funding
 - KPERs Recommendations
 - Joint Committee Recommendations
- Retirement Funding
 - Background
 - Funding Progress & Current Status
 - Contribution Increases
- Alternative Retirement Plan Design
- Conclusion
- Appendix

KPERS Overview

KPERS' mission is to provide retirement, disability and survivor benefits to our members and their beneficiaries.

Administer three statewide, defined benefit plans for public employees:

- Kansas Public Employees Retirement System
- Kansas Police & Firemen's Retirement System
- Kansas Retirement System for Judges

Partner with 1,450 state and local government employers.

- State of Kansas
- 304 School Districts
- 105 Counties
- 400 cities & townships
- Other employers include libraries, hospitals, community colleges & conservation districts

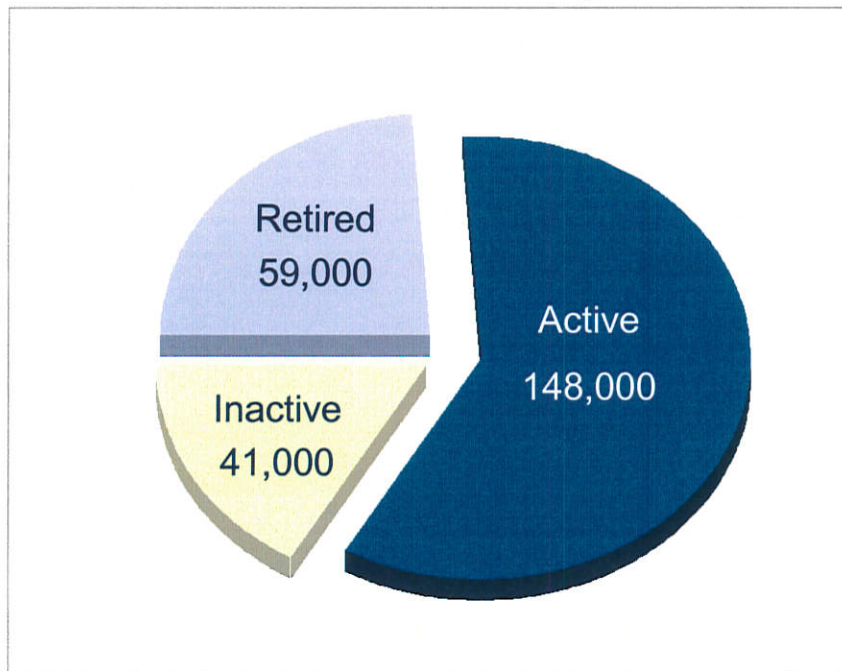
Governed by a nine-member Board of Trustees.

- 85-member staff.

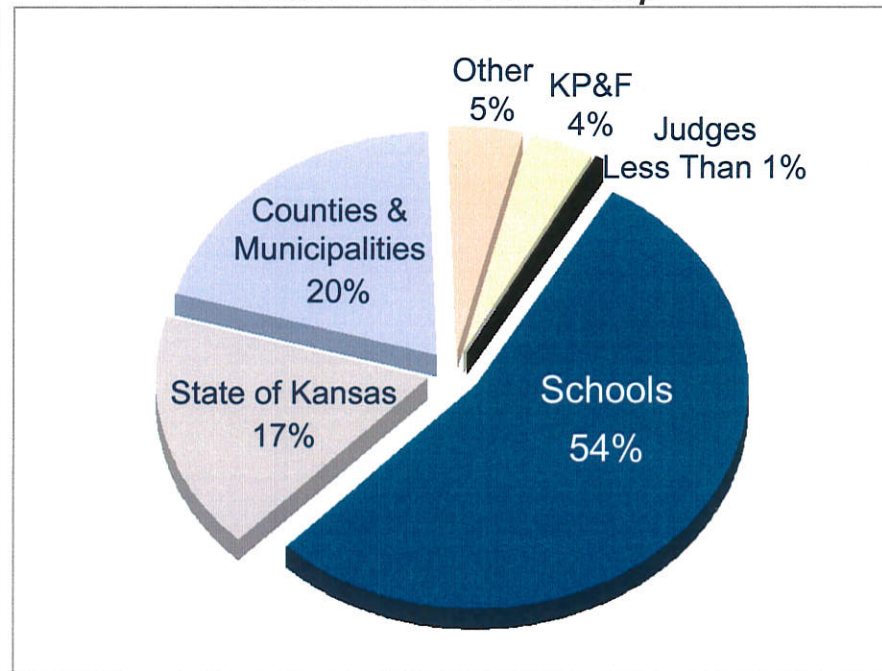
Membership

- Serve nearly 250,000 members – approximately 1 in 12 Kansans.
- Largest participating employer = State of Kansas.
- More than half our active members employed by school districts.
 - State of Kansas makes the employer contributions for all school members.

Total Membership



Active Membership



Benefits & Service

The Retirement System distributes approximately \$775 million each year, with about 87 percent remaining in Kansas.

- Retirement benefits = \$677 million
- Retiree death benefits = \$9 million
- Death & disability benefits = \$47 million
- Contribution refunds = \$41 million

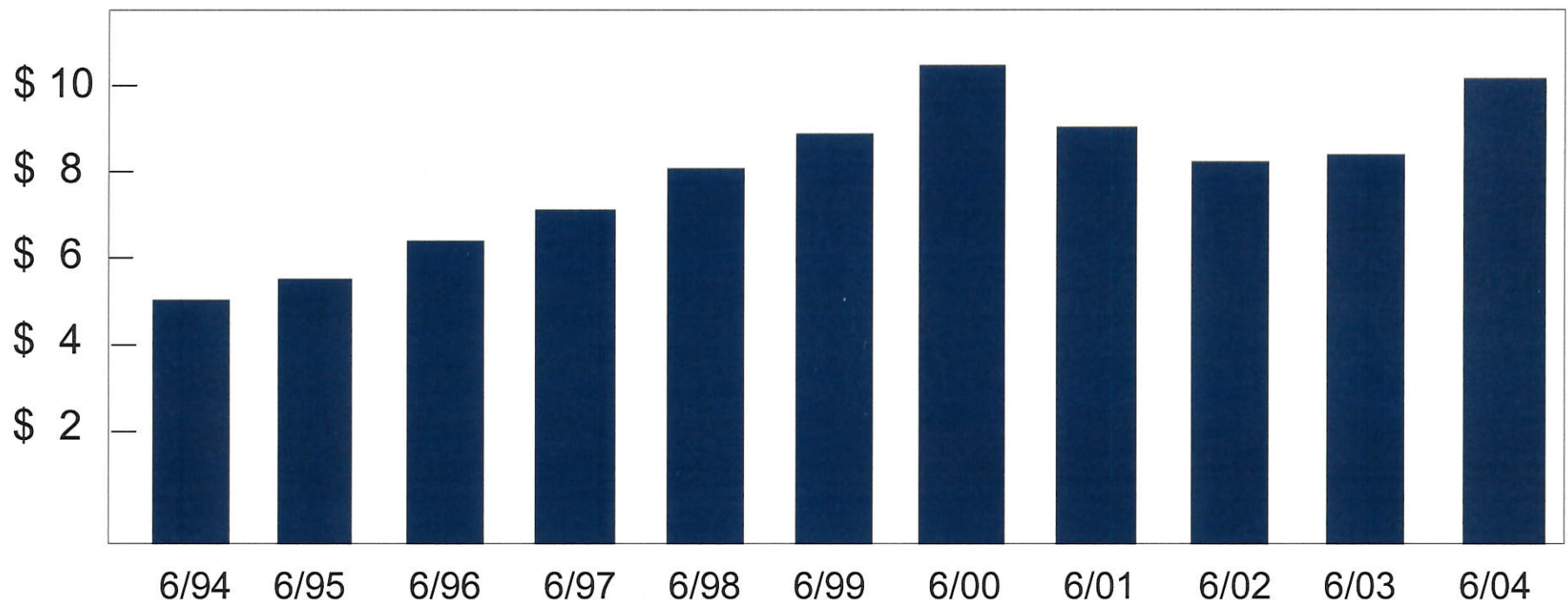
KPERS is committed to providing our members and participating employers with excellent service. In 2004, we successfully:

- answered more than 83,000 calls – 98% of incoming calls;
- improved delivery time for 180,000 annual member statements by four weeks;
- issued 59,000 retirement payments each month;
- launched new web site with user-friendly design and expanded content;
- conducted pre-retirement seminars and employer workshops across the State;
- scored in the range of 95% or higher in customer satisfaction surveys;
- completed digital imaging of approximately 200,000 member records; and
- began major technology project to replace outdated systems and improve service to our members.

Retirement System Assets

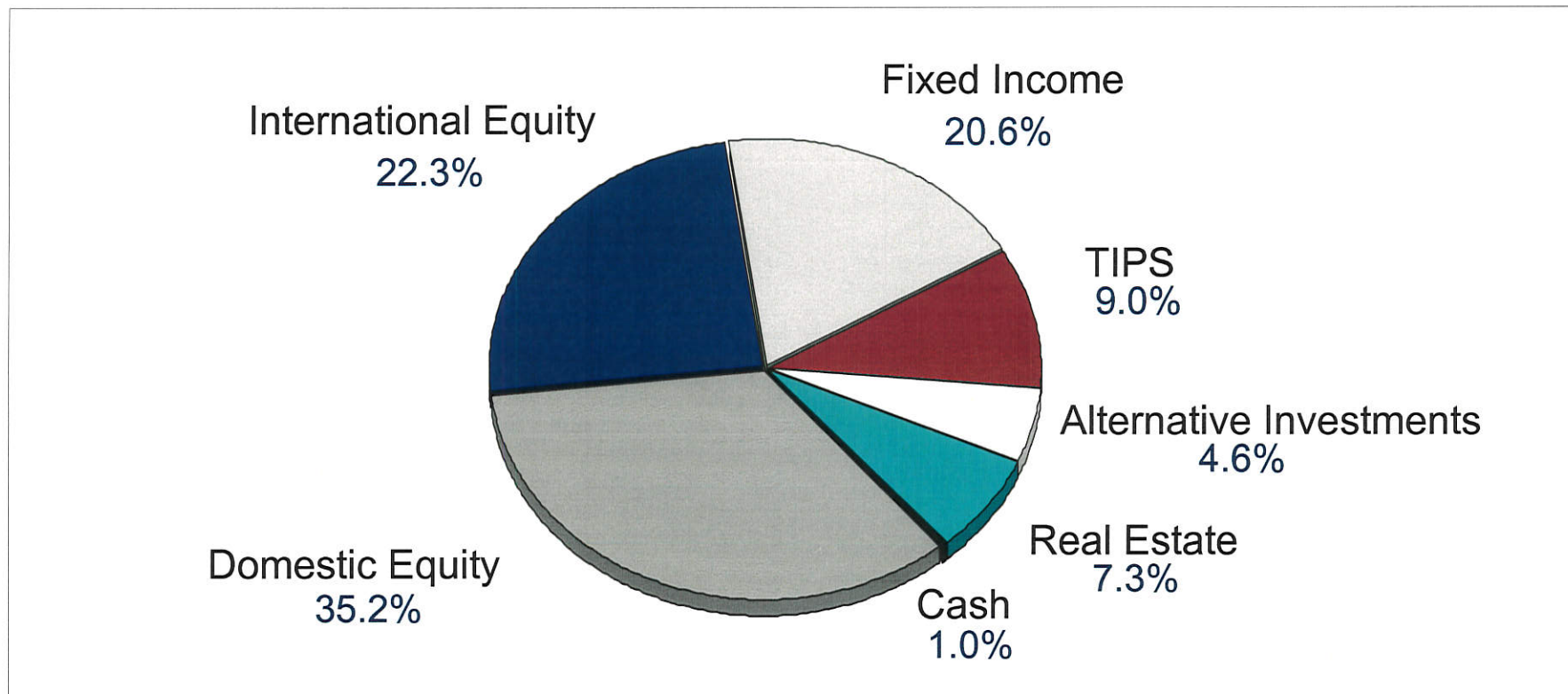
KPERS manages approximately \$11 billion in trust fund assets, making it the 105th largest public pension fund in the U.S. and the 174th largest in the world.

Total System Assets (in billions)



Asset Allocation

System's assets are diversified into stocks, bonds, real estate, alternative investments and cash.

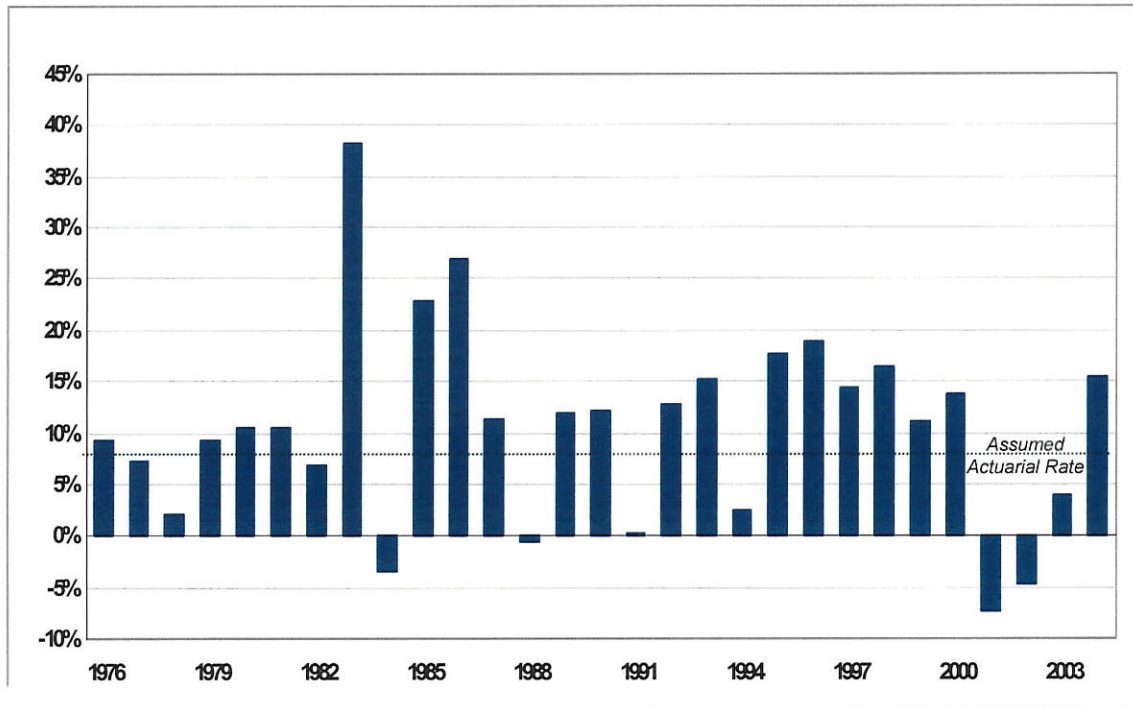


Investment Returns

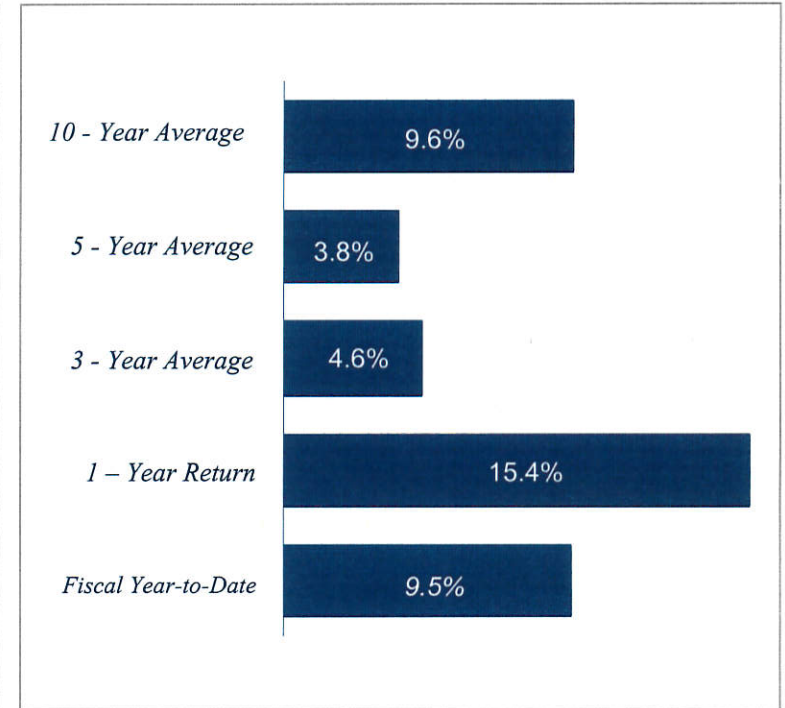
Retirement System realized a 15.4% return for fiscal year 2004, well in excess of the actuarial assumption of 8%.

- 9.5% return for the first six months of fiscal year 2005.

Investment Returns by Fiscal Year



Total Returns



Death & Disability Program

KPERS has provided death and disability benefits for active employees since 1966.

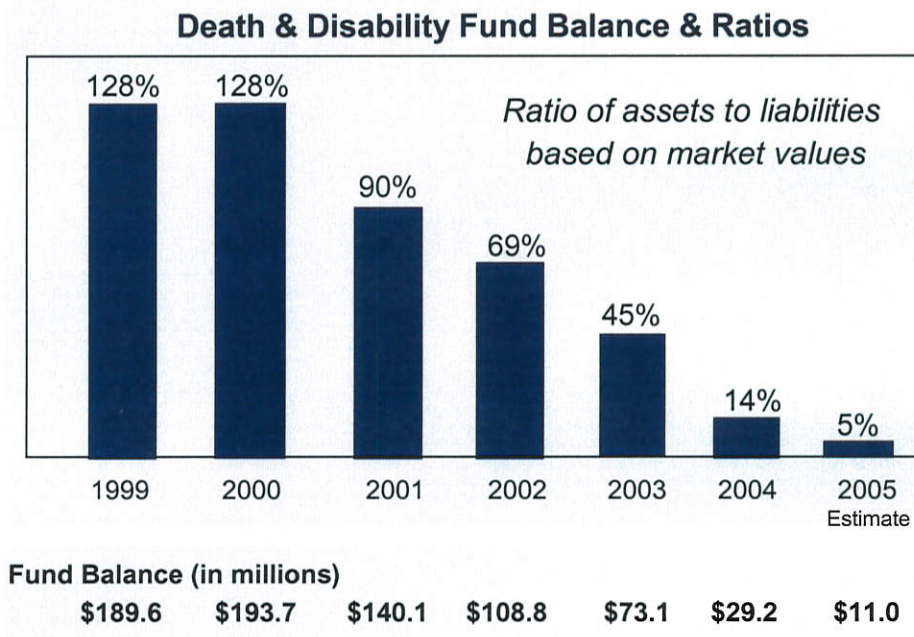
- Employer-provided benefit since inception.
- Employer rate=0.6% of payroll since 1975.

Between 2000 and 2004, fourteen quarters of moratoriums on employer contributions to the Death and Disability Fund. Moratoriums resulted in multi-year budget savings of:

- State - \$ 78.5 million
- Local - \$ 21.8 million
- Total - \$ 100.3 million

Fund Status

- Effective in FY 2004, program became pay-as-you-go and no longer funded on an actuarial reserve basis.
- Employer contribution rate returned to 0.6% on July 1, 2004.



Death & Disability Benefits

Basic Life Insurance – Active Employees

Employees automatically receive group life insurance = 150% of annual salary.

Optional Life Insurance – Active Employees

Employees may purchase an additional \$5,000 to \$250,000 of coverage.

Disability Benefits

Disabled employees receive monthly benefits = 66 2/3% of monthly salary.

Waiver of Premiums

Disabled employees continue to receive life insurance = 150% of annual salary.

**Insured with
Minnesota Life**

**Self-Insured
Third-Party
Administrator for Claims
Management**

Death & Disability Funding

	<u>FY 2005 Estimates</u>	<u>Percent of Total</u>
Revenues		
• Employer Contributions (0.6% of payroll)	\$ <u>31.1 million</u>	<u>100.0%</u>
Expenditures		
Active Employees - 152,500 Employees		
• Life Insurance Premiums	\$ 13.1 million	26.4%
Disabled Employees – 3,000 Employees		
• Monthly Disability Benefits	\$ 27.8 million	56.2%
• Death Benefits	\$ <u>7.0 million</u>	<u>14.1%</u>
• Subtotal – Disabled Employees	\$ 34.1 million	70.3%
Administration	\$ <u>1.6 million</u>	<u>3.3%</u>
Total Expenditures	\$ <u>49.5 million</u>	<u>100.0%</u>

Death & Disability Funding

The historical 0.6% employer contribution rate will not be sufficient to continue making current benefit payments.

- If the rate remains at 0.6%, at some point in FY 2006, benefit payments will need to be reduced by approximately \$19 million.
- A reduction of this magnitude would require elimination of all employer-provided life insurance for active and disabled employees.

In recent years, KPERS Board and staff have taken several steps to reduce costs and identify funding alternatives. Key steps have included:

- Revamping the life insurance portion of the program in 2003 which resulted in lower premium costs and improved service.
- Comparing the disability plan design to other states' plans and industry standards to identify cost containment opportunities.
- Incorporating disability claims management practices and rehabilitation and return-to-work programs designed to lower costs over the long term.
- Analyzing demographic and financial projections to recommend program changes designed to contain costs while providing benefits for public employees.

KPERS Recommendations

Because of the Fund's deteriorating financial condition, KPERS Board recommends consideration of increased funding and cost-containment initiatives.

- **Contribution Rate Increase** – Increase employer contribution rate to 1% beginning July 1, 2005.
- **Plan Design Authority** – Amend state law to provide the Board with authority to administer the program within funds available and to adjust plan design as needed.
- **Plan Design Modifications** – KPERS Board would adopt plan design modifications for disabilities occurring on or after January 1, 2006.
 - Incorporate “own occupation” definition for first 24 months of disability.
 - Provide monthly benefits of 60% of final compensation.
 - \$100 monthly minimum
 - \$5,000 monthly maximum
 - Implement 24-month benefit limitation for disabilities resulting from non-biologically based mental health or substance abuse conditions.
 - Require participation in rehabilitation programs.

Joint Committee Recommendations

At its December 15, 2004, meeting, the Joint Committee on Pensions, Investments and Benefits approved introduction of a bill (HB 2075) that:

- grants the KPERS Board the recommended plan design authority;
- increases statutory employer contribution rate to 0.8% effective July 1, 2005; and
- provides for a reduction in the employer-provided basic life insurance to 100%.

There are some significant implementation issues that will need to be addressed as HB 2075 moves forward:

- cash flow provisions,
- adequacy of reserves, and
- collection of premiums for optional coverage.

The Governor's Budget proposed the increase to the 1% contribution rate effective July 1, 2005.

Retirement Funding Background

Since benefits were enhanced in 1993, participating employers have not contributed to KPERS at the actuarial rate needed to fund future benefit payments.

- Instead, employer contribution rates are designed to increase incrementally each year until the actual (statutory) rate equals the actuarial rate. The point at which statutory rates equal actuarial rates is the “equilibrium” date and rate.

The Retirement System’s 2001 and 2002 actuarial valuations showed that KPERS was not in “actuarial balance.”

- Statutory rates significantly below actuarially-required rates.
- Unfunded actuarial liability (UAL) increasing at an alarming rate.
- Actuary strongly recommended increasing contributions to restore KPERS to actuarial balance.

Retirement Funding Progress

For the last several years, KPERS has worked with the Joint Committee on Pensions, Investments and Benefits to develop a long-term funding plan.

- Increased annual statutory cap for State employer contribution rate increases from 0.2% to 0.4% in 2006, 0.5% in 2007, and 0.6% in 2008.
- Issued \$500 million pension obligation bonds in February 2004 with the State paying debt service on bonds from the General Fund.

The 2004 Legislature also authorized that the KPERS State/School Group be divided into two separate groups for calculating employer contribution rates and modified procedures for remitting school contributions.

- State continues to make school contributions, but Department of Education sends funds to local school districts and individual districts remit contributions to KPERS.
- A technical clarification in 2005 Senate Bill 20 provides for rate calculations as if the State and School Groups were combined, thereby eliminating any negative funding impact for the School Group.

Retirement Funding Status

As of December 31, 2003

	Unfunded Actuarial Liability (UAL)	Funded Ratio (a)
KPERS State Group	\$ 227 million	91.7%
KPERS School Group	\$ 2.5 billion	67.8%
KPERS Local Group	\$ 588 million	73.7%
KP&F	\$ 249 million	84.1%
Judges	\$ 15 million	85.1%
Total	\$ 3.6 billion	75.2%

(a) Ratio of the actuarial value of assets to actuarial liabilities.

Retirement Funding

Retirement funding challenges remain as funding is needed for employer contribution rate increases beginning in 2006.

KPERS State/School Group Estimated Employer Contributions & Debt Service Payments

Fiscal Year	Employer Contributions Pre HB 2014	Contributions HB 2014(b)	Total Contributions	Debt Service Payments (c)	Total Payments	Annual Increase
2005	\$ 168.13	\$ -	\$ 168.13	\$ -	\$ 168.13	
2006	\$ 180.26	\$ 7.11	\$ 187.37	\$ 10.00	\$ 197.37	\$ 29.24
2007	\$ 192.82	\$ 18.29	\$ 211.12	\$ 15.00	\$ 226.12	\$ 28.75
2008	\$ 204.27	\$ 33.61	\$ 237.87	\$ 26.08	\$ 263.95	\$ 37.83
2009	\$ 217.02	\$ 49.76	\$ 266.77	\$ 36.15	\$ 302.92	\$ 38.97
2010	\$ 230.26	\$ 66.69	\$ 296.95	\$ 36.15	\$ 333.10	\$ 30.18
2015	\$ 306.26	\$ 164.94	\$ 471.20	\$ 36.14	\$ 507.34	\$ 38.50
2020	\$ 406.32	\$ 294.29	\$ 700.61	\$ 36.13	\$ 736.73	\$ 51.46
2025	\$ 540.13	\$ 351.97	\$ 892.11	\$ 36.10	\$ 928.21	\$ 28.65
2030	\$ 718.65	\$ 286.15	\$ 1,004.80	\$ 36.05	\$ 1,040.85	\$ 16.58
2033	\$ 842.35	\$ 135.16	\$ 977.51	\$ 36.00	\$ 1,013.51	\$ (32.54)
Totals	\$ 12,419.85	\$ 5,918.94	\$ 18,338.79	\$ 953.71	\$ 19,292.50	\$ 845.38

^(a) Based on preliminary actuarial projections and calculations.

^(b) 2003 HB 2014 increased the statutory cap for state & school employer contribution increases from 0.2% annually to 0.4% in FY 2006, 0.5% in FY 2007 and 0.6% in FY 2008 and subsequent years.

^(c) State General Fund debt service payments on \$500 million pension obligation bonds issued in 2004.

Alternative Retirement Plan

In 2003, the Joint Committee on Pensions, Investments and Benefits requested that KPERS staff develop retirement plan alternatives that would reduce long-term costs.

In response to this request, KPERS presented information to the Joint Committee during the 2004 interim.

In November, the Joint Committee endorsed an alternative retirement plan designed to provide a basic defined benefit plan along with an optional defined contribution component.

The alternative retirement plan design would be for employees hired on or after July 1, 2007 only; it would not impact retirement benefits of current employees.

Alternative Retirement Plan Design

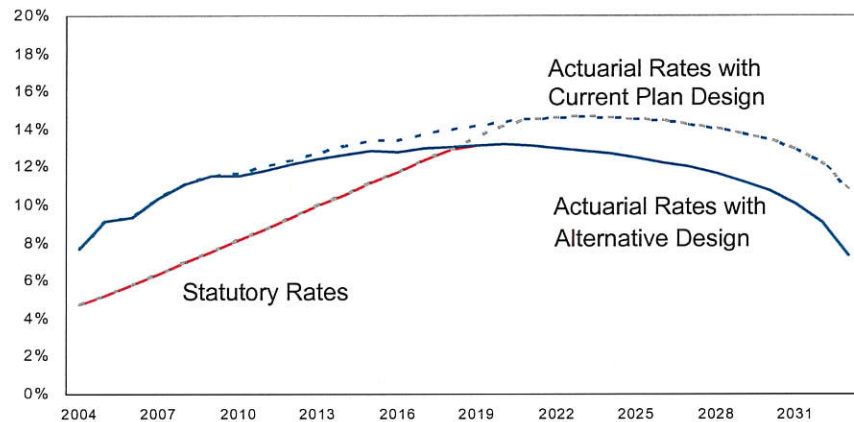
	<u>Current Plan</u>	<u>Alternative Plan</u>
Defined Benefit Provisions		
▪ First Day Coverage (Immediate Membership)	School only	School, State and Local
▪ Vesting	10 years	5 years
▪ Retirement Multiplier	1.75%	1.50%
▪ Normal Retirement	Age 62 or 85 points	Age 65 or 90 points
▪ Early Retirement Reduction Factors	Subsidized for ages 55-61	No subsidy for ages 55-64
▪ Employee Contributions	4%	4%
▪ Employer Contributions	Based on actuarial valuation and statutory caps	Based on actuarial valuation and statutory caps
Defined Contribution Provisions		
▪ Employee Contribution	N/A	Optional contribution levels of 1%, 2%, and above 2% (to IRS limits)
▪ Employer Contribution (Match)	N/A	0.25% on employee 1% contribution 0.50% on employee 2% contribution No match for employee contributions above 2%
▪ Vesting	N/A	Employee vests in employer match at 5 years

Cost Impact of Alternative Design

	<u>State/School Group</u>		<u>Local Group</u>	
	<u>Current Plan</u>	<u>Alternative Plan</u>	<u>Current Plan</u>	<u>Alternative Plan</u>
Projected Equilibrium Rate	14.55%	13.16%	8.87%	8.42%
Projected Equilibrium Date	FY 2022	FY 2020	FY 2016	FY 2015
Total Employer Contributions (through 2033, estimated)	\$18.3 billion	\$16.4 billion	\$ 4.6 billion	\$ 4.0 billion
Savings versus Current Plan (through 2033, estimated)	n/a	\$ 1.9 billion	n/a	\$ 641 million
Present Value of Savings (through 2033, estimated)	n/a	\$383 million	n/a	\$142 million

Alternative Plan Design

Projected Employer Contributions & Contribution Rates for the KPERS State/School Group



Current Plan
 Equilibrium = 14.55% in FY 2022

Alternative Plan Design
 Equilibrium = 13.16% in FY 2020

Employer Contributions (in millions)

	<u>Current</u>	<u>Alternative</u>	<u>Difference</u>
2005	\$ 168.13	\$ 168.13	\$ -
2006	\$ 187.37	\$ 187.37	\$ -
2007	\$ 211.12	\$ 211.12	\$ -
2008	\$ 237.87	\$ 237.87	\$ (0.00)
2009	\$ 266.77	\$ 266.77	\$ (0.00)
2010	\$ 296.95	\$ 296.95	\$ (0.00)
2015	\$ 471.20	\$ 471.20	\$ (0.00)
2020	\$ 700.61	\$ 676.98	\$ (23.63)
2025	\$ 892.11	\$ 774.24	\$ (117.87)
2030	\$ 1,004.80	\$ 819.27	\$ (185.53)
2033	\$ 977.51	\$ 724.59	\$ (252.92)
Totals	\$ 18,338.79	\$ 16,403.97	\$ (1,934.81)

	<u>Current Plan</u>		<u>Alternative Plan</u>	
	<u>Statutory</u>	<u>Actuarial</u>	<u>Statutory</u>	<u>Actuarial</u>
2005	4.87%	7.78%	4.87%	7.78%
2006	5.27%	9.14%	5.27%	9.14%
2007	5.77%	9.36%	5.77%	9.36%
2008	6.37%	10.35%	6.37%	10.35%
2009	6.97%	11.10%	6.97%	11.10%
2010	7.57%	11.55%	7.57%	11.52%
2015	10.57%	13.12%	10.57%	12.68%
2020	13.57%	14.22%	13.16%	13.16%
2025	14.65%	14.65%	12.71%	12.71%
2030	13.80%	13.80%	11.27%	11.27%
2033	12.15%	12.15%	9.09%	9.09%

Conclusion

- **KPERS Death & Disability Fund**


Funding for the KPERS Death and Disability Program must be addressed during the 2005 Session or benefits will be reduced during fiscal year 2006.

- **Long-Term Retirement Funding**

Although significant progress has been made, the long-term retirement funding plan needs to be monitored carefully. Funding is very sensitive to investment volatility.

- **Alternative Retirement Plan Design**

KPERS staff is prepared to continue to assist the Legislature as it considers alternative retirement plan designs for new employees.



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Appendix

- Death & Disability Funding by Coverage Group
- Existing & Proposed Disability Plan Design

Death & Disability Funding

	FY 2005	FY 2006	Proposed FY 2006	Proposed Increase
Employer Contribution Rate	0.6%	0.6%	1.0%	
Contributions by Coverage Groups (in millions)				
▪ State Employees	\$ 5.6	\$ 5.7	\$ 9.5	\$ 3.8
▪ School Employees	\$ 15.5	\$ 16.0	\$ 26.6	\$ 10.6
▪ Judges	\$ 0.1	\$ 0.1	\$ 0.1	\$ -
▪ Regents Employees	\$ 3.5	\$ 3.5	\$ 5.9	\$ 2.4
▪ State Subtotal	\$ 24.7	\$ 25.3	\$ 42.1	\$ 16.8
– General Fund	\$ 19.6	\$ 20.1	\$ 33.5	\$ 13.4
– Non-General Fund	\$ 5.1	\$ 5.2	\$ 8.6	\$ 3.4
▪ Local Employees	\$ 6.5	\$ 6.7	\$ 8.9	\$ 4.5
▪ Total Employer Contributions (in millions)	\$ 31.1	\$ 32.0	\$ 53.4	\$ 21.4

Death & Disability Plan Design

	<i>Existing Plan</i>	<i>Proposed Plan</i>
Disability Definition	Any Occupation	Own Occupation first 24 months Any Occupation after 24 months
Waiting Period	180 days	180 days
Maximum Benefit Period	To Age 65	To Age 65
Benefit	66⅔%	60%
Maximum Benefit	No limit	\$5,000/month ^(a)
Minimum Benefit	\$100/month	\$100/month
Benefit Limitations	No Limits for Mental Health or Substance Abuse Conditions	No Limit for Biologically-Based Mental Health Conditions ^(b) Other Mental Health Conditions = 24 months Substance Abuse Conditions = 24 months

(a) Maximum would affect employees receiving monthly compensation of \$8,333 or more (\$100,000 or more annually).

(b) Benefits for those disabled by biologically-based mental health conditions as defined by K.S.A. 2003 Supp. 40-2,105a(c) would be the same as benefits for those disabled by other medical conditions (excluding mental health and substance abuse conditions).

Death & Disability Plan Design

	<i>Existing Plan</i>	<i>Proposed Plan</i>
Offsets	Social Security (primary) Workers' Compensation Other Employer-Provided LTD	Social Security (primary) Workers' Compensation Other Employer-Provided LTD
Mandatory Rehabilitation	No	Yes
Incidental Income	Not Allowed	Allowed
Pre-Existing Conditions ^(c)	3 months/12 months	3 months/12 months

(c) Disabilities resulting within 12 months of date of employment are not covered if the employee received any treatment or service for such condition during the three-month period immediately preceding employment date.

**Briefing Memo on Audit-Related Issues for the
Senate Ways & Means Committee**
Barb Hinton, Legislative Post Auditor
January 24, 2005

- 1. Performance Audits of Interest to the Committee**
 - a. Key findings / audit-related issues since the last session (A)
 - b. Audits issued during the last 3 years (B)

- 2. Audits Currently Under Way / Approved**
 - a. Performance audits (C)
 - b. FY 2004 Statewide Audit

- 3. Audit Topics**
 - a. Solicitation from Committee / Budget Committees
 - b. K-GOAL Audits for 2006
 - Corporation Commission
 - Department of Labor

Senate Ways and Means
1-24-05
Attachment 2

**Summary of Recent Legislative Post Audit Reports
As of January 18, 2005**

2-2

Audit Title	Key Findings for This Committee	Legislative Actions Needed
<p>Taxation of Contractor Equipment: Determining Whether Kansas' System of Taxes and Fees Is Similar to Surrounding States (April 2004; 04PA20)</p>	<p>Kansas' fees for oversize / overweight permits aren't in-line with the majority of surrounding states. For example,</p> <ul style="list-style-type: none"> • Kansas' base fee for a <u>single trip oversize/overweight permit</u> is \$5, and hasn't been adjusted in 20 years. In other states, the fee ranged from \$10-\$20. A \$15 fee in Kansas would generate about \$400,000 in additional revenue. • Kansas doesn't have <u>additional overweight permit fees</u>, like 3 of 4 surrounding states. These additional fees can substantially increase the amount of money out-of-State contractors have to pay when hauling equipment into or through those states. For example, considering overweight <u>and</u> base fees, a contractor moving an earth scraper into or through Missouri would pay \$117, in Oklahoma would pay \$540, and in Kansas would pay \$5. If Kansas had fees like Colorado, it would have received \$250,000 in additional revenue in 2003. • Kansas doesn't charge for bridge studies (which help determine whether bridges can handle the movement of large loads without incurring damage) like Missouri and Colorado. KDOT officials told us they spent \$104,000 on 756 bridge studies in FY 2003, or \$137 each. If Kansas set a bridge study fee of \$350, like Missouri, it would receive about \$265,000 in additional revenues. 	<p>We recommended that the House and Senate Transportation Committees consider proposing amendments to State law to do the following:</p> <ul style="list-style-type: none"> • Increase the single trip oversize/overweight base permit fee from its current rate of \$5 • Implement an additional single-trip overweight permit fee, based on the number of pounds in a load or the number of axles per load • Implement a bridge study fee, which <u>at a minimum</u> should cover the \$104,000 of annual costs KDOT incurred to conduct such studies <p>KDOT provided a response suggesting that, if Kansas's fees were to be more in-line with other states, single-trip permit fees would be raised to \$15, overweight permit fees would be established at \$25 per 10,000 pounds over the legal limit, and bridge study fees for "super loads" would be set at \$250.</p>
<p>State Prescription Drug Plan: Reviewing the Accuracy of Payments Made Under the Program (April 2004, 04PA10)</p>	<p>In 2003, the State prescription drug plan paid 1.5 million claims totaling \$55 million. For the most part, payments made to Kansas' pharmacy benefits manager, AdvancePCS, appeared to be accurate and in accordance with the terms of the contract. We identified only minor problems relating to paying claims for ineligible people (also identified as a problems in a 2001 audit), and inaccurate dispensing fees. We also identified a number of ad hoc or routine checks that would strengthen the State's oversight of the Program, such as periodic audits, and routine checks to ensure the claim is accurate and the claimant is eligible.</p>	<p>No legislative recommendations.</p> <p>Even though we found relatively few problems, we recommend that the Division of Personnel Services improve its routine oversight and monitoring of the claims payments. Given the amount of money involved, better monitoring reduces the likelihood that the State will lose significant amounts to inappropriate claims payments.</p>

<p>Kansas Fire Marshal: Reviewing the Funding and Administration of the Agency (June 2004; 04PA09)</p>	<p>Issues related to the Office's structure and organization:</p> <ul style="list-style-type: none"> ● As an independent agency that doesn't report to an oversight board or commission, the Fire Marshal's Office receives less direct oversight than most Kansas agencies and most fire safety agencies in other states. We could find no compelling reason for this. ● Reorganization of the Office in 2003 resulted in a top-heavy management structure. The Office created 2 deputy positions where we found only 1 was needed. Also, one of the division chiefs had significantly reduced responsibilities after the reorganization, but still was drawing the same salary as before. <p>Issues related to the Office's operations: The Office didn't conduct all the annual inspections required by law (19% of schools and 24% of healthcare facilities hadn't received their required annual inspection), notified facilities in advance about when their inspections would take place, did a poor job of overseeing the handling of complaints, and took inadequate enforcement efforts against facilities that didn't correct violations.</p> <p>Issues related to the Office's funding: If the Office's projections for receipts and expenditures hold true, it could experience a cash shortfall in early 2006.</p>	<p>We recommended that the House Appropriations Committee or Senate Ways and Means Committee introduce legislation to amend State law to provide the same level of oversight and accountability for the operations of the Fire Marshal's Office as most other agencies have. At a minimum, consideration should be given to placing the Fire Marshal's Office under an oversight board or commission. Other options could include placing the Office under an existing State agency (a number of states have placed their fire safety functions within their insurance or state police departments), or even consolidating the public safety agencies into a single agency (a common organizational structure for other states' public safety functions).</p> <p>Note: SB 252 was introduced during the 2003 session that would have placed the Fire Marshal's Office under an oversight board, but it didn't pass.</p>
<p>Medicaid: Reviewing Factors Affecting the Amount of Attendant Care Services Certain Medicaid Clients Receive (October 2004; 04PA25)</p>	<p>Although the opportunity exists for independent living centers and some home health agencies to benefit financially by authorizing more hours of attendant care services for their clients when they also serve as the payroll agent, we found no evidence that was occurring. These agencies actually authorized fewer hours of service for clients in these situations. These clients were more likely to live with someone or have friends or family who could help them out, which could explain why fewer hours of paid services were needed.</p>	<p>No legislative recommendations.</p>
<p>Topeka School District: Determining What Factors Led to Delays in the District's Detection of a Check Fraud (October 2004; 05PA01)</p>	<p>Between June 2001 and April 2003, the Topeka school district lost more than \$500,000 to fraudulent checks. Those losses went on so long without being detected primarily because the district's bank reconciliation process wasn't done properly, and management oversight wasn't adequate. Several times, district management could have seen indications the reconciliations weren't done properly, but apparently didn't. Had those things been noticed and pursued, the fraudulent checks could have been discovered earlier, and the district's losses could have been lessened.</p>	<p>No legislative recommendations.</p> <p>We did recommend that school districts across the State should review their financial practices for preventing and detecting check fraud, as well as their oversight procedures for ensuring those financial practices are being followed.</p>

H-2

<p>Tax Enforcement: A K-GOAL Audit Determining Whether the Department of Revenue Is Collecting the Delinquent Trust Taxes Owed the State (October 2004; 04PA24)</p>	<p>Most businesses voluntarily remit the trust taxes they collect on behalf of the State (\$4.2 billion in FY 2004), but about \$191 million in delinquent trust taxes was referred for collection that year. Collections from delinquent accounts had increased in recent years for a variety of reasons: earlier efforts had been put on hold during a computer conversion, collections staffing levels were increased, and the Department offered a tax amnesty. Although timely and aggressive actions are needed to maximize the State's chances of collecting the trust taxes businesses owe, that hasn't always happened. Among our findings for 40 sample cases:</p> <ul style="list-style-type: none"> • delinquent accounts were identified immediately, but most weren't referred to collections for 60-120 days. During the two-year computer conversion, businesses that missed filing a tax return in 2000 weren't referred to the collections process for up to 2 years • companies that didn't file a tax return received the lowest collections effort. Some may be out of business, but others may owe significant amounts. • many cases in our sample churned within the automated tax collection system for years, sometimes getting dozens of computer-generated tax bills and letters; many didn't respond, or broke promises to pay • for a typical case, it took 2.2 years for the Department to assess a final tax liability. Its only then that more aggressive enforcement actions can be taken. • the Department hadn't taken aggressive enforcement actions against most businesses in our sample. More timely efforts may have made enforcement easier. <p>Increasing the resources devoted to delinquent tax collection efforts would appear to be cost-effective; in FY 2004, the Department collected more than \$625,000 in delinquent taxes per full-time collections employee. Doubling the field staff (adding 24 employees) might result in \$15 million in additional taxes being collected.</p>	<p>To ensure that businesses regulated by the State are registered and current with all applicable trust taxes, the House or Senate Taxation Committee should amend State law to give State agencies the authority to deny, suspend, or revoke the license of any business that is not registered for all applicable State taxes or that is delinquent on its taxes.</p>
<p>Faculty Teaching Loads at Kansas Universities: A K-GOAL Audit of the Board of Regents (December 2004; 04PA26)</p>	<ul style="list-style-type: none"> • Faculty teaching loads: During Fall 2003, full-time faculty in selected departments at the 7 universities overseen by the Board of Regents typically taught about 3 classes each, spent about 9 hours per week in the classroom, and taught a total of 80 students. Teaching loads hadn't changed significantly since our 1985 audit, but the average number of hours faculty spent teaching, and the average number of students they taught, were somewhat lower. 	<p>No legislative recommendations.</p>

	<ul style="list-style-type: none">● Faculty salaries: they generally stayed well ahead of inflation, but salary disparities in the same departments across universities have grown significantly.● Use of GTAs: Universities are placing somewhat less reliance now on using graduate teaching assistants to teach classes than in the past. GTA salaries generally haven't kept pace with inflation.● English proficiency: The Board requires prospective faculty and graduate teaching assistants to be interviewed, and tested if necessary, to determine whether they are proficient in spoken English, but it hasn't monitored the policy's effectiveness. For our sample candidates, most universities didn't follow all applicable requirements, but 69% of the candidates had been through some type of proficiency screening process. Still, in the classroom students made negative comments about the English proficiency of 5 (14%) of the people whose evaluations we reviewed.	
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**LEGISLATIVE DIVISION OF POST AUDIT
SUMMARY OF PERFORMANCE AUDIT REPORTS
Calendar Years 2002 - 2004**

Agriculture

04PA22	Department of Agriculture: Reviewing the Grain Warehouse Inspection Program	August 2004
03PA04	Meat Processing Plants: Factors Contributing to Decline of Small Plants and Impact on State's Economy	November 2002
02PA18	Animal Breeders & Sellers in Kansas: Determining Whether Improvements Have Been Made in Industry	August 2002

Computers/DP

04IT102	Dept. of Administration's SHaRP System: Reviewing the Department's Upgrading of That System	August 2004
04PA21	Information Technology Projects: Has the Chief Info Tech Officer Followed Approval/Notification	June 2004
03-H	KDHE Information Systems: Reviewing the Department's Management of Those Systems	October 2003
03PA14	Information Network of Kansas: Reviewing Revenues, Expenditures, and Administrative Structure (100-hour	April 2003

Corrections & Juvenile Justice

03-G	Juvenile Justice Authority Information Systems: Reviewing the Authority's Management of Those Systems	March 2003
03PA05	Juvenile Justice Prevention Programs: How Well the Juvenile Justice Authority is Overseeing Those	January 2003

Courts

04PA03	Costs Incurred for Death Penalty Cases: A K-GOAL Audit of the Department of Corrections	December 2003
03PA11	Diversion Agreements: Reviewing Their Impact on State Revenues (100-Hour audit)	February 2003

Eco Devo/Commerce/Housing

03PA21	Encouraging Entrepreneurship: Examining Ways Kansas Could Improve Its Efforts	February 2004
04PA12	Job Expansion Programs: Are State Agencies Able to Evaluate Success of Programs	February 2004

Education (Higher)

04PA26	Faculty Teaching Loads at Kansas Universities: A K-GOAL Audit of the Board of Regents	December 2004
02PA15	Proprietary Schools: Reviewing the Board of Regents' Responsibilities and Oversight	April 2002

Education (K-12)

03PA02	How Previously Unreported Moneys Spent on K-12 Education Affect Kansas' Rankings Nationally	December 2002
02PA10	School District Budgets: Ways to Make the Budget Document More Understandable and Meaningful	March 2002
02PA10-501	Proposed Budget Format: USD 501 Topeka	March 2002

Energy/Natural Resources

04PA18	Plumb Thicket Landfill Application: Determining Whether KDHE's Review Complied with Applicable Laws	June 2004
03PA03	Wildlife and Parks' Disposal of Seized Animals and Other Property	September 2002
02PA03	Department of Agriculture: Reviewing the Water Structures Program	March 2002

Financial Management

05PA05	Reviewing Options of the State Treasurer's Office Fiscal Year 2004	December 2004
05PA06	Reviewing Operations of the Pooled Money Investment Board Fiscal Year 2004	December 2004
05PA01	Topeka School District: Determining What Factors Led to Delays in the District's Detection of a Check Fraud	October 2004
04PA15	Reviewing the Operations of the State Treasurer's Office--Fiscal Year 2003 (contracted audit)	December 2003
04PA16	Reviewing the Operations of the Pooled Money Investment Board--Fiscal Year 2003 (contracted audit)	December 2003
03PA22	General Fund Cash Balance: Reviewing the Projected Fiscal Year 2003 Ending Cash Balance	April 2003
03PA23	Reviewing the Operations of the State Treasurer's Office	December 2002
03PA08	Reviewing the Operations of the Pooled Money Investment Board	December 2002
02PA12	Reviewing the Operations of the State Treasurer's Office, FY2001	January 2002
02PA11	Reviewing the Operations of the Pooled Money Investment Board, FY2001	January 2002

General Government

04PA14	Central Motor Pool: Determining Whether All Significant Costs and Savings Were Considered In Changing	February 2004
04PA07	Kansas Sentencing Commission: Reviewing Organizational and Funding Issues (100-hour audit)	December 2003
04PA01	Governmental Ethics Commission: Reviewing Organizational and Funding Issues (100-hour audit)	September 2003
03PA15	Firefighters Relief Fund: Reviewing the Use of Fire Insurance Premium Taxes (100-hour audit)	April 2003

*Senate Ways and Means
1-24-05
Attachment 3*

Health/Welfare

04PA25	Medicaid: Reviewing Factors Affecting the Amount of Attendant Care Services Certain Medicaid Clients	October 2004
04PA08	Effective Regulation and Oversight of Child Care Facilities and Foster Homes by KDHE and SRS	October 2004
04PA11	West Nile Virus: Reviewing the Department of Health and Environment's Case Reporting (100-hour audit)	February 2004
03PA19	Food Safety Programs in Kansas: Evaluating Possible Costs and Efficiencies of Combining Them	October 2003
04PA02	CDDOs: Reviewing Issues Related to the Funding of Community Services	October 2003
03PA07	Low-Birthweight and Premature Babies: Reviewing Programs Aimed at Reducing Their Incidence and Costs	June 2003
03PA16	Medicaid: Assessing the Cost-Effectiveness of Current Procedures for Transporting Medicaid Consumers (April 2003
03PA17	Medicaid: Reviewing the Compensation of Payroll Agents for Home & Community-Based Waiver Programs	April 2003
02PA01.2	Verifying Information Provided by SRS with the Terms of Foster Care Lawsuit Settlement Agreement #15	August 2002
02PA16	Medicaid Cost Containment: Controlling Costs of Long-Term Care	August 2002
02PA07	Regulation of Food Service Establishments: Is KDHE Providing Sufficient Regulatory Oversight	April 2002
02PA09	Medicaid Cost Containment: Controlling Costs of Medical Services	March 2002
02PA08	Medicaid Cost Containment: Controlling Fraud and Abuse	January 2002

Highways/Motor Vehicles

04PA13	Electronic Certificates of Title: Reviewing the Effects of New Legislation (100-hour audit)	February 2004
04PA05	Highway Construction Change Orders: Reviewing Costs For Construction on Highway 36 Near Marysville (December 2003
03PA06	Life-Cycle Analyses of KS Highway Projects: Evaluating KDOT's Process	February 2003

Local Government

04PA17	Register of Deeds Technology Fund: Reviewing the Amounts Collected and the Uses of Those Moneys (April 2004
04PA19	City of Wichita: Examining the Provision of Emergency-Response Services in Newly Annexed Areas (April 2004
03PA20	Local Government Reorganization: Assessing the Potential for Improving Cooperation and Reducing	September 2003
03PA13	Financing Local Governments: How to Avoid Future Problems Caused by State Revenue Shortfalls (February 2003

Personnel/State Employees

04PA10	State Prescription Drug Plan: Reviewing the Accuracy of Payments Made Under the Program	April 2004
04PA04	Reviewing the Hiring and Promotion Practices of the Public Safety Agencies: A K-GOAL Audit of the	February 2004
04PA06	Department of Transportation: Reviewing Wage Payments to Equipment Operators (100-hour audit)	December 2003

Public Safety

04PA09	Kansas Fire Marshal: Reviewing the Funding and Administration of the Agency	June 2004
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Racing & Gaming

02PA13	Expanded Gaming: Reviewing the Reliability of Estimated Potential Revenues from Slot Machines At Race	February 2002
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Retirement

03PA12	Reviewing KPERS Long-Term Funding Plan	February 2003
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Taxation/Revenue

04PA24	Tax Enforcement: Department of Revenue Collection of Delinquent Trust Taxes Owed the State (K-GOAL)	October 2004
04PA20	Taxation of Contractor Equipment: Determining Whether Kansas' System of Taxes and Fees Is Similar to	April 2004
03PA18	Motor Fuel Tax Refunds: Determining Whether Adjustments Made to Refund Claims Were Handled	June 2003
03PA09	Taxes on Motor Vehicle Sales: Reviewing the Dept. of Revenue's Procedures	April 2003
03PA10	Federal Funds: Determining Whether Opportunities May Exist To Draw Down More Federal Funds	April 2003
03PA01	Valuing Commercial Buildings for Property Tax Purposes: Determining Whether Procedures Ensure	November 2002
02PA17	Corporate Income Taxes: Reviewing Factors Affecting the Recent Steep Drop in Those Tax Receipts	August 2002

Legislative Post Audit Summary of Performance Audits Currently Under Way or Approved (January 18, 2005)

(Italics show changes from previous summary)

Audit Title	Main Concerns	Questions Asked	Estimated Date Available
<p>Foster Care: Determining Whether Adoptions Are Being Finalized as Quickly as Possible, Once an Adoptive Family Is Located</p> <p>(Reps. Newton and Landwehr)</p>	<p>Legislators, judges, and others have expressed concerns that some of the “easier” adoption cases may be taking longer than necessary because of financial incentives for the adoption contractor to delay those cases to help subsidize some of the more difficult cases.</p>	<ol style="list-style-type: none"> 1. Have there been unreasonable or unexplainable delays in finalizing adoptions of foster care children in Kansas? 2. Are there any financial incentives in the current system that could encourage delays in issuing the final adoption decree? 	<p>Mid February</p>
<p>Property Valuation in Kansas: Reviewing the Valuation of Certain Agricultural and Commercial Properties</p> <p>(Rep. Schwartz and the Post Audit Committee)</p>	<p>Legislators and some landowners have expressed concerns that certain farm-related structures and commercial properties in rural areas may be valued inconsistently or too highly, or that some land may be valued as agricultural use when it is being used for other purposes.</p>	<ol style="list-style-type: none"> 1. Are county appraisers in Kansas valuing farm and commercial properties according to the law and guidelines established by the Division of Property Valuation? 	<p>Mid-late February</p>
<p>Wyandotte County: Reviewing the Use of Star Bond Moneys Associated with the Kansas Speedway and the Village West Tourism District</p> <p>(Sen. Steineger)</p>	<p>Concerns have been raised about the use of bond moneys, including the reasonableness of prices, fees, and commissions paid to acquire the land, appraise and develop property, issue bonds, and provide marketing, engineering, and architectural services. Other concerns relate to perks being provided to local government employees, and to the costs of a new movie theater project that will be built and operated by the Unified Government of Wyandotte County.</p>	<ol style="list-style-type: none"> 1. Were cost associated with issuing bonds to finance the development of the Speedway and the tourism district reasonable? 2. Were the bond proceeds spent for allowable purposes, and were the costs associated with the items purchased reasonable? 3. What types of discounts or other perks have the Kansas Speedway or other businesses in the tourism district made available to Unified Government and Board of Public Utilities employees? 	<p>Mid-late February</p>
<p>KDOT: Reviewing the Costs Associated with Recent Bond Issues (Limited-scope audit)</p> <p>(Post Audit Committee Chair)</p>	<p>Two bonds KDOT recently sold (totaling \$347 million) call for the interest rate to be recalculated and paid weekly. KDOT reportedly will pay about \$2,500 per week over the 20-year life of these bonds to each of 4 re-marketing agents involved, raising questions about the reasonableness of those fees and the results of any cost-benefit analyses KDOT performed.</p>	<ol style="list-style-type: none"> 1. What functions do the re-marketing agents perform for the fees they receive, and are the fees KDOT is paying for these services in line with what other bond issuers are paying? 2. Why did KDOT take this approach to issuing the bonds, and did officials do a cost-benefit analysis that would justify paying the fees to the re-marketing agents? 	<p>Mid-late February</p>

Senate Ways and Means
 1-24-05
 Attachment 4

<p>Regents Information Systems: Reviewing Computer Security at Various Universities</p> <p>(Legislative Post Audit Committee)</p>	<p>Each year State agencies become more dependent on their computer systems and on the data those systems contain to make decisions, communicate with the public, provide services, and conduct business. While these advances are positive, they also can present significant risks. For example, over the last two years there have been several high-profile computer intrusions at Regents' institutions that resulted in sensitive student and staff data being stolen. This audit is one in an on-going series of audits looking at the security of agencies' computer systems.</p>	<p>1. How well do universities manage the security of their information systems? 2. How well do the universities carry out their security policies? NOTE: The first question will look at KU, KSU, and ESU, and will be issued as a separate report. The second question will look in greater detail at how various policies are carried out at one or more of these three universities, and will be issued in a subsequent report.</p>	<p>First report: early March</p>
<p>SRS: Reviewing the Recent Restructuring of Area Offices and Its Impact on Employees and Clients</p> <p>(Reps. Mays and Gordon, with additional cost question by LPAC)</p>	<p>In response to State revenue shortfalls, in October 2004 SRS announced plans to close area offices and restructure the way services are provided. The plans called for immediately closing 23 rural offices to save \$400,000 in FY 2005, and closing 46 additional offices Statewide over a 3-year period. This plan has led to concerns about the effects of these closures and the related restructuring on staff and clients, and questions about whether the reorganization has resulted in the projected savings.</p>	<p>3. Has SRS adopted and followed a consistent model for restructuring service delivery in those areas of the State where offices are being closed? 4. What impact has the reorganization had on SRS staff? 5. What impact has the reorganization had on client services in the areas affected by the office closures? 6. Has the reorganization resulted in savings?</p>	<p>Not yet started; will attempt to complete by the end of the 2005 session.</p>
<p>Unemployment Benefit Payments: Reviewing Benefit Pay-outs and Changes in the Number of Employees Determined To Be Eligible (Limited-scope audit)</p> <p>(Post Audit Committee Chair)</p>	<p>Benefits paid under the Unemployment Insurance Program can vary widely depending on the economy, but concerns have been raised about the high sustained level of benefit pay-outs since 2002, and the extent to which administrative law judges may be deciding cases in favor of employees who may not be eligible. This 200-hour audit will help determine whether more in-depth audit work may be needed.</p>	<p>1. How has the number of employees applying for and receiving unemployment benefits changed over time?</p>	<p>Not yet started; estimated completion late March</p>
<p>Larned State Hospital: Reviewing the Growth in the Sexual Predator Program</p> <p>(House Social Svcs Budget Comm.)</p>	<p>Larned's Sexual Predator Treatment Program must accept whomever the courts commit. The number of people in the Program is increasing rapidly—from 103 in January 2004 to an estimated 177 by January 2006. This growth has raised a number of questions about the Program's staffing and budget needs, the factors contributing to the growth, changes that might be needed to curb the Program, and experiences in other states' programs.</p>	<p>1. What factors have contributed to the rapid growth in the Sexual Predator Program at Larned State Hospital, and what options exist for controlling that growth? 2. Are budgeted staffing and funding needs for the Program realistic? 3. How do other states' programs compare re: staffing, funding, and people committed?</p>	<p>Not yet started</p>

<p>Medicaid Waivers: Reviewing Differences in Rates and Hours of Usage for Self-Directed and Agency-Directed Care Under the Frail Elderly and Physical Disability Waivers</p> <p>(Senate Ways & Means Subcommittee. on Aging)</p>	<p>The Senate budget subcommittee reviewing Aging's FY2005 budget request noted that clients on the Frail Elderly waiver with self-directed care accounted for only 42% of the people served but 61% of total costs. Other information showed that clients using self-directed care received an average of 68 hours of service per month, compared with 38 hours for clients using agency-directed care. Legislative questions have been raised about such discrepancies.</p>	<ol style="list-style-type: none"> 1. What factors explain the differences in the cost and hours of service for clients receiving self-directed versus agency-directed services under the Frail Elderly or Physical Disability waivers? 2. What is the opportunity cost to the State of those differences? 	<p>Not yet started</p>
<p>Regulation of Credit Unions: Reviewing the Department of Credit Unions' Procedures for Ensuring Institutions' Safety, Soundness, and Compliance with the Law</p> <p>(Rep. Cox and Sen. Teichman)</p>	<p>In recent years, credit unions have expanded beyond their original range of services, spurred in part by regulatory changes and the advent of online services. Questions have been raised about the adequacy of the Department's oversight and procedures for protecting consumers and regulating expansions or mergers. Questions also have been raised about the extent to which out-of-State credit unions are being allowed to operate branches in Kansas without reciprocity agreements, which could put Kansas-based credit unions at a competitive disadvantage.</p>	<ol style="list-style-type: none"> 1. How have Kansas credit union services changed in recent years, and to what extent have credit unions grown in comparison with other segments of the financial-services industry? 2. Does the Department of Credit Unions have adequate procedures for ensuring the safety and soundness of credit unions, and how do they compare to oversight procedures for other financial institutions? 3. Are the Department's actions in relation to credit unions' expanded services consistent with State law? 4. Is the Department effectively regulating the influence of out-of-State credit unions? 	<p>Not yet started</p>
<p>Department of Labor: Reviewing the Effectiveness of Workplace Safety Programs Required Under the Workers Compensation Law (Limited-scope audit)</p> <p>(Sen. Schmidt)</p>	<p>Insurance companies or plans that provide workers comp insurance coverage are required to maintain and provide accident prevention programs for the businesses they insure, and to report that information to the Department of Labor. The Department is authorized to inspect these programs to determine whether they are adequate, and to investigate employer complaints. Legislators are concerned that the Department's oversight efforts are too lax.</p>	<ol style="list-style-type: none"> 1. Is the Department of Labor's oversight of accident prevention programs sufficient to ensure that workers compensation insurers are providing the type of programs the law envisioned? 	<p>Not yet started</p>