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## Department of Administration Testimony

on

**HB 2396**

Senate Ways and Means Committee  
Thursday, May 9, 2013

Chuck Knapp  
Director of Operations and Public Affairs

Mr. Chairman and Members of the Committee:

The Kansas Department of Administration supports HB 2396.

As you know, Legislative Post Audit recently made several recommendations regarding the State Surplus Property Program. I have included a copy of the Legislative Post Audit Performance Audit Report Highlights as an attachment to my written testimony. One recommendation of the LPA was giving the Department of Administration sole authority in designating surplus State property.

In our response to the LPA we concurred with all of the recommendations made for our agency.

Obviously, only the Legislature can grant the agency sole authority, and we support that effort.

The November 2012 Legislative Post Audit claimed giving the Department of Administration the authority to declare properties surplus has two potential benefits:

*"It could provide an objective opinion on what properties are potentially surplus. Defining whether a property is surplus requires subjective judgment. Because agency officials have a vested interest in the properties they own, their evaluation of surplus properties is subject to bias.*

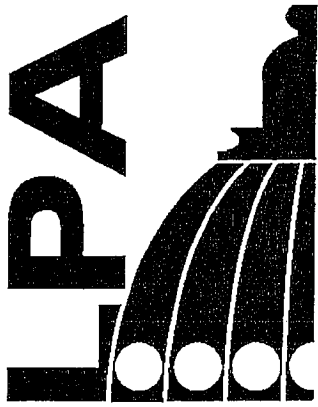
*"It could establish clear responsibility for identifying surplus property. Under the current system, that responsibility is shared by both the Department of Administration and individual state agencies. As a result, it is much harder to hold either party accountable when surplus property is not sold in a timely manner.*

Senate Ways and Means Committee  
Date: 05-09-2013  
Attachment #: 3

*“Unless the department receives adequate authority to make a surplus determination independently, it is unlikely that much real property will ever be considered surplus, much less be sold. That is because in many cases agencies have little incentive to sell their property...”*

Mr. Chairman, we recognize our Department can improve in designating surplus property. HB 2396 gives us the tools necessary to carry out this important mission.

We appreciate the Committee’s interest in this matter, and we look forward to working with you to ensure Kansas taxpayers do not own more property than is absolutely necessary to carry out the functions of their State Government.



# Legislative Post Audit Performance Audit Report Highlights

Highlights

State Asset Management: Evaluating the Possibility of Cost Savings and Revenue Enhancements through Property Sales

## Report Highlights

November 2012 • R-12-010

### Summary of Legislator Concerns

*Legislators were interested in knowing what possibilities exist for the state to sell surplus real property.*

### Background Information

*State agencies own both real and personal property. Real property includes fixed or immovable assets such as land and buildings. Personal property includes movable tangible assets such as cars, office furniture, and computers.*

*State law requires the Department of Administration to assist agencies in identifying and selling real property and to review real property for potential surplus status on its own.*

*As of July 2012, 80% of the revenues from selling real property will go to fund KPERS and 20% will go to the selling agency.*

**QUESTION:** Do Kansas agencies have surplus properties that could feasibly be sold, and how much money could be generated by selling them?

### Findings Related to Real Property:

- We identified eight surplus properties that could be sold for an estimated \$1.5 million to \$2.2 million.
  - These properties either were not used or were not critical to agencies' missions.
  - Although all eight properties can feasibly be sold, a few properties have obstacles that could lower the sale price or make them more difficult to sell.
  - Under current law, none of the revenues generated from selling surplus property go to the State's General Fund.
- Identifying surplus real property is a subjective, lengthy and sometimes difficult process.
  - It requires periodic evaluation and involves a number of subjective judgments.
  - The owners and boundaries of potentially surplus land are not always clear.
- The Department of Administration has not proactively identified surplus real property as required by state law.
  - The department has not developed criteria or guidelines to help agencies identify and sell surplus real property, as required by law.
  - The department has not conducted its own periodic reviews to identify surplus real property, as required by law.
- The Department of Administration lacks the authority to independently designate real property as surplus.
- The process for selling surplus real property includes disincentives for state agencies.
  - State agencies only keep 20% of the proceeds from selling surplus property.
  - State agencies may be able to generate ongoing revenues from leasing real property.
  - The process of identifying and selling property consumes staff time and money.
  - Agencies may not be able to easily replace the land or buildings they sell.
- Delays in selling the Atchison Juvenile Correctional Facility highlight problems with the surplus real property disposal process.
  - It took over a year for the Atchison Facility to be declared surplus.
  - Despite several requests by JJA, the department did not order an appraisal for this property until October 2012.
  - The facility has likely lost much of its estimated value because it has been vandalized and has deteriorated since it closed.

## Findings Related to Personal Property:

- The State Surplus Property program is not an efficient way to dispose of surplus personal property.
  - In each of the last two years, the State Surplus Property program operated at a net loss of approximately \$50,000.
  - The program is not designed to maximize revenues; it is designed to redistribute items among state agencies and provide agencies with a disposal service for items with little or no value.
  - The program does not sell surplus items in a timely manner and has made it more difficult for individuals to buy computers.
  - The department has not taken steps to minimize associated lease costs.
- The state's contractor for online auctions is better equipped to maximize agencies' revenues from selling surplus items.
  - In fiscal year 2012, it was almost seven times more costly to sell surplus items through the State Surplus Property program as through Purple Wave.
  - Purple Wave has greater market visibility and can more effectively sell low-cost items in bulk by bundling them.
- Several state agencies prefer to use Purple Wave instead of the State Surplus Property program.
  - Several officials from agencies in Shawnee County told us they want to maximize their revenues by using Purple Wave.
  - Department of Transportation officials told us they sell more items than the State Surplus Property program can reasonable handle.
- State agencies do not want to sell surplus vehicles because they are hard to replace once sold, and agencies have few negative consequences for holding onto surplus property.

## SUMMARY OF RECOMMENDATIONS

### Recommendations:

- We made a number of recommendations for the Department of Administration aimed at selling surplus real properties and addressing the problems regarding the Department of Administration's surplus property process. We also made several recommendations for legislative consideration to strengthen relevant laws in several areas.

## AGENCY RESPONSE

- Department of Administration officials generally agreed with our recommendations. Of the five agencies for which we identified properties as surplus, officials at Osawatomie State Hospital, Kansas Neurological Institute, and the Kansas Commission on Veterans' Affairs disagreed with that designation.

### **HOW DO I GET AN AUDIT APPROVED?**

By law, individual legislators, legislative committees, or the Governor may request an audit, but any audit work conducted by the Division must be approved by the Legislative Post Audit Committee, a 10-member committee that oversees the Division's work. Any legislator who would like to request an audit should contact the Division directly at (785) 296-3792.

*Individual state agencies are responsible for identifying and selling surplus personal property. State law allows agencies to auction surplus items, sell them at a fixed or negotiated price, or take sealed bids for the items.*

*The Department of Administration requires executive branch agencies located in Shawnee County to send all surplus items to its State Surplus Property program.*

*The state's contract with Purple Wave, an online auction company, allows some agencies to sell surplus personal property. However, executive branch agencies located in Shawnee County generally cannot use Purple Wave to dispose of surplus property.*

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