



MEMORANDUM

Legislative Division of Post Audit
800 SW Jackson, Suite 1200
Topeka, KS 66612-2212
voice: 785.296.3792
fax: 785.296.4482
web: www.kslpa.org

TO: Members, House Appropriations Committee
FROM: Scott Frank, Legislative Post Auditor
DATE: March 20, 2013
SUBJECT: Testimony on SB 1

I appreciate the opportunity to testify in favor of Senate Bill 1, which would amend language in the Legislative Post Audit Act (K.S.A. 46-1106) to reduce the frequency of operations audits of the State Treasurer's Office and the Pooled Money Investment Board (PMIB). The bill would also create a requirement for a brief transition audit of the assets held by the State Treasurer's Office whenever there is a new State Treasurer.

Current Audit Requirement

State law currently requires annual audits of the financial management practices of the State Treasurer's Office and the Pooled Money Investment Board (PMIB). These audits focus on selected financial management practices, such as the Treasurer's statutory obligations regarding depositing receipts, collateralizing deposits, handling unclaimed property, and distributing local taxes and state aid to local units of government. In addition, the audit of the PMIB includes a comparative investment performance review and an analysis of the investment program. This requirement has been in place since 1998 when was initiated at the request of the State Treasurer.

Audit Findings and Costs

The audits are conducted by a CPA firm under contract with the Legislative Division of Post Audit (currently RubinBrown, LLP). Under the current contract with RubinBrown, the state spends about \$23,000 a year on the audits. The State Treasurer's Office and PMIB each pay for the cost of their audit work.

These audits have not found any significant problems in many years. The most recent audit of the State Treasurer's Office (see **Attachment A** for the highlights of this audit) found only two minor issues—one regarding late distributions of highway equalization funds and the other regarding certain reports to the Department of Administration. Both findings are minor technical issues and the Legislative Post Audit Committee has introduced two bills—HB 2186 and SB 102—to amend state law to fix the issues. The audit of the PMIB has not found any issues since 1998 (see **Attachment B** for the highlights of the most recent audit). In addition, significant financial-management areas of the State Treasurer's Office and PMIB already are examined as part of the annual audit of the state's financial statements.

Senate Bill 1 would reduce the audit requirements for the State Treasurer's Office and PMIB from annually to once every three years. In addition, it would require Legislative Post Audit to conduct a transition audit of the assets on hand any time there was a change in the State Treasurer.



Legislative Post Audit Financial Audit Report Highlights

Attachment A

Highlights

Examining Selected Financial Management Practices of the State
Treasurer's Office: Fiscal Year 2012

Report Highlights

December 2012 • R-12-016

Summary of Legal Requirements

State law requires an annual audit of the State Treasurer's Office. This year's examination was conducted by RubinBrown, a CPA firm under contract with the Legislative Division of Post Audit.

Background Information

The Treasurer's Office handles several key financial responsibilities for the state. Those include:

- depositing receipts
- collateralizing deposits
- handling unclaimed property
- serving as a paying agent for bonds issued by the state or local governments
- distributing local taxes and state aid
- administering programs related to agricultural production loans, postsecondary education savings, investments developing scholars, and housing loans

AUDIT OBJECTIVES: The examination addresses several key areas of responsibility for the State Treasurer's Office.

- The auditors found that the management's assertions were fairly stated in all material respects, meaning that, for the areas examined, the State Treasurer's Office complied with the applicable statute.
- The auditors found two minor issues:
 - The State Treasurer's Office prepared and signed the daily cash sheet and delivered a copy to a staff member of the Office of Management Analysis and Standards. Statute requires the cash sheet to be submitted to the Director of Accounts and Reports. However, that position is vacant as there is no longer a Division of Accounts and Reports.
 - For other taxes and state aid moneys, the State Treasurer's Office made the distributions as required, but the distribution for the highway equalization was made after the due date. The auditors concluded that this is reasonable based on the timing of when data is made available.

SUMMARY OF RECOMMENDATIONS:

- The auditors made no recommendations.

AGENCY RESPONSE:

- The State Treasurer commented on the minor issues and requested the Post Audit Committee to submit legislation that would modify the statutes and allow for a more reasonable processing expectation for the Highway Equalization funds.

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.

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Scott Frank
Legislative Post Auditor

For more information on this
audit report, please contact

Julie Pennington
(785) 296-3792
Julie.Pennington@lpa.ks.gov



Legislative Post Audit Financial Audit Report Highlights

Attachment B

Highlights

Examining Selected Financial Management Practices of the
Pooled Money Investment Board: Fiscal Year 2012

Report Highlights

December 2012 • R-12-015

Summary of Legal Requirements

State law requires an annual audit of the Pooled Money Investment Board. This year's examination was conducted by RubinBrown, a CPA firm under contract with the Legislative Division of Post Audit.

Background Information

The Pooled Money Investment Board has primary responsibility for investing moneys in the State Treasury, including the following:

- *establishing investment policies*
- *establishing an applicable market rate*
- *awarding state deposits to banks*
- *following established investment policies*
- *providing periodic investment reports*

AUDIT OBJECTIVES: The examination addresses several key areas of responsibility for the Pooled Money Investment Board.

- The auditors found that the management's assertions were fairly stated in all material respects, meaning that, for the areas examined, the board complied with the applicable statute or policy.
- The investment performance was within 0.5% of the benchmark for the current year.

SUMMARY OF RECOMMENDATIONS:

- The auditors made no recommendations.

AGENCY RESPONSE:

- The Pooled Money Investment Board officials agreed with the audit findings.

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