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MEMORANDUM

To: Chairman Barker
Members of the House Committee on Federal and State Affairs

From: Jason B. Long, Senior Assistant Revisor

Date: January 17, 2018

Subject: HB 2441 – Financial-compliance audits of certain state agencies

House Bill No. 2441 (HB 2441) reorganizes various statutory requirements concerning financial-compliance audits of the Kansas Lottery (Lottery), the Kansas Public Employees Retirement System (KPERs), and the Department of Administration (Department). Under current law, the Division of Legislative Post Audit (LPA) is required to conduct a security audit of the Lottery and financial-compliance audits of the Lottery, KPERs, and the Department. LPA is given the option of entering into contracts with auditing firms for completion of these audits. LPA has elected to do so in past years. Under HB 2441 instead of LPA acting alone to contract for these audits, the bill would delegate such duties to the state agencies in general with continued involvement by LPA.

Sections 1 through 7 of the bill pertain to the Lottery audits. Most of the provisions in these sections are current statutory requirements for these audits. HB 2441 shifts the enforcement and implementation responsibilities from LPA to the Lottery. Section 1 requires a security audit of the Lottery every three years starting in 2019. An annual financial-compliance audit of the Lottery is also required starting in 2019. Section 2 establishes the Kansas Lottery Audit Contract Committee, which consists of the executive director of the Lottery, the Lottery Commission chairperson, and the Post Auditor. The Contract Committee will select the firm to perform the audit and monitor the performance of the auditing firm. The executive director of the Lottery will oversee the bidding process and enter into the contract with the selected firm. These provisions will be part of the Kansas Lottery Act.

Sections 8 through 10 of the bill pertain to KPERs audits. Section 8 requires an annual financial-compliance audit of KPERs starting in 2019. The auditing firm is to be selected by the

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KPERS Board of Trustees. Under Section 9 the executive director of KPERS will monitor the performance of the audit. Section 10 requires LPA to perform a performance of KPERS once every three years.

Sections 11 through 19 of the bill pertain to the Department audits. Section 11 requires an annual financial-compliance audit for the Department's annual financial report starting in 2019. Starting 2020, the bill requires separate audit reports on the financial management practices of the State Treasurer and the Pooled Money Investment Board every two years.

Sections 12 through 17 provide audit contract provisions for the Department similar to those applicable to the Lottery audits. Section 13 establishes the Department of Administration Contract Audit Committee, which consists of the Secretary of Administration, the Director of Accounts and Reports, the Post Auditor, the State Treasurer, and the Director of Budget. The Contract Committee will select the auditing firms for Department audits pursuant to Section 15, and monitor the performance of the audit in accordance with Section 17. The Secretary of Administration will oversee the bidding process and enter into the contracts with the selected firms.

Section 18 provides that if the cost of an audit of a state agency that is required by law exceeds the costs attributable to the duties and responsibilities of the Department, then the Secretary will assess charges for the additional cost. Additionally, under Section 19, if a state agency receives a federal grant or other financial assistance that requires an audit of the agency, then the Secretary is to determine the portion of such grant reasonably required to cover the costs of the audit, and upon approval of such amount by the Contract Committee, the state agency will reimburse the Department for the cost of the audit.

Section 21 of HB 2441 amends K.S.A. 46-1106 to strike the subsections that pertain specifically to the Lottery, KPERS, or the Department as those provisions are now contained in Sections 1 through 19.

HB 2441 also repeals K.S.A. 46-1121 and 46-1134. K.S.A. 46-1121 current provides for the reimbursement of LPA for federally required audits that are a condition of a federal grant. This statute is replaced by Section 19 of the bill. K.S.A. 46-1134 requires a security audit of the Lottery. This statute is replaced by Section 1 of the bill.

The remaining sections of HB 2441 make amendments to various administrative statutes to conform those provisions to the substantive changes contained in Sections 1 through 19.

If enacted, HB 2438 would become effective on July 1, 2018.