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MEMORANDUM

To: Chairman Estes and Members of the Committee on Federal and State Affairs
From: Matt Sterling, Assistant Revisor of Statutes
Date: March 12, 2018
RE: House Bill 2441

HB 2441 would transfer responsibility for the Statewide Single Audit, a financial audit of the Kansas Lottery, a security audit of the Kansas Lottery, and a financial audit of the Kansas Public Employees Retirement System (KPERs) from the Legislative Division of Post Audit (LPA) to the audited agencies. LPA is currently responsible for administering the audit contracts, but the agencies are responsible for the costs. Agencies are billed by LPA who collects the funds and pays the contracted auditing firms for their services.

The bill would transfer responsibility for procuring and administering the Statewide Contract Audit from LPA to the Department of Administration (Department). The Statewide Single Audit includes four statutorily required audits: An annual audit of the State's consolidated annual financial report, an annual audit of the state's compliance with federal requirements, a biennial examination of financial management practices at the State Treasurer's Office, a biennial examination of financial management practices at the Pooled Money Investment Board. In addition, the audit includes additional audits of the Department of Transportation and audits of two state revolving loan funds administered by the Department of Health and Environment.

HB 2441 would create the Department of Administration Contract Audit Committee to select a firm to conduct the audit. This committee would consist of the Secretary of Administration, the Director of Accounts and Reports, the Post Auditor, the State Treasurer, and the Director of the Budget.

Under the bill, the Department would be allowed to charge state agencies for audit expenses that are above regular Department operating costs. Moneys received from agencies would be deposited into the Department of Administration Audit Services Fund, which would be created by the bill.

The bill would create the Kansas Lottery Audit Contract Committee to select a firm to conduct the required audits. This committee would consist the Executive Director of the Kansas Lottery, the Chairperson of the Kansas Lottery Commission, and the Post Auditor. The bill would also require the KPERs Board of Trustees to select a firm to perform the audit and require the LPA to conduct a performance audit of KPERs at least once every three years.

If the committee takes action on this bill, a technical correction is necessary on page 3 of the bill and is attached to this memo.

1 be submitted to the Kansas lottery audit contract committee.

2 New Sec. 4. (a) The Kansas lottery audit contract committee may
3 conduct discussions with each of the firms submitted by the executive
4 director and then shall select a firm or firms from such listing to provide
5 an audit as required by section 1, and amendments thereto.

6 (b) The Kansas lottery audit contract committee shall consider, in
7 making their selection, qualifications of the firm and staff, the technical
8 proposal and fee. ~~The firm selected by the committee for the financial
9 compliance audit required under section 1(b), and amendments
10 thereto, shall be located in Kansas.~~

11 (c) If the Kansas lottery audit contract committee is unable to contract
12 with any of the selected firms, the committee shall request the executive
13 director to provide another list of firms to be reviewed by the committee.
14 Upon receipt of such list, the committee shall proceed in accordance with
15 the provisions of this section.

16 New Sec. 5. (a) Each contract for an audit required by section 1, and
17 amendments thereto, entered into under section 3 and section 4, and
18 amendments thereto, shall be entered into between the executive director
19 of the Kansas lottery and the firm or firms selected to perform the audit.
20 Each such contract shall require the firm or firms selected to submit
21 evidence that is satisfactory to the Kansas lottery audit contract committee
22 that the firm has general professional liability insurance or specific
23 liability insurance that is adequate for such audit.

24 (b) In addition to the requirements in subsection (a), each such
25 contract for audit services shall specify the responsibilities undertaken by
26 the firm selected to perform such audit and such firm shall be responsible
27 for all material errors and omissions in the performance of such contract.

28 (c) Such contracts shall not be subject to the provisions of K.S.A. 75-
29 3739 or 75-37,102 or K.S.A. 2017 Supp. 75-37,130 through 75-37,135,
30 and amendments thereto.

31 New Sec. 6. (a) The Kansas lottery audit contract committee shall
32 monitor the performance of the firm or firms conducting audits pursuant to
33 a contract entered into under section 5, and amendments thereto, to ensure
34 that such audit is performed in accordance with the specifications
35 developed for the conduct of such audit.

36 (b) (1) The firm selected to perform an audit required by section 1(a),
37 and amendments thereto, shall submit a final written audit report by
38 December 1 of each year to the executive director of the Kansas lottery and
39 the legislative post audit committee.

40 (2) The firm selected to perform an audit required by section 1(b),
41 and amendments thereto, shall submit a preliminary written audit report by
42 September 15 of each year to the executive director of the Kansas lottery
43 and the secretary of administration. A final audit report shall be submitted