

Approved: 3/23/2011

Date

MINUTES OF THE HOUSE GOVERNMENT EFFICIENCY COMMITTEE

The meeting was called to order by Representative Mike Burgess, Chair, at 3:30 p.m. on March 9, 2011 in Room 546-S of the Capitol.

All members were present except:

Rep. Rocky Fund - Excused

Committee staff present:

Julian Efird, Legislative Research
Iraida Orr, Legislative Research
Renaë Jefferies, Revisor of Statutes
Linda Herrick, Committee Assistant

Conferees appearing before the Committee:

Scott Frank, Legislative Post Auditor
State Legislative Post Audit Division

Others attending:

(See attached list.)

Mr. Frank gave a presentation (Attachment 1) on the Legislative Post Audit efficiency audit process. He noted there are three general areas of efficiency auditing with the dates of each: Kansas Sunset Law (1978-1992); K-GOAL version 1 (1992-2008); and K-GOAL version 2 (2008 to present).

The Kansas Sunset Law was established in 1978 and required a performance audit of state agencies, boards, and commissions followed by public legislative hearings in both Chambers. The purpose of the law was to abolish selected entities unless the Legislature acted to retain them. Of the 37 agencies, boards, or programs identified and evaluated, five were abolished, two were combined, and one agency was separated to operate as its own agency.

In 1992, the Kansas Legislature replaced the Sunset Law with the Kansas Governmental Accountability Law (K-GOAL). This different approach required legislative committees to periodically review and evaluate the operations of selected state agencies to determine their necessity and to identify inefficiencies. During the sixteen years of K-GOAL's operation, two cycles of the eight-year schedule of agency reviews were completed. Four agency audits were done every year with audits available to the Legislature by the 30th calendar day of the session.

In 2008, with the bad economy, K-GOAL was revised (version 2) to be expanded to efficiency audits, as specified by the bill, on any state agency or state program. A list of the agencies to be audited is provided by the Legislative Post Auditor to the Legislative Post Audit Committee. Specified legislative committees review and evaluate the state agency audited under K-GOAL.

In 2008, the Legislative Post Audit Committee amended its rules to establish a process for identifying and approving more audits that address efficiency issues. These rules were essentially the same as the Legislature made to K-goal at the same time. Eight to ten audits are completed by December 1 of each year that look for efficiencies and opportunities for savings. The performance audits are reviewed by the Legislature during the next regular session.

An attachment gave a summary of audit findings and estimated annual savings. Another attachment was a scope statement giving background on a review of delinquent accounts receivable and what state agencies could do to improve the collection process. Mr. Frank then answered questions from the committee members.

Chair Burgess thanked Mr. Frank for his presentation and the committee thanked him for the work performed by the Legislative Post Audit Division.

The committee minutes of February 7, 8, 9, 10, 14, 15, 16 17 and 21 had been furnished to the committee. It was moved by Representative Ruiz, seconded by Representative Roth, and the committee voted to approve the committee minutes noted above.

The Chair asked if there was any other business, and there was none. The next meeting is scheduled for Thursday, March 10, 2011. The meeting was adjourned at 4:13 p.m.

**HOUSE GOVERNMENT EFFICIENCY AND FISCAL
OVERSIGHT COMMITTEE**

GUEST LIST

DATE: 3-⁹8-11

[illegible]



MEMORANDUM

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TO: Members, House Government Efficiency Committee
FROM: Scott Frank, Legislative Post Auditor
DATE: March 9, 2011
SUBJECT: Legislative Post Audit Efficiency Audit Process

This memo briefly outlines the history of efficiency auditing by the Legislative Division of Post Audit. It covers several different initiatives, including the original Kansas Sunset Law, the Kansas Governmental Accountability Law (K-GOAL), and the current Legislative Post Audit Committee efficiency audits.

The Kansas Sunset Law (1978-1992)

The Kansas Sunset Law was established in 1978 to abolish selected State agencies, boards, or commissions unless the Legislature acted to retain them. Kansas was the 26th state to adopt a sunset law and 35 states had adopted sunset provisions by 1985. The initial thrust of most sunset legislation was on regulatory agencies and boards, but was subsequently expanded.

The Kansas Sunset Law required a performance audit of each agency, followed by public legislative hearings in both chambers. It identified 37 agencies to be abolished (all but two—SRS and KDHE—were regulatory in nature), and provided for a one-year “wind-up” period for abolished agencies. Retained agencies were continued for a maximum of six years. Of the 37 agencies or programs that were evaluated under the law:

- Five agencies or boards were abolished. Those agencies were the Athletic Commission, Mobile Home and Recreational Vehicle Commission, Council of Advisors on Consumer Credit, Accountancy Advisory Council, and Kansas Energy Office.
- Two agencies were combined. The Board of Social Work Examiners and Board of Examiners of Psychologists became the Behavioral Sciences Regulatory Board.
- One agency was separated out into its own agency. The Office of Securities Commissioner was separated from the KCC.

K-GOAL (Version 1) (1992-2008)

In 1992, the Legislature replaced the original Kansas Sunset Law with the Kansas Governmental Accountability Law (K-GOAL). As it was originally enacted, the purpose of K-GOAL was to provide accountability by having legislative committees periodically review and evaluate the operations of selected state agencies. This included “determining the necessity, propriety and legality of the operations” and “identifying inefficiency and ineffectiveness.”

K-GOAL set out an eight-year schedule of agencies to be reviewed and evaluated and called for the Legislative Post Audit Committee to direct a performance audit of each of these agencies. The audits had to be completed and available to the Legislature by the 30th calendar day of the session when they were due for legislative evaluation and review. The Legislature amended the

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bill over the years to add or remove certain agencies from the schedule, and to give the Legislative Post Audit Committee the flexibility to rearrange the schedule as needed.

K-GOAL (Version 2) (2008 to present)

In 2008, K-GOAL underwent a comprehensive revision. Rather than assign specific agencies to an multi-year audit schedule, the new law expands K-GOAL to provide accountability for any state agency or state program. Each state agency or program is subject to audit, review, and evaluation under K-GOAL as determined by the Legislative Post Audit Committee.

Under the amended law, the Legislative Post Audit Committee directs the Post Auditor to conduct at least four audits each year under K-GOAL. The bill specifies that the agencies or programs to be audited and the scope of the audits will be selected from a list provided to the Committee by the Legislative Post Auditor. Audit topics can come from interested parties, including the general public. Each performance audit has to be completed by December 1 for review by the Legislature during the next regular session.

The scope of the performance audits conducted under K-GOAL can be broad or narrow, as defined by Legislative Post Audit Committee with the Post Auditor's advice. These audits may include a determination of the following factors:

- Whether the agency is still needed;
- Whether another federal, state, local, or private agency exists that could effectively perform the functions of the agency or program;
- Whether the agency or program could be operated more efficiently and still fulfill its intended purpose; and
- Whether there are any other factors determined by the Post Auditor or directed by the Committee that are needed for the audit.

The bill authorizes the Senate Ways and Means Committee, the House Appropriations Committee, the Legislative Budget Committee or committees as determined by the Legislative Coordinating Council to review and evaluate the operations of the state agency or program that's audited under K-GOAL.

Legislative Post Audit Committee Efficiency Audits (2008 to present)

In 2008, the Legislative Post Audit Committee amended its rules to establish a process for identifying and approving more audits that address efficiency issues. The rule changes essentially mirror the changes the Legislature made to K-GOAL at about the same time, except the committee has set a goal of focusing half of its work on efficiency issues (about 8-10 audits a year—more than is required under K-GOAL). The topics are developed by Division staff as follows:

- **Division staff prepare an informal list of potential efficiency topics for the Legislative Post Audit Committee to consider.** These topics come from any number of places including audits conducted in other states, things the staff observe while conducting other audits, and suggestions from the public.
- **Committee members direct staff to develop formal scope statements for the topics in which they are interested.** Staff conduct more extensive background research to develop an audit approach and do a preliminary assessment of the potential for finding savings or additional revenues.
- **The Legislative Post Audit Committee considers the efficiency scope statements along with requests from individual legislators and committees when it selects audit topics.** This happens about four or five times a year.

**Significant Savings and Revenue Enhancements Identified in Audit Reports
Fiscal Years 2009-2011**

Audit Title/ Summary of Findings	Estimated Annual Savings
COMBINING STATE AGENCIES	
A K-GOAL Audit of Agricultural-Related Agencies and Whether They Could Be Combined to Achieve Cost Savings —Kansas is one of six states that doesn't place any of its animal health oversight or conservation grant functions within its Department of Agriculture. Kansas could save money by merging the two agencies with the Department of Agriculture, through eliminating or restructuring staff positions, and through other operating costs reductions. Officials at the Conservation Commission reduced rent and positions and have realized savings of \$272,758.	\$710,000
Financial Regulatory Agencies in Kansas: A K-GOAL Audit Determining Whether Functions Could Be Combined —Consolidating Kansas' Department of Credit Unions, Office of the Bank Commissioner, and Office of the Securities Commissioner, could save at least \$260,000 annually, mostly from staff reductions or restructurings. There are additional opportunities savings (\$295,000 annually) that could be achieved even if the agencies are not consolidated.	\$555,600
Adult Correctional Agencies: Determining Whether Functions Could Be Combined To Gain Cost Efficiencies —From an efficiency standpoint, we found no benefit to merging the three-member Parole Board into the Department of Corrections, but merging the Sentencing Commission staff function into the Department of Corrections would save about \$152,000 a year by eliminating duplicate administrative functions.	\$152,000
REORGANIZING LOCAL DISTRICTS	
K-12 Education: Reviewing the Potential for Costs Savings From Reorganization of Kansas School Districts —Under one of the scenarios we developed, the current 293 districts potentially could be consolidated into 152 districts, which could save in reduced education aid provided to districts.	\$111,200,000
Judicial Districts in Kansas: Determining Whether Boundaries Could Be Redrawn to Increase Efficiency —Savings that could be achieved vary based on the assumptions and estimates used. Under one scenario, had the district courts operated in fiscal year 2008 with 13 judicial districts instead of 31, we estimated that court personnel and travel costs combined could have been \$6.2 million (5.4%) less for State and local governments combined. Even without redrawing existing judicial district boundaries, the State could achieve cost savings by eliminating the one-judge-per-county law.	\$6,200,000
BENEFITS PROGRAMS	
Prescription Drugs: Reviewing What KHPA Is Doing To Control Prescription Drug Costs in Programs It Oversees —The Health Policy Authority already has implemented several strategies to control prescription drug costs in the Medicaid program and the State Employee Health Plan. We identified five additional strategies for the Medicaid program—such as joining a purchasing consortium, regulating mental health prescription drugs, and reducing dispensing fees paid to pharmacists—that could save the Authority between \$3.8 million and \$4.6 million per year.	\$6,850,000

Statewide Medical Expenditures: Reviewing Medicaid Expenditures for Fraud and Abuse —Using data-mining techniques, we identified a number of suspicious Medicaid claims for federal fiscal year 2006 for such things as claims for clients whose income appeared to exceed program limits, claims for clients who did not provide a valid Social Security number, and other suspicious claims.	\$3,110,243
Child-Care Assistance: Determining Whether SRS' Procedures Limit the Risk of Improper Payments —Overall, SRS has reasonable procedures in place to reduce improper payments in the Child-Care Assistance Program, and those procedures caught most of the potentially improper payments we identified. However, we noted that 571 families whose incomes appeared to significantly exceed the Program's basic guidelines received \$1.8 million in child-care assistance in 2007. Among those 571 were 30 families whose income exceeded \$100,000.	\$1,800,000
OTHER	
Agency Data Centers: A K-GOAL Audit Assessing the Potential Savings of Consolidation —The five agencies we reviewed could virtualize another 364 existing servers. In addition, DISC could lease about 200 virtualized servers to agencies using existing server space within DISC, and another 260 if it bought more equipment and expanded its leasing program.	\$726,000

SCOPE STATEMENT

Accounts Receivable: Reviewing Agencies' Efforts to Collect Amounts Owed to the State

Citizens expect the State to collect revenues in an efficient and timely manner. Currently, various State agencies have overdue accounts receivables. Receivables are uncollected revenues such as taxes, that private individuals, businesses, agencies or other governmental agencies owe the State.

In Kansas, agencies have accounts receivables in areas such as sales and income taxes, fees and dues, and fines and penalties. In 1981, Kansas established the Setoff Program in the Department of Administration to assist agencies in collection of delinquent accounts receivables. Through this Program, the Director of Accounts and Reports can "set off" moneys the State owes debtors against moneys owed to the State. To accomplish this, the Setoff Program matches tax refund, payroll, and pension payments in process against debts owed to the State, and withholds those payments accordingly.

In 2008, the Washington State Auditor's office released a report examining receivables owed to six state agencies and those agencies' collection practices. The audit found that agency staff didn't always follow collection best practices, and that doing so potentially could have generated \$15.6 million a year in revenues.

Legislators have expressed interest in knowing the extent to which improving State agency collection practices could result in increased revenues for the State.

A performance audit in this area would address the following question:

1. **Could State agencies improve the collection of delinquent accounts receivable?** To answer this question, we would identify appropriate best practices and compare those practices to collection policies and practices for a selection of State agencies. For a sample of cases, we would evaluate whether collection efforts were timely, and whether they successfully recovered money owed to the State. We would review the age and amount of past due debts over time, as well as the percentage of successful collections to identify any trends. We would also review the results of the Setoff Program in terms of successful collection rates. We would conduct other work as necessary.

Estimated resources: 3 staff for 6-8 weeks (plus review)

Preliminary estimate of enhanced revenue (a): Between \$250,000 and \$6 million a year

(a) This is a preliminary estimate intended to help the Committee select audit topics. The estimate draws on a limited analysis of readily available information. The potential revenues identified as part of a completed efficiency audit may differ from this estimate.