



Legislative Post Audit Financial Audit Report Highlights

Highlights

State of Kansas: Financial Audit of Fiscal Year 2015

Report Highlights

December 2015 • R-15-018

Summary of Legal Requirements

State law requires an annual audit of the general purpose financial statements and “the financial affairs and transactions of a state agency required to comply with federal government audit requirements...” The results of the audit are presented in two parts. This first part is the report on the state’s basic financial statements. The second part, the Report on Federal Awards in Accordance with OMB Circular A-133, will be issued separately.

Background Information

CliftonLarsonAllen, a CPA firm under contract with the Legislative Division of Post Audit, conducted this audit.

*The Comprehensive Annual Financial Report (CAFR), including the **Independent Auditor’s Report** and the **Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters**, may be found on the Department of Administration’s website.*

AUDIT OBJECTIVES: Financial audits done in accordance with government audit standards assess (1) whether the audited organization’s financial statements are fairly presented in accordance with applicable accounting principles, (2) whether there are any significant problems with the organization’s internal controls, and (3) whether the organization complied with applicable legal requirements.

- The auditors expressed unmodified opinions on the state’s basic financial statements, meaning that, after the restatements and adjusting journal entries were made, the financial statements present the state’s financial position fairly and in conformity with generally accepted accounting principles in all material respects.
- The auditors emphasized two matters with regard to the financial statements:
 - At the end of fiscal year 2015, the state had a deficit in its general fund balance of \$285 million. This is the result of an operating deficit of \$678 million over the last two fiscal years and raises concerns about the state’s ability to meet its future financial obligations.
 - The financial statements reflect the state having adopted a new accounting guidance in accordance with changes to generally accepted accounting principles (GAAP).
- The auditors reported five material weaknesses in the state’s internal control over financial reporting. As a result, adjusting entries and restatements of previous fund balances were needed to correct the financial statements. The five material weaknesses were as follows:
 - The auditors noted an error in the journal entry to record taxes receivable which would have materially affected the general fund balance and was not identified by management in a timely fashion (finding 2015-001). The Department of Administration disagreed with this finding (see the Agency Response section).
 - As a result of improvements in its processes, the state identified an error that occurred in prior years related to Economic Development Initiative Funds transfers from the Department of Commerce to two of the universities (finding 2015-002). The Department of Administration disagreed with this finding (see the Agency Response section).
 - The auditors identified a missing account receivable reflecting outstanding provider assessments paid by hospitals (finding 2015-003). The estimated amount of the receivable was \$16.5 million.
 - Various errors occurred in the university system in prior years that were not noted or corrected (finding 2015-004). As a result, restatements of prior period balances were required.
 - Some universities do not have a comprehensive general ledger system (finding 2015-005).
- The audit disclosed no instances of noncompliance with applicable legal requirements that were material to the state’s financial statements.

SUMMARY OF RECOMMENDATIONS:

- The auditors made recommendations aimed at addressing each of the findings.

AGENCY RESPONSES:

- The Department of Administration and the universities affected expressed disagreement with findings of material weaknesses as follows:
 - Finding 2015-001 – The Department of Administration agrees that the error occurred but contends it did not have the opportunity to complete later steps in the control process that would have detected the error before the financial statements were finalized.
 - Finding 2015-002 – The Department of Administration, Wichita State University and Kansas State University agree that the cash status of the EDIF fund was not properly recorded but disagree that the two universities are to receive funds as a reimbursement.
- The Department of Administration, Department of Health and Environment, Board of Regents, and state universities developed corrective action plans to address each of the findings.

HOW DO I REQUEST AN AUDIT?

By law, individual legislators, legislative committees, or the Governor may request an audit, but any audit work conducted by the division must be directed by the Legislative Post Audit Committee. Any legislator who would like to request an audit should contact the division directly at (785) 296-3792.

Legislative Division of Post Audit

800 SW Jackson Street
Suite 1200
Topeka, Kansas 66612-2212
Telephone (785) 296-3792
Fax: (785) 296-4482
Website:
<http://www.kslpa.org/>

Scott Frank
Legislative Post Auditor

For more information on this
audit report, please contact
Julie Pennington
(785) 296-3792
Julie.Pennington@lpa.ks.gov