



Legislative Post Audit Financial Audit Report Highlights

Highlights

State of Kansas: Financial Audit of Fiscal Year 2016

Report Highlights

December 2016 • R-16-016

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 Independent Auditor’s Report on Compliance for the Major Program and on Internal Control over Compliance Required by the Uniform Guidance, 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 2016, the state had a deficit in its general fund balance of over \$500 million. This is the result of an operating deficit over the past several fiscal years and raises concerns about the state’s ability to meet its future financial obligations.
 - Adjustments were made to the beginning net positions and fund balances to correct errors from prior years.
- The auditors reported two material weaknesses and two significant deficiencies in the state’s internal control over financial reporting. As a result, restatements of previous fund balances were needed to correct the financial statements. The two material weaknesses were as follows:
 - In 2015, the governmental activities total net position was overstated by approximately \$168 million due to KDOT’s net pension liability, deferred outflows of resources and deferred inflows of resources being omitted from the Statement of Net Position.
 - In 2015, the General and Social Services funds balance was understated by approximately \$31 million due to some of DCF’s accounts receivables not being recorded.
- 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 RESPONSE:

The Department of Administration, Kansas State University, and University of Kansas Medical Center 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.

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