



EXAMINATION REPORT

Examining Selected Financial Management Practices of the State Treasurer's Office, Fiscal Year 2016

**A Report to the Legislative Post Audit Committee
By CliftonLarsonAllen, Under Contract with
the Legislative Division of Post Audit
State of Kansas
December 2016**

Legislative Division of Post Audit

The **Legislative Division of Post Audit** is the audit arm of the Kansas Legislature. Created in 1971, the division's mission is to conduct audits that provide the Legislature with accurate, unbiased information on the performance of state and local government. The division's audits typically examine whether agencies and programs are effective in carrying out their duties, efficient with their resources, or in compliance with relevant laws, regulations and other requirements.

The division's audits are performed at the direction of the **Legislative Post Audit Committee**, a bipartisan committee comprising five senators and five representatives. By law, individual legislators, legislative committees, or the Governor may request a performance audit, but the Legislative Post Audit Committee determines which audits will be conducted.

Although the Legislative Post Audit Committee determines the areas of government that will be audited, the audits themselves are conducted independently by the division's professional staff. The division's reports are issued without any input from the committee or other legislators. As a result, the findings, conclusions, and recommendations included in the division's audits do not necessarily reflect the views of the Legislative Post Audit Committee or any of its members.

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professional qualifications, the quality of the audit, and the characteristics of professional and meaningful reports. The standards also have been endorsed by the American Institute of Certified Public Accountants (AICPA) and adopted by the Legislative Post Audit Committee.

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Senator Michael O'Donnell, Chair
Senator Anthony Hensley
Senator Laura Kelly
Senator Jeff Longbine
Senator Julia Lynn

Representative Virgil Peck, Jr., Vice-Chair
Representative John Barker
Representative Tom Burroughs
Representative Peggy Mast
Representative Ed Trimmer

LEGISLATIVE DIVISION OF POST AUDIT

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Scott Frank, Legislative Post Auditor

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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LEGISLATURE OF KANSAS
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December 7, 2016

To: Members, Legislative Post Audit Committee

Senator Michael O'Donnell, Chair
Senator Anthony Hensley
Senator Laura Kelly
Senator Jeff Longbine
Senator Julia Lynn

Representative Virgil Peck, Jr., Vice-Chair
Representative John Barker
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Representative Ed Trimmer

This report contains the findings and conclusions from the completed examination of selected financial management practices of the State Treasurer's Office for fiscal year 2016. CliftonLarsonAllen, a certified public accounting firm under contract with the Legislative Division of Post Audit, conducted this audit. We would be happy to discuss the findings or any other items presented in this report with any legislative committees, individual legislators, or other state officials.

Sincerely,



Scott Frank
Legislative Post Auditor

This examination was conducted by CliftonLarsonAllen under contract with the Legislative Division of Post Audit, Auditor, and Auditor. Julie Pennington was the audit manager. If you need any additional information about the audit's findings, please contact Julie at the Division's offices.

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EXAMINATION REPORT

**Examining Selected Financial Management
Practices of the State Treasurer's Office**

Fiscal Year 2016

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CliftonLarsonAllen

INDEPENDENT ACCOUNTANTS' REPORT

Legislative Division of Post Audit
State of Kansas

We have examined management's assertions related to the State Treasurer's Office, based on the specific Kansas Statutes as of and for the year ended June 30, 2016. Management of the State Treasurer's Office is responsible for the financial and other data related to the assertions. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting management's assertions and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, management's assertions referred to above are fairly stated, in all material respects, based on the specific Kansas Statutes as of and for the year ended June 30, 2016 as set forth in the accompanying schedule of assertions.

This report is intended solely for the information and use of the State Treasurer's Office and the Legislative Division of Post Audit and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Denver, Colorado
October 14, 2016

SCHEDULE OF ASSERTIONS RELATED TO SELECTED KANSAS STATUTES

1. With regard to the Environmental Remediation Linked Deposit Loan Program, the Treasurer:
 - a. Made loans only for projects approved by the Kansas Agricultural Remediation Board as required by K.S.A. 2-3703.
 - b. Submitted a report to the Governor and the Legislature as required by K.S.A. 2-3703.
 - c. Stayed within the limits as required by K.S.A. 2-3704(c).
 - d. Received the approved Environmental Remediation Linked Deposit Loan packages as required by K.S.A. 3-3704(f).
 - e. Certified to the Director of Investments the amounts required for the Environmental Remediation Deposit loan packages and entered into the Environmental Remediation Loan Deposit agreements with eligible lending institutions in accordance with K.S.A. 75-4272(b) and (c).
 - f. Received a certificate of compliance form the eligible lending institutions in accordance with K.S.A. 75-4273(b).

2. With regard to bonds, the Treasurer:
 - a. Received written approval of the sufficiency of the municipal bonds transcript from the Attorney General prior to registering bonds, and registered all bonds in accordance with K.S.A. 10-108(a).
 - b. Charged and collected fees for registration or certification of municipal bonds, deposited fees, and made expenditures in accordance with K.S.A. 10-108(b).
 - c. Registered all state bonds or bonds issued by a municipality in accordance with K.S.A. 10-601.
 - d. Endorsed assignment of bonds in accordance with K.S.A. 10-602.
 - e. Paid proceeds on the maturity of any registered bond and collected fees in accordance with K.S.A. 10-603.
 - f. Fixed the amount of the bond transfer fee, adjusted annually in accordance with K.S.A. 10-627.

3. With regard to abandoned property, the Treasurer:
 - a. Received abandoned property and verified the accompanying report in accordance with K.S.A. 58-3950.
 - b. Advertised the receipt of unclaimed property in accordance with K.S.A. 58-3951.
 - c. Sold abandoned property in accordance with K.S.A. 58-3955.
 - d. Deposited all funds received under the Act in the general fund in accordance with K.S.A. 58-3956.

- e. Settled claims in accordance with K.S.A. 58-3957. Destroyed or disposed of property that had insubstantial commercial value in accordance with K.S.A. 58-3961.
 - f. Expended funds from the unclaimed property claims fund, the unclaimed property expense fund, and the unclaimed mineral proceeds trust fund in accordance with K.S.A. 58-3978.
4. With regard to the Kansas Postsecondary Education Savings Program, the Treasurer:
- a. Evaluated the program annually and made a report to the Governor and Legislature as required by K.S.A. 79-644(b)(11).
 - b. Included in the management contract all the required items and received the results of annual audits of the program manager in accordance with K.S.A. 75-645(e).
 - c. Conducted a biennial examination of the program managers if the program managers are not subject to periodic examinations by the state commissioner, the FDIC or other similar entity as required by K.S.A. 75-645(g).
 - d. Credited all the monies received for the program to the Kansas Postsecondary Education Savings Program trust fund in accordance with K.S.A. 75-648(a)(2).
 - e. Paid the expenses of developing and administering the program from the Kansas Postsecondary Education Savings expense fund in accordance with K.S.A. 75-648(b)(2).
5. With regard to the Kansas Investments Developing Scholars (K.I.D.S.) Program, the Treasurer:
- a. Approved no more applicants as provided for in K.S.A. 75-650(e).
 - b. Certified the amount of money necessary to meet the matching obligations to be transferred from the State general fund to the program fund in accordance with K.S.A. 75-650(g).
 - c. Ensured that withdrawals of matching funds are used for qualified withdrawals in accordance with K.S.A. 75-650(h).
6. With regard to cash, the Treasurer's Office:
- a. Deposited all State moneys and credits received daily as required by K.S.A. 75-4202.
 - b. Prepared daily deposits in accordance with K.S.A. 75-4203.
 - c. Had written agreements with depository bank and the board, approved by the board of directors of the depository bank and the board, approved by the board of directors as required by K.S.A. 75-4217.
 - d. Collateralized monies in State bank accounts as required by K.S.A. 75-4218.
7. With regard to the Agricultural Production Loan Deposit Program, the Treasurer:
- a. Submitted an annual report to the Governor and Legislature as required by K.S.A. 75-4270(b).
 - b. Stayed within the limits as required by K.S.A. 75-4271(c).

- c. Received the approved agricultural production loan deposit packages as required by K.S.A. 75-4271(f).
 - d. Certified to the Director of Investments the amounts required for the agricultural production deposit loan packages and entered into the agricultural production loan deposit agreements with eligible lending institutions in accordance with K.S.A. 75-4272(b) and (c).
 - e. Received a certificate of compliance from the eligible lending institutions in accordance with K.S.A. 75-4273(a).
8. With Regard to the Kansas Housing Loan Deposit Program, the Treasurer:
- a. Submitted an annual report to the Governor and Legislature as required by K.S.A. 75-4278(b).
 - b. Stayed within the limits as required by K.S.A. 75-4279 (c).
 - c. Received the approved housing loan deposit packages as required by K.S.A. 75-4279(f).
 - d. Certified to the Director of Investments the amounts required for the housing deposit loan packages and entered into the housing loan deposit agreements with eligible lending institutions in accordance with K.S.A. 75-4280(b) and (c).
 - e. Received a certificate of compliance from the eligible lending institutions in accordance with K.S.A. 75-4281(b).
9. The Treasurer's Office deposited the entire amount in the state treasury and distributed the following local taxes and State aid monies to local government units in accordance with calculations by other State offices and agencies in accordance with the indicated K.S.A.:
- a. Local alcoholic liquor taxes – K.S.A. 79-41a04;
 - b. Rental motor vehicle excise taxes – K.S.A. 79-5117;
 - c. Transient guest taxes – K.S.A. 12-1698 (c), and
 - d. Local retail sales and compensating use taxes – K.S.A. 12-189.
10. The Treasurer's Office distributed the following selected taxes and State aid monies to local government units in accordance with the indicated K.S.A.:
- a. Local ad valorem tax reductions – K.S.A. 79-2959;
 - b. County and city revenue sharing – K.S.A. 79-2964;
 - c. Special city and county highway distributions – K.S.A. 79-34 and K.S.A. 79-34, 142, and
 - d. Highway equalization distributions – K.S.A. 79-3425c.

SCHEDULE OF PROCEDURES PERFORMED AND FINDINGS

<i>Objective</i>	<i>Procedures Performed</i>	<i>Findings</i>
1. With regard to the Environmental Remediation Linked Deposit Loan Program, the Treasurer:		
a. Made loans only for projects approved by the Kansas Agricultural Remediation Board as required by K.S.A. 2-3703.	CliftonLarsonAllen (CLA) found that no such loans were made during the year.	None
b. Submitted an annual report to the Governor and the Legislature as required by K.S.A. 2-3703.	CLA viewed the annual report on the State Treasurer's Office website and confirmed that the Treasurer submitted the annual report to the Governor and Legislature.	None
c. Stayed within the limits as required by K.S.A. 2-3704 (c).	CLA found that no such loans were made during the year.	None
d. Received approved Environmental Remediation Linked Deposit Loan packages as required by K.S.A. 3-3704(f).	CLA found that no such loans were made during the year.	None
e. Certified to the Director of Investments the amounts required for the Environmental Remediation Linked Deposit Loan packages and entered into the deposit agreements with eligible lending institutions in accordance with K.S.A. 75-4272(b) and (c).	CLA found that no such loans were made during the year.	None
f. Received a certificate of compliance from the eligible lending institutions in accordance with K.S.A. 75-4273(b).	CLA found that no such loans were made during the year.	None

Objective	Procedures Performed	Findings
2. With regard to bonds, the Treasurer:		
a. Received written approval of the sufficiency of the municipal bonds transcript from the Attorney General prior to registering bonds, and registered all bonds in accordance with K.S.A. 10-108(a).	CLA selected samples of 15 bonds registered during the current fiscal year to determine whether the Treasurer verified written approval prior to registering all bonds in accordance to K.S.A. 10-108(a).	None
b. Charged and collected fees for registration or certification of municipal bonds, deposited fees, and made expenditures in accordance with K.S.A. 10-108(b).	CLA selected samples of 15 bonds registered during the current fiscal year to determine whether the Treasurer collected all fees and deposited them, in accordance to K.S.A. 10-108(a).	None
c. Registered all state bonds or bonds issued by a municipality in accordance with K.S.A. 10-601.	CLA selected samples of 15 bonds registered during the current fiscal year to determine whether the Treasurer registered all bonds in accordance to K.S.A. 10-601.	None
d. Endorsed assignment of bonds in accordance with K.S.A. 10-602.	CLA selected a sample of 10 bonds to determine whether the Treasurer endorsed assignment of bonds in accordance with K.S.A. 10-602.	None
e. Paid proceeds on the maturity of any registered bond and collected fees in accordance with K.S.A. 10-603.	CLA selected a sample of 20 bonds to determine whether the Treasurer paid proceeds on the maturity of any registered bond and collected fees in accordance with K.S.A. 10-603.	None
f. Fixed the amount of the bond transfer fee, and adjusted it annually in accordance with K.S.A. 10-627.	CLA inquired of management regarding the fixing of the bond transfer fee.	CLA verified the Treasurer established (fixed) the bond transfer fees. However, the Treasurer elected not to assess such fees during fiscal year 2016.

Objective	Procedures Performed	Findings
3. With regard to abandoned property, the Treasurer:		
a. Received abandoned property and verified the accompanying report in accordance with K.S.A. 58-3950.	CLA selected a sample of 20 unclaimed properties to verify the Treasurer received and verified the accompanying report in accordance with K.S.A. 58-3950.	None
b. Advertised the unclaimed property in accordance with K.S.A. 58-3951?	CLA used samples above (a) to determine if unclaimed property was advertised in accordance with K.S.A. 58-3951.	None
c. Sold abandoned property in accordance with K.S.A. 58-3955.	CLA selected a sample of 20 abandoned property sales and 20 security sales to verify that sales were in accordance with K.S.A. 58-3956.	None
d. Deposited all funds received under the act in the general fund in accordance with 58-3956.	CLA used samples from above (c) and traced to general fund using the SMART general ledger system with the assistance of Unclaimed Property Personnel.	None
e. Settled claims in accordance with K.S.A. 58-3957 and destroyed or disposed of property that had insubstantial commercial value in accordance with K.S.A 58-3961.	CLA selected 10 claims filed on property and 10 destroyed or disposed properties to test for payment to the claimant or delivery to the claimant the property or net proceeds in accordance with K.S.A. 58-3957.	None
f. Expended funds from the unclaimed property claims fund, the unclaimed property expense fund, and the unclaimed mineral proceeds trust fund in accordance with K.S.A. 58-3978.	CLA selected a sample of 25 expenditures to verify they were expended in accordance with K.S.A. 58-3978.	None
4. With regard to the Kansas Postsecondary Education Savings Program, the Treasurer:		
a. Evaluated the program annually and made a report to the Governor and Legislature as required by K.S.A. 75-644(b)(11).	CLA viewed the annual report on the State Treasurer's Office website and confirmed that the STO submitted the annual report to the Governor and Legislature.	None

Objective	Procedures Performed	Findings
<p>b. Included in the management contract all the required items and reviewed and received the results of annual audits of the program manager in accordance with K.S.A 75-645 (e).</p>	<p>CLA reviewed the annual auditor communication to management and confirmed management reviewed and received the results. CLA reviewed the current management contract and confirmed the contract included all language required by K.S.A. 75-645.</p>	<p>None</p>
<p>c. Conducted a biennial examination of the program to the managers if the program managers are not subject to periodic examinations by the State bank commissioner, the FDIC, or other similar entity as required by K.S.A. 75-645(g).</p>	<p>CLA inquired of management and determined the biennial examination is performed by obtaining and reviewing results of the program manager's annual SSAE 16 report. CLA obtained the SSAE 16 report from management to verify they had completed the examination as required by K.S.A 75-645(g).</p>	<p>None</p>
<p>d. Credited all monies received for the program to the Kansas Postsecondary Education Savings Program trust fund in accordance with K.S.A. 75-648(a)(2).</p>	<p>CLA viewed each of the quarterly payment receipt vouchers from American Century Investments (ACI) for the current fiscal year and verified that they were recorded into the Kansas Postsecondary Education Savings Program trust fund in accordance with K.S.A. 75-648(a)(2).</p>	<p>The Treasurer has contracted administration of the program, including collection of receipts, to ACI. ACI remits available funds to the Treasurer quarterly. See Steps 4.b. and 4.c. above, which address the Treasurer's monitoring of ACI.</p>
<p>e. Paid all expenses of developing and administering the program from the Kansas Postsecondary Education Savings expense fund in accordance with K.S.A. 75-648(b)(2).</p>	<p>CLA obtained a copy of the budget to actual summaries to verify that expenditures of the Kansas Postsecondary Education Savings Program are paid out of the Kansas Postsecondary Education Savings expense fund in accordance with K.S.A. 75-648(b)(2).</p>	<p>None</p>

Objective	Procedures Performed	Findings
5. With regard to the Kansas Investments Developing Scholars (K.I.D.S.) matching grant program, the Treasurer:		
a. Approved no more applicants than provided for in K.S.A. 75-650(e).	CLA obtained a listing of all participants entering the K.I.D.S. program during the fiscal year and verified compliance with K.S.A. 75-650(e)	None
b. Certified the amount of money necessary to meet the matching obligations to be transferred from the state general fund to the program fund in accordance with K.S.A. 75-650(g).	CLA selected a sample of 25 beneficiaries and verified matching funds were applied to each participant's account in accordance with K.S.A. 75-650(g).	None
c. Ensured that withdrawals of matching funds were used for qualified withdrawals in accordance with K.S.A. 75-650(h).	CLA obtained a list of withdrawals and selected 5 participants to test to verify that withdrawals were qualified in accordance with K.S.A. 75-650(h).	None
6. With regard to cash, the Treasurer:		
a. Deposited all state monies and credits received daily as required by K.S.A. 75-4202.	CLA selected a sample of 25 business days to test that the daily cash sheet is prepared, properly authorized, and a copy is delivered to and signed by the Director of Accounts and Reports in accordance with K.S.A. 75-4203.	None
b. Prepared daily deposits in accordance with K.S.A. 75-4203.	CLA selected a sample of 25 business days to test that the daily cash sheet is prepared, properly authorized, and a copy was delivered to and signed by the Director of Accounts and Reports in accordance with K.S.A. 75-4203.	None
c. Had written agreements with depository bank and the board, approved by the board of directors of the depository bank and the board, approved by the board of directors as required by K.S.A. 75-4217.	CLA selected a sample of 5 state bank accounts to verify the Treasurer's Office has written agreements with depository bank and the board, approved by the board of directors of the depository bank and the board, approved by the board of directors as required by K.S.A. 75-4217.	None

Objective	Procedures Performed	Findings
d. Collateralized moneys in State bank accounts as required by K.S.A. 75-4218.	CLA selected a sample of 20 State bank accounts where deposits are greater than \$250,000 to verify proper collateralization in accordance with K.S.A. 75-4218.	One State bank account selected for testing was under-collateralized. Upon discovering the under-collateralization, the cash management team contacted the bank to pledge additional securities for proper collateralization
7. With regard to the Agricultural Production Loan Deposit Program, the Treasurer:		
a. Submitted an annual report to the Governor and Legislature as required by K.S.A. 75-4270(b).	CLA viewed the annual report posted on the State Treasurer's website and confirmed that the STO submitted the annual report to the Governor and Legislature.	None
b. Stayed within the limits as required by K.S.A. 75-4271(c).	CLA selected a sample of 5 Agricultural Production Loans deposits initiated during the year and reviewed the approved packages sent to the STO.	None
c. Received the approved agricultural production loan deposit packages as required by K.S.A. 75-4271(f).	CLA used the sample above (b) and reviewed the approved packages sent to the STO.	None
d. Certified to the Director of Investments the amounts required for the agricultural production loan packages and entered into the agricultural production loan deposit agreements with eligible lending institutions in accordance with K.S.A 75-4272(b) and (c).	CLA used sample above (b) to verify the STO certified to the Director of Investments the amounts required for the agricultural production deposit loan packages and entered into deposit agreements with eligible lending institutions in accordance with K.S.A. 75-4272(b) and (c).	None

Objective	Procedures Performed	Findings
e. Received a certificate of compliance from the eligible lending institutions in accordance with K.S.A. 75-4273(a).	CLA used the sample above (b) to verify the STO received a certificate of compliance from eligible lending institutions in accordance with K.S.A. 75-4273(a).	None
8. With regard to the Kansas Housing Loan Deposit Program, the Treasurer:		
a. Submitted an annual report to the Governor and Legislature as required by K.S.A. 75-4278(b).	CLA viewed the annual report on the State Treasurer's Office website and confirmed that the Treasurer submitted the annual report to the Governor and Legislature.	None
b. Stayed within the limits as required by K.S.A. 75-429(c).	CLA found that no such loans were made in during the year.	None
c. Received the approved housing loan deposit packages as required by K.S.A. 75-4279(f).	CLA found that no such loans were made in during the year.	None
d. Certified to the Director of Investments the amounts required for the housing deposit loan packages and entered into the agricultural production loan deposit agreements with eligible lending institutions in accordance with K.S.A. 75-4280(b) and (c).	CLA found that no such loans were made during the year.	None
e. Received a certificate of compliance from the eligible lending institutions in accordance with K.S.A. 75-4281(a).	CLA found that no such loans were made during the year.	None
9. With regard to the Treasurer making distributions of the following local taxes and State aid monies to local government units in accordance with calculations by other State offices and agencies in accordance with the indicated K.S.A:		
a. Local alcoholic liquor taxes – K.S.A. 79-41a04.	CLA selected a sample of 2 quarterly distributions to verify the distributions were paid as directed by the Department of Revenue.	None

Objective	Procedures Performed	Findings
b. Rental motor vehicle excise taxes – K.S.A. 79-5117.	CLA selected one of the semi-annual rental motor vehicle excise tax distributions to verify the distributions were paid as directed by the Department of Revenue.	None
c. Transient guests taxes – K.S.A. 12-1698	CLA selected a sample of 2 quarterly distributions to verify the distributions were paid as directed by the Department of Revenue.	None
d. Local retail sales and compensating use taxes – K.S.A. 12-187.	CLA selected a sample of 2 quarterly distributions to verify the distributions were paid as directed by the Department of Revenue.	None
10. With regard to the Treasurer making distributions of the following selected taxes and State aid monies to local government units in accordance with the indicated K.S.A:		
a. Local ad valorem tax reductions – K.S.A. 79-2959.	Per Statute, there were no semi-annual distributions in fiscal year 2016.	None
b. County and city revenue sharing – K.S.A. 79-2964.	Per Statute, there were no semi-annual distributions in fiscal year 2016.	None
c. Special city and county highway distributions – K.S.A. 79-3425c and 79-34, 142.	CLA selected a sample of 2 quarterly distributions to verify the distributions were calculated and distributed in accordance with K.S.A. 79-3425c and 79-34, 142.	None
d. Highway equalization distributions – K.S.A. 79-3425c.	CLA tested the annual highway equalization distributions to verify the distributions were calculated and distributed in accordance with K.S.A. 79-3425c.	None