



EXAMINATION REPORT

Examining Selected Financial Management Practices of the Pooled Money Investment Board, 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.

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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.

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
Representative Tom Burroughs
Representative Peggy Mast
Representative Ed Trimmer

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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
LEGISLATIVE DIVISION OF POST AUDIT

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December 7, 2016

To: Members, Legislative Post Audit Committee

Senator Michael O'Donnell, Chair	Representative Virgil Peck, Jr., Vice-Chair
Senator Anthony Hensley	Representative John Barker
Senator Laura Kelly	Representative Tom Burroughs
Senator Jeff Longbine	Representative Peggy Mast
Senator Julia Lynn	Representative Ed Trimmer

This report contains the findings and conclusions from the completed examination of selected financial management practices of the Pooled Money Investment Board 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,

A handwritten signature in purple ink, appearing to read 'S. Frank'. The signature is fluid and stylized, with a large loop at the end.

Scott Frank
Legislative Post Auditor

This examination was conducted by CliftonLarsonAllen under contract with the Legislative Division of Post Audit. 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 Pool Money Investment Board**

Fiscal Year 2016

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INDEPENDENT ACCOUNTANTS' REPORT

Legislative Division of Post Audit
State of Kansas

We have examined management's assertions related to the Pooled Money Investment Board (PMIB), based on the specific Kansas Statutes and sections of the PMIB Policy as of and for year ended June 30, 2016. The PMIB's management 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 and sections of the PMIB Policy 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 Pooled Money Investment Board 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 AND
SECTIONS OF THE POOLED MONEY INVESTMENT BOARD POLICY**

1. The Director of Investments calculated the investment rate, as defined in the subsection (g) of K.S.A. 1997 Supp. 12-1675a, on Monday of each week and published such rate in the Kansas register in accordance with K.S.A. 75-4210.
2. The Director of Investments provided monthly performance summary reports to the Pooled Money Investment Board using the S&P Rated GIP Invest/General Purpose Taxable as the current benchmark as required by part IV of the PMIB Investment Policy.
3. The Pooled Money Investment Board (PMIB) established investment policies and reviewed these policies annually in accordance with K.S.A. 75-4232.
4. The PMIB established the market rate and awarded the investment account to the requesting bank at the established market rate per the provisions of K.S.A. 75-4237.
5. The PMIB followed their policies for safety and liquidity as stated in parts IIIA and IIIB of the PMIB Investment Policy.
6. The PMIB granted expanded investment authority to governing bodies in accordance with K.S.A 12-1677 (b).
7. The PMIB followed their approval process in reviewing and approving or denying expanded investment authority to governing bodies.
8. The PMIB re-authorized the expanded investment authority in accordance with K.S.A. 12-1677b (c).
9. The PMIB followed their annual review process in re-authorizing expanded investment authority to governing bodies.

SCHEDULE OF PROCEDURES PERFORMED AND FINDINGS

With regard to investments and the Director of Investments		
<i>Objective</i>	<i>Procedures Performed</i>	<i>Findings</i>
1. The Director of Investments calculated the Investment rate, as defined in subsection (g) of K.S.A. 1997 Supp. 12-1675a, on Monday of each week and published such rate in the Kansas register in accordance with K.S.A 75-4210.	CliftonLarsonAllen (CLA) selected a sample of ten weeks during the fiscal year, and recalculated the interest rate and verified the rate was published in the Kansas Register by viewing the historical publications online.	None
2. The Director of investments provided monthly performance summary reports to the Pooled Money Investment Board (PMIB) using the S&P Rated GIP Invest/General Purpose Taxable as the current benchmark as required by Part IV of the PMIB Investment Policy.	CLA selected a sample of four of the reports and verified that each was prepared as required by (or in accordance with) Part IV of the PMIB Investment Policy and that the report was presented to the PMIB.	None

**SCHEDULE OF PROCEDURES PERFORMED AND FINDINGS
(CONTINUED)**

With regard to investments and the Pooled Money Investment Board		
<i>Objective</i>	<i>Procedures Performed</i>	<i>Findings</i>
3. The PMIB established investment policies and reviewed these policies annually in accordance with K.S.A 75-4232.	CLA read the published Investment Policies of the PMIB and compared it to the provisions of the K.S.A. 75-4232, noting the PMIB has established investment policies in accordance with K.S.A. 75-4232. Also verified the PMIB reviewed the Investment Policies during fiscal year 2016.	None
4. The PMIB established the market rate and awarded the investment account to the requesting bank at the established market rate per the provisions of K.S.A. 75-4237.	CLA selected a sample of ten loans made by the PMIB during fiscal year 2016, and determined the interest rate awarded to the requesting bank was for funds available to Kansas banks on the effective issue date in accordance with K.S.A 75-4237. CLA selected a sample of ten agricultural production loans and determined the interest rate awarded for Linked Deposits was 2% less than the determined market rate for selected issue date in accordance with K.S.A. 75-4237.	None
5. The PMIB followed their policies for safety and liquidity as stated in parts IIIA and IIIB of the PMIB Investment Policy.	CLA obtained the monthly portfolio reports for the fiscal year 2016 and verified the types of securities held in the portfolio. CLA selected a sample of twenty-five investment files and verified that each contained the required elements of the safety and liquidity attributes per the PMIB Investment Policy.	None

**SCHEDULE OF PROCEDURES PERFORMED AND FINDINGS
(CONTINUED)**

With regard to expanded investment authority and the Pooled Money Investment Board		
<i>Objective</i>	<i>Procedures Performed</i>	<i>Findings</i>
6. The PMIB granted expanded investment authority to governing bodies in accordance with K.S.A 12-1677(b).	CLA obtained the summary of processes and policies from the PMIB website and verified they were in accordance with K.S.A. 12-1677(b).	None
7. The PMIB followed their approval process in reviewing and approving or denying expanded investment authority to governing bodies.	CLA noted there were no entities applying for expanded investment authority in fiscal year 2016.	N/A
8. The PMIB re-authorized the expanded investment authority in accordance with K.S.A. 12-1677(c).	CLA discussed and reviewed the policies and processes the PMIB has in place to verify they were in accordance with K.S.A 12-1677(c). Specifically, CLA verified the PMIB has a process in place to re-authorize the expanded investment authority to governing bodies.	None
9. The PMIB followed their annual review process in re-authorizing expanded investment authority to governing bodies.	CLA reviewed the list of nine governing bodies, which have been granted expanded investment authority. CLA selected a sample of three and determined that the PMIB followed their annual review process in re-authorizing expanded investment authority in accordance with K.S.A. 12-1677(c).	None

SCHEDULE OF SUMMARY OF PORTFOLIO PERFORMANCE

Recalculation of Investment Portfolio Performance Summary of PMIB

<u>Type of Investments</u>	<u>Market Value</u>	<u>% of Portfolio</u>	<u>Yield at Month-End</u>
US Govt Agency Debentures	897,566,135	28.50%	0.89
Kansas Bank CDs	101,080,000	3.20%	0.56
Commerical Paper	1,199,565,500	38.20%	0.49
Repurchase Agreements	948,100,000	30.2%	0.41
	<u>3,146,311,635</u>	<u>100%</u>	<u>0.58</u>
			Weighted Average Yield to Maturity as of June 30, 2016

Portfolio Performance

Portfolio Weighted Average Monthly Yield FY 2016	0.44
S&P's Rated GIP Index/ General Purpose Taxable	0.38
	<u>0.06</u>