

# Legislative Post Audit Financial Audit Report Highlights

State of Kansas: Financial Audit of Fiscal Year 2017

December 2017 • R-17-026

## Summary of Legal Requirements

State law requires an annual financial 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.

**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.

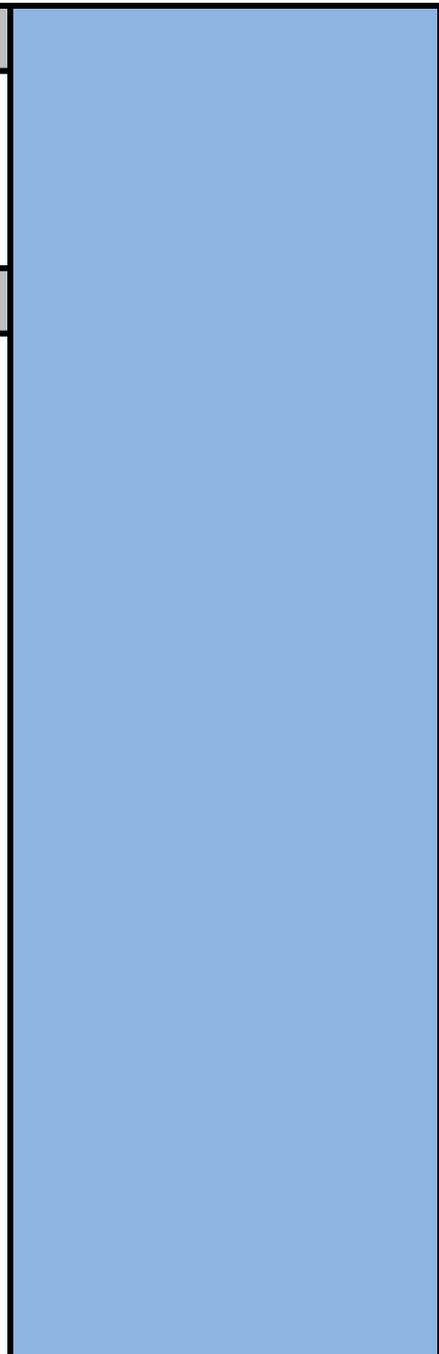
- The auditors expressed unmodified opinions on the state’s basic financial statements, meaning that, after the restatements and adjusting journal entries were made, the financial statements present the state’s financial position fairly and in conformity with generally accepted accounting principles in all material respects.
- The auditors emphasized two matters with regard to the financial statements:
  - At the end of fiscal year 2017, the state had a deficit in its general fund balance of more than \$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 beginning net positions and fund balances to account for the merger of the Kansas Bioscience Authority and the Kansas Department of Commerce.
- The auditors reported two significant deficiencies in the state’s internal control over financial reporting, as follows:
  - During fiscal year 2017, Department of Administration performed a review of capital lease agreements entered into during prior years and determined the capital asset value related to multiple capital leases entered into by the state were not properly valued based on the present value at the beginning of the lease term. As a result, the acquisition cost and accumulated depreciation were understated by \$14 million and \$16.1 million, respectively.
  - During the preparation of the Comprehensive Annual Financial Report, the Department of Administration inadvertently duplicated an amount when compiling cash and investment balances. As a result, the cash and cash equivalents were overstated by \$37.8 million.
- The auditors found the two material weaknesses and two significant deficiencies in the state’s internal control over financial reporting from the 2016 financial statement audit appear to have been mitigated.

**Summary of Recommendations:**

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

**Agency Response:**

The Department of Administration developed corrective action plans to address each of the findings.



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**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.