



FINANCIAL AUDIT REPORT

State of Kansas - Fiscal Year 2010

**A Report to the Legislative Post Audit Committee
By the Joint Venture of Allen, Gibbs & Houlik, L.C. and
Berberich Trahan & Co., P.A. Under Contract with
the Legislative Division of Post Audit
State of Kansas
February 2011**

Legislative Post Audit Committee

Legislative Division of Post Audit

The Legislative Post Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$10 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of government agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U. S. Government Accountability Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. These audit standards have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the representatives, three are appointed by the Speaker of the House and two are appointed by the House Minority Leader.

As part of its audit responsibilities, the Division is charged with meeting the requirements of the Legislative Post Audit Act which address audits of financial matters. Those requirements call for two major types of audit work.

First, the Act requires an annual audit of the State's financial statements. Those statements, prepared by the Department of Administration's Division of Accounts and Reports, are audited by a certified public accounting firm under contract with the Legislative Division of Post Audit. The firm is selected by the Contract Audit Committee, which comprises three members of the Legislative Post Audit Committee (including the

Chairman and Vice-Chairman), the Secretary of Administration, and the Legislative Post Auditor. This audit work also meets the State's audit responsibilities under the federal Single Audit Act.

Second, the Act provides for a regular audit presence in every State agency by requiring that audit work be conducted at each agency at least once every three years. Audit work done in addition to the annual financial statement audit focuses on compliance with legal and procedural requirements and on the adequacy of the audited agency's internal control procedures. These compliance and control audits are conducted by the Division's staff under the direction of the Legislative Post Audit Committee.

LEGISLATIVE POST AUDIT COMMITTEE

Representative John Grange, Chair
Representative Tom Burroughs
Representative Ann Mah
Representative Peggy Mast
Representative Virgil Peck Jr.

Senator Mary Pilcher-Cook, Vice-Chair
Senator Terry Bruce
Senator Anthony Hensley
Senator Laura Kelly
Senator Dwayne Umbarger

LEGISLATIVE DIVISION OF POST AUDIT

800 SW Jackson
Suite 1200
Topeka, Kansas 66612-2212
Telephone (785) 296-3792
FAX (785) 296-4482
E-mail: LPA@lpa.ks.gov
Website: <http://www.kansas.gov/postaudit>
Scott Frank, Legislative Post Auditor

HOW DO I GET AN AUDIT APPROVED?

By law, individual legislators, legislative committees, or the Governor may request an audit, but any audit work conducted by the Division must be approved by the Legislative Post Audit Committee, a 10-member committee that oversees the Division's work. Any legislator who would like to request an audit should contact the Division directly at (785) 296-3792.

The Legislative Division of Post Audit supports full access to the services of State government for all citizens. Upon request, Legislative Post Audit can provide its audit reports in large print, audio, or other appropriate alternative format to accommodate persons with visual impairments. Persons with hearing or speech disabilities may reach us through the Kansas Relay Center at 1-800-766-3777. Our office hours are 8:00 a.m. to 5:00 p.m., Monday through Friday.



LEGISLATURE OF KANSAS

LEGISLATIVE DIVISION OF POST AUDIT

800 SOUTHWEST JACKSON STREET, SUITE 1200
TOPEKA, KANSAS 66612-2212
TELEPHONE (785) 296-3792
FAX (785) 296-4482
E-MAIL: lpa@lpa.ks.gov

February 7, 2011

To: Members, Legislative Post Audit Committee

Representative John Grange, Chair	Senator Mary Pilcher-Cook, Vice-Chair
Representative Tom Burroughs	Senator Terry Bruce,
Representative Ann Mah	Senator Anthony Hensley
Representative Peggy Mast	Senator Laura Kelly
Representative Virgil Peck Jr.	Senator Dwayne Umbarger

This report contains the *Required Communications* of the completed financial audit of the State of Kansas for fiscal year 2010. The joint venture of Allen Gibbs & Houlik, L.C. and Berberich Trahan & Co., P.A., certified public accounting firms under contract with the Legislative Division of Post Audit, conducted this audit. The full Comprehensive Annual Financial Report, including the *Independent Auditor's Report* and the *Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards* may be found on the Department of Administration's website at <http://da.ks.gov/ar/finrept/CAFR2010.pdf>.

The report includes one recommendation for the Division of Accounts and Reports. We would be happy to discuss this recommendation or any other items in the report with any legislative committees, individual legislators, or other State officials.

Scott Frank
Legislative Post Auditor

Legislative Post Audit Committee
State of Kansas
800 SW Jackson Street,
Suite 1200
Topeka, KS 66612-2212

Attention: Legislative Post Audit Committee

We are pleased to present this report related to our audit of the basic financial statements of the State of Kansas (State) for the year ended June 30, 2010. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the State of Kansas' financial reporting process.

Required Communications

Statement on Auditing Standards No. 114 requires the auditor to communicate certain matters to keep those charged with governance adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. The following summarizes these communications.

Auditor's Responsibility Under Professional Standards

Our responsibility under auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States, has been described to you in our arrangement letter dated June 21, 2010.

Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the State. The State's significant accounting policies are discussed in Note 1 to the financial statements.

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, issued June 2007. This statement provides guidance on identifying, accounting for, and reporting intangible assets. The new standard characterizes an intangible asset as an asset that lacks physical substance, is non-financial in nature, and has an initial useful life extending beyond a single reporting period. It further states that these assets should be classified as capital assets. Implementation of GASB Statement No. 51 resulted in an addition of approximately \$27 million recorded to capital assets for software developed as an integrated financial management system, known as the Statewide Management, Accounting and Reporting Tool (SMART).

Significant or Unusual Transactions

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Alternative Treatments Discussed with Management

We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.

Management's Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management may wish to monitor throughout the year the process used to compute and record these accounting estimates. Estimates significant to the financial statements include such items as:

- Taxes receivable
- Incurred but not reported claims
- Arbitrage liabilities
- Depreciation
- Unemployment contributions
- Other post employment benefits
- Pollution remediation

Audit Adjustments

There were no audit adjustments made to the original trial balance presented to us to begin our audit.

Uncorrected Misstatements

There were no uncorrected misstatements.

Management Representations

In connection with our audit procedures, we have obtained a written management representation letter. This representation letter constitutes written acknowledgments by management that it has the primary responsibility for the fair presentation of the financial statements in conformity with generally accepted accounting principles. The representation letter also includes the more significant oral representations made by officers and employees during the course of the audit and includes specific representations, is intended to reduce the possibility of misunderstandings between us and the State and reminds the signing officers to consider seriously whether all material liabilities, commitments and contingencies or other important financial information have been brought to our attention.

Other Disclosures

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements; we are not aware of any consultations management had with other accountants about accounting or auditing matters; no significant issues arising from the audit were discussed or were the subject of correspondence with management; and we did not encounter any difficulties in dealing with management relating to the performance of the audit.

Internal Controls

In planning and performing our audit of the comprehensive annual financial report (basic financial statements) of the State of Kansas as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the State's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the State's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting described below that we consider to be a significant deficiency in internal control over financial reporting. *A significant deficiency* is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The current accounting system utilized by the State was designed to provide information primarily related to budget compliance. Consequently, the system is designed to record cash transactions and unliquidated encumbrances and generally omits noncash assets and liabilities. As a result, the noncash assets and liabilities are accounted for separately with the use of various shadow systems.

See Year Ended June 30, 2010 Comprehensive Annual Financial Report and Independent Auditor's Report for Management responses.

Closing

This report is intended solely for the information and use of the Legislative Post Audit Committee and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to the State of Kansas.

Allen, Gibbs & Houlik, L.C.
CERTIFIED PUBLIC ACCOUNTANTS

Berberich Trahan & CO., PA
CERTIFIED PUBLIC ACCOUNTANTS

January 7, 2011
Wichita, KS