

AUDIT PROPOSAL

Economic Development Initiatives Fund (EDIF): Evaluating the State's Accountability Over the Use of EDIF Funding

SOURCE

This audit proposal was requested by Senator Lynn and Representative Gartner.

BACKGROUND

The Economic Development Initiatives Fund (EDIF) was established in 1986 to support and enhance the state's economy. The EDIF is funded through gaming proceeds. Up to \$50 million in revenues from the Kansas Lottery is transferred each year to the State Gaming Revenue Fund, a holding fund from which further transfers are made to other funds. After a small transfer to the Problem Gambling and Addictions Grant Fund, 85% of the balance in the gaming fund is transferred to the EDIF (a maximum of approximately \$42 million a year).

Historically \$2.0 million was transferred from EDIF to the State Water Plan each year. (The 2018 legislature amended that to \$0.5 million in fiscal year 2019, with no further transfers to the State Water Plan allowed.) The Legislature appropriates the remaining EDIF funding to the individual projects and programs deemed to support and enhance the state's economy. In recent years, a significant portion of the EDIF has also been transferred directly to the State General Fund. For example, in fiscal year 2018 a total of \$19.7 million was appropriated to programs in various state agencies such as the Department of Commerce, the Board of Regents, the Department of Agriculture, and the Department of Wildlife, Parks, and Tourism. That same year, \$20.1 million was transferred directly to the State General Fund.

Legislators have expressed concerns about the oversight and accountability for EDIF funds. Specifically, legislators have expressed concerns about how well programs that receive EDIF funds align with the original intent of EDIF funding and whether the state's process for administering EDIF funds aligns with best practices.

AUDIT OBJECTIVES AND TENTATIVE METHODOLOGY

The audit objectives listed below represent the questions that we would answer through our audit work. The proposed steps for each objective are intended to convey the type of work we would do, but are subject to change as we learn more about the audit issues and are able to refine our methodology.

Objective 1: Are the programs that receive EDIF funding consistent with the intended use of the fund?

Our tentative methodology would include the following:

- Review state law and work with the Office of the Revisor of Statutes to determine the intended use of EDIF.

- Work with the Legislative Research Department and review publicly available documents to identify the programs that have received EDIF funding in recent years and understand their purposes.
- Compare the purpose of each program to the intended use of the EDIF fund to determine whether they appear to be consistent.
- For any programs that do not appear to be consistent with the intended use of the EDIF, work with agency officials and the Legislative Research Department to understand why those programs have been funded through the EDIF.

Objective 2: Does the state’s process to distribute EDIF funding follow best practices? Our tentative methodology would include the following:

- Work with agency officials to identify the process to administer and distribute EDIF funds.
- Identify best practices related to economic development fund administration including the oversight and approval process, adherence to stated goals, analysis of return on investment, or other relevant ways to evaluate program effectiveness.
- Work with agency staff who administer the fund, and review documentation related to the current EDIF oversight or approval process. Work with staff to determine whether and how the programs receiving EDIF have been evaluated in recent years.
- Compare Kansas’ administrative process for EDIF funds to identified best practices to determine any differences. Follow up with agency officials for to get an explanation of any differences we identify.

ESTIMATED RESOURCES

We estimate this audit would require a team of **three (3) auditors** for a total of **four (4) months** (from the time the audit starts to our best estimated of when it would be ready for the committee).