



LIMITED-SCOPE PERFORMANCE AUDIT REPORT

Problem Gambling and Addictions Grant Fund: Reviewing Fund Expenditures in Recent Years

AUDIT ABSTRACT

Since 2007, state law has required that 2% of revenues from state-owned casinos be transferred to the Problem Gambling and Addictions Grant Fund. Money from this fund may be used for treatment and research for problem gambling, and also treatment for other addictions. Over the last three years, between \$2.2 million and \$2.5 million has been transferred from the Problem Gambling and Addiction Grant to other funds and agencies by legislative budget directives. However, the transferred funds are not used to provide services to individuals with gambling or other addictions because the legislature has directed the money to funds with other types of specific purposes. Based on a limited review, KDADS spending from the Problem Gambling and Addiction Grant Fund appears to comply with state law.

A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
April 2018

From the Legislative Post Auditor:

This limited-scope audit was authorized by the Legislative Post Audit Committee at its February 14, 2018 meeting. It addresses the following question: How has Problem Gambling and Addiction Grant Fund money been used in recent years and do those uses appear to comply with state law?

To answer this question, we interviewed staff at the Kansas Department of Aging and Disability Services (KDADS), the Kansas Department of Corrections, the Governor's Grants Program, and the Kansas Office of Revisor of Statutes. We also reviewed documents provided by KDADS showing the amount of revenues and expenditures from the problem gambling and addiction grant fund. We conducted data reliability on the summary financial information, but we did not audit detailed accounting ledgers, receipts or voucher-level data because of the limited scope of the audit.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Overall, we believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit standards require that we report on any work we did related to internal controls, but a review of internal controls was not part of the scope of the audit as approved by the Legislative Post Audit Committee.

This audit was requested by Representative Tom Burroughs and conducted by Meghan Flanders. Heidi Zimmerman was the audit manager. If you need any additional information about the audit's findings, please contact Heidi at (785) 296-8910.

Sincerely,

A handwritten signature in black ink that reads "Justin Stowe". The signature is written in a cursive style with a large initial "J" and "S".

Justin Stowe
Interim Post Auditor
April 25, 2018

How Has Problem Gambling and Addiction Grant Fund Money Been Used in Recent Years and Do Those Uses Appear to Comply with State Law?

Background Information

Prior to 2007, the Problem Gambling Fund was designated for problem gambling only and was funded with annual transfers from the state bingo regulation fund and state gaming revenue fund. In 2000, the Legislature established a problem gambling grant fund in the state treasury. The purpose was to provide assistance for the direct treatment of individuals diagnosed as suffering from pathological gambling and to provide funding for research regarding the impact of gambling on residents of Kansas. Money from the state bingo regulation fund, in the amount of \$20,000 per year, and money from the state gaming revenue fund, in the amount of \$80,000 per year, was transferred to the fund.

In 2007, the funding levels and scope of the Problem Gambling and Addictions Grant Fund was significantly expanded through the Kansas Expanded Lottery Act. During the development of the 2007 Kansas Expanded Lottery Act (the Act), concerns were raised about the negative impact expanded gambling may have on the prevalence of problem gambling and other addictive disorders in Kansas. To address these concerns, the Act expanded the existing problem gambling fund in two ways:

- **The Expanded Lottery Act earmarked 2% of net revenues created by state owned casinos to increase gambling fund revenues.** In the last three years, an average of \$7.4 million has been transferred to the gambling fund from state owned casino revenue. This is in addition to the \$80,000 that is transferred to the fund from state gaming revenue. In 2015, the legislature repealed the \$20,000 transfer from the state Bingo Regulation fund.
- **The Act also expanded the types of addictions that could be treated through gambling fund money.** Prior to 2007, fund money could only be used to provide treatment to individuals with gambling addictions or for research examining the impact of gambling on residents of Kansas. However, the Act added funding for the treatment of alcoholism, drug abuse, and other addictive behaviors.

The Act also renamed the fund to the Problem Gambling and Addictions Grant Fund to reflect its broader purpose.

Finding #1: Over the Last Three Fiscal Years, Casino Revenues Have Been Stable but Expenditures for Problem Gambling Services Have Declined

We reviewed three years of expenditures and revenues from the Problem Gambling and Addiction Grant Fund. *Figure 1* shows the total revenues and expenditures from the fund as reported by KDADS and other state agencies. As the figure shows:

- **The casino revenues diverted to the Problem Gambling and Addiction Grant Fund have been stable over the last three years at about \$7.5 million.** State law requires 2% of net revenues from state-owned casinos be placed in the Fund. During the last three years, those revenues have increased by 2%.
- **Expenditures for problem gambling programs and services has declined by about \$545,000 (54%) since fiscal year 2015.** These funds are used to provide services such as education, help lines, and treatment to individuals with gambling addictions. During the last three years, expenditures for those services has declined from about \$1.0 million to about \$470,000. KDADS officials told us this was because 1.5 full-time equivalent positions in the program have been vacant and because recent education and awareness programs may not have been effective recently. Officials told us the staffing structure made it more difficult to coordinate education and awareness programs which may have led to fewer people seeking treatment and thus a decline in expenditures. Officials think these issues have been resolved and expect problem gambling expenditures to increase in the coming years (they budgeted about \$610,000 for fiscal year 2018).
- **Expenditures for substance use disorders have remained relatively stable at about \$5 million since fiscal year 2015.** Those services include various types of treatment such as in-patient rehabilitation or out-patient visits with counselors and are available to two groups: Medicaid beneficiaries and low-income individuals who are uninsured or underinsured.

| Figure 1 | | | | |
|--|--------------------|--------------------|--------------------|----------|
| Problem Gambling and Addiction Grant Fund (PGAGF) Revenues, Transfers, and Expenditures | | | | |
| | FY 2015 | FY 2016 | FY 2017 | % change |
| PGAGF Revenues | | | | |
| Casino Revenues (2.0%) | \$7,404,236 | \$7,367,422 | \$7,553,939 | 2.0% |
| State Gaming Revenue Fund (a) | \$80,000 | \$80,000 | \$80,000 | 0.0% |
| Revenue Total | \$7,484,236 | \$7,447,422 | \$7,633,939 | 2.0% |
| PGAGF Transfers to Other Funds or Programs | | | | |
| Child Advocacy Programs (b) | \$150,000 | \$150,000 | \$150,000 | 0.0% |
| Community Corrections | \$500,000 | \$500,000 | \$500,000 | 0.0% |
| Domestic Violence (b) | \$550,000 | \$550,000 | \$550,000 | 0.0% |
| State General Fund | \$1,200,000 | \$1,024,792 | \$737,976 | (38.5%) |
| Social Welfare Fund | --- | \$287,007 | \$287,007 | --- |
| Transfer Total | \$2,400,000 | \$2,511,799 | \$2,224,983 | (7.3%) |
| PGAGF Expenditures | | | | |
| Problem Gambling Services Administration | \$206,415 | \$170,911 | \$248,292 | 20.3% |
| Problem Gambling Programs & Services | \$1,014,000 | \$651,081 | \$468,635 | (53.8%) |
| Uninsured Substance Use Disorder | \$862,315 | \$1,025,264 | \$1,002,000 | 16.2% |
| KanCare Substance Use Disorder | \$4,000,000 | \$4,000,000 | \$3,992,000 | (0.2%) |
| Expenditure Total | \$6,082,730 | \$5,847,256 | \$5,710,927 | (6.1%) |
| Total Transfers & Expenditures (c) | \$8,482,730 | \$8,359,055 | \$7,935,910 | (6.4%) |

(a) These dollars are transferred to the Problem Gambling and Addictions Grant fund per KSA 79-4806.
 (b) Both of these programs are under the Governor's Grant office.
 (c) Although transfers and expenditures exceed revenues, carryover balances in each year offset the difference.
 Source: LPA summary of data provided by KDADS and Legislative Research staff (audited).

Finding #2: During the Past Three Years, Between \$2.2 and \$2.5 Million Has Been Transferred from the Problem Gambling and Addiction Grant Fund to Other Funds

During the last three years, an average of 32% of the money in the Problem Gambling and Addiction Grant Fund has been transferred to other funds and agencies by legislative budget directives. In the last three fiscal years, the Legislature has directed the transfer of Problem Gambling and Addiction Grant Fund money to a variety of other funds and agencies, including:

- \$550,000 to the Governor's Domestic Violence Grant Fund and \$150,000 to the Governor's Child Advocacy Center Grants Fund for child and adult victims of abuse programs.
- \$500,000 to the Department of Corrections Community Corrections Special Revenue Fund. The Legislature did not specify how the Department is to use these funds.
- \$287,000 to KDADS Social Welfare Fund. The Legislature did not specify how the Department is to use these funds, and this transfer was not required in fiscal year 2015.
- \$94,993 to the state general fund. The Legislature did not specify how the state is to use these funds, and this transfer was not required in fiscal year 2015.
- Any unencumbered balance at the end of the fiscal year to be used to reimburse the state general fund for accounting, auditing, budgeting, payroll, and other services performed on behalf of KDADS by other state agencies.

All but one of these transfers (the transfer that sweeps the unencumbered balance is the exception) occurs either at the beginning of the fiscal year or as soon as the funds are available. As a result, the funds KDADS has available to use for addiction services is reduced by the amount of those transfers. In the last three years, 29% to 34% of the total dollars available in the Fund have been transferred to other funds or agencies.

Money transferred out of the Fund was used for a variety of purposes—that although allowed—were unrelated to addiction research or treatment. *Figure 2*, on page 4, includes a description of the spending of transferred dollars. As the figure shows, the transferred funds are used for a variety of other purposes. Those include funding for programs that serve abused children and victims of domestic abuse, community corrections, and for KDADS administrative costs. These transfers are all specified through the budget process. As a result, although the use of these funds are not related to addiction research or treatment, they do appear to comply with legislative budget directives.

| Figure 2 Problem Gambling and Addictions Grant Fund Transfers and Expenditure Categories | |
|--|--|
| PGAGF Transfers | Description of Spending |
| Governor's Office Grants - Child Advocacy | Budget proviso directed money to this fund, which is part of the Governor's Grant Program. Child Advocacy Centers are child-focused, community-oriented programs that coordinate investigation and intervention services for abused children. The grant program purpose is to continue, initiate, enhance, or expand these programs. |
| Governor's Office Grants - Domestic Violence | Budget proviso has directed money to this fund, which is part of the Governor's Grant Program. The program supports the enhancement and expansion of domestic violence and sexual assault outreach services to underserved populations and underserved areas of the state. |
| KDOC - Community Corrections Special Revenue | Budget proviso has directed money to this fund which is used for community corrections. Because KDOC mixes this with other general fund dollars to operate the community corrections program, we can only say these funds are spent on community corrections operations in Kansas. |
| State General Fund | Budget proviso specifies that this money is meant to reimburse the state general fund for accounting, auditing, budgeting, legal, payroll and other services performed on behalf of KDADS by other state agencies. However, we could not trace how these monies were actually spent because they are comingled with all other SGF funds and are not tracked separately. |
| KDADS Social Welfare Fund | We cannot say specifically how these transferred dollars were spent because they are co-mingled with other dollars in the social welfare fund and not tracked separately. Moreover, the statute that directs the transfer does not list a purpose for it. A KDADS official speculated that the transfer was a specific legislator's request to cover any potential KDADS deficits for problem gambling treatment spending. |
| PGAGF Expenditures | Description of Spending |
| Problem Gambling Services Administration | These funds are for KDADS salaries, benefits, phone, travel and supplies. For example, this includes the salary for the KDADS Problem Gambling Program Manager position, as well as two problem gambling specialist positions and a split salary for a staff person who spends some time on substance use disorder work. |
| Problem Gambling Programs & Services | These funds are for public service announcements to educate the public on problem gambling and where to seek help, coalitions and task forces, a contract with a national service to direct help line calls, data collection and research, and problem gambling treatment services. |
| Uninsured Substance Use Disorder | These funds are for substance use disorder treatment such as, in-patient treatment or meeting with counselors, for the underinsured or uninsured in Kansas. Funding for this program each year is based on providers' previous year spending. |
| KanCare Substance Use Disorder | These are KanCare (Medicaid) state funds to support substance use disorder treatment for Medicaid beneficiaries in Kansas. This is just one of many sources that support Medicaid substance use disorder treatment spending. |
| Source: LPA summary of interviews with agency officials and summary documents provided by agency officials or found through online research (unaudited). | |

Finding #3: Spending from the Problem Gambling and Addiction Grant Fund Appears to Comply with State Law

Based on a limited review, we did not identify any problems with KDADS spending from the problem gambling and addiction grant fund on problem gambling services administration, problem gambling programs and services, and substance use disorder programs. **Figure 2** shows KDADS spending categories and a description of spending. Because of the limited scope of the audit, we did not examine accounting records, receipts, vouchers or patient-level data to verify expenditure information. Instead we relied on interviews with agency officials and summary-level supporting documentation, such as budget documents. Further, much of the money spent from the Fund is earmarked for Medicaid, which is funded from many sources. As a result, it is difficult to track how any one dollar from a specific fund is spent. After all required transfers are made, KDADS appears to spend remaining funds on either problem gambling treatment and research or substance use disorder treatment as allowed by statute.

Recommendations

None.

Potential Issues for Further Consideration

None.

Agency Response

On April 11, 2018, we provided copies of the draft audit report to the Kansas Department of Aging and Disability Services. Agency officials did not submit a formal response.