



COMPLIANCE AND CONTROL AUDIT REPORT

Kansas Department of Human Resources

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
January 1998**

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 \$8 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. General Accounting 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 (in-

cluding 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

Senator Lana Oleen, Chair
Senator Anthony Hensley
Senator Pat Ranson
Senator Chris Steineger
Senator Ben Vidricksen

Representative Eugene Shore, Vice-Chair
Representative Richard Alldritt
Representative Doug Mays
Representative Ed McKechnie
Representative Dennis Wilson

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LEGISLATURE OF KANSAS
LEGISLATIVE DIVISION OF POST AUDIT

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December 30, 1997

To: Members, Legislative Post Audit Committee

Representative Eugene Shore, Chair
Representative Richard Alldritt
Representative Doug Mays
Representative Ed McKechnie
Representative Dennis Wilson

Senator Lana Oleen, Vice-Chair
Senator Anthony Hensley
Senator Pat Ranson
Senator Chris Steineger
Senator Ben Vidricksen

This report contains the findings, conclusions, and recommendations from our completed compliance and control audit of the Department of Human Resources.

The report concludes that the Department generally ensures that its own spending adheres to applicable restrictions, and ensures that grantees appropriately spend moneys received from the Department. The report recommends some improvements in the Department's grant procedures.

We would be happy to discuss the findings and recommendations presented in this report with any legislative committees, individual legislators, or other State officials.

Barbara J. Hinton
Legislative Post Auditor

EXECUTIVE SUMMARY
LEGISLATIVE DIVISION OF POST AUDIT

QUESTION 1: Did the Department of Human Resources' Financial-Management Practices Ensure That it Complied With State and Federal Spending Restrictions?

The Department generally has established adequate procedures to ensure that it complies with spending restrictions. *These practices identify restrictions on the use of moneys, account for each type of restricted moneys separately, allocate indirect costs appropriately, and provide supervisory oversight to ensure proper spending.* page 2

Question 2: Did the Department of Human Resources' procedures ensure that local agencies spent moneys appropriately?

Although the Department's oversight practices generally are adequate to ensure that local agencies spend grant moneys appropriately, these procedures sometimes aren't followed. *The Department has established adequate practices, including monitoring local spending on an ongoing basis, conducting on-site reviews, and requiring independent audits where appropriate. However, some of these procedures weren't followed in fiscal year 1997 for the grant we reviewed because the grant manager was ill and the Department has no back-up provisions for this situation.* page 4

Recommendation page 5

Agency Response page 6

This audit was conducted by Jerry Fair. Randy Tongier was the audit manager. If you need any additional information about the audit's findings, please contact Ms. Fair at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call (785) 296-3792, or contact us via the Internet at: **LPA@mail.ksleg.state.ks.us**.

KANSAS DEPARTMENT OF HUMAN RESOURCES

The Legislative Division of Post Audit has conducted compliance and control audit work at the Kansas Department of Human Resources covering fiscal year 1997. Compliance and control audits identify noncompliance with applicable requirements and poor financial-management practices. The resulting audit findings often identify needed improvements that can help minimize the risk of potential future loss or misuse of State resources.

At the direction of the Legislative Post Audit Committee, this audit focused on how the Department of Human Resources ensures that restricted moneys are properly used, and on its oversight of grants to local agencies. The audit addresses the following specific questions:

- 1. Did the Department's financial-management practices ensure that it complied with State and federal spending restrictions?**
- 2. Did the Department's procedures ensure that local agencies spent moneys appropriately?**

To answer these questions, we identified applicable legal spending restrictions and standard financial-management practices. We also reviewed the Department's written procedures, interviewed appropriate Department personnel, and reviewed a sample of grants to local agencies to see if the Department's procedures were consistent with those practices. In conducting this audit work, we followed all applicable government auditing standards set forth by the U.S. General Accounting Office.

Our findings are discussed on the following pages.

**Did the Department of Human Resources'
Financial-Management Practices
Ensure That It Complied with State and Federal
Spending Restrictions?**

The Department's financial-management practices generally are well designed, and the way they're being applied is likely to ensure that restricted State and federal funds aren't misspent. Among other practices, the Department has established both a method to allocate costs shared by different programs or funds in a logical and consistent manner, and a system of review by various staff.

**The Department of Human Resources
Has Established Adequate Procedures to
Ensure that It Complies with State and
Federal Spending Restrictions**

To avoid duplicating audit work performed during the Statewide audit, we focused our reviews on three smaller programs. During fiscal year 1997, the Department of Human Resources spent more than \$1.8 million of U.S. Department of Labor moneys on two programs: the Local Veterans Employment Representative Program and the Trade Adjustment Assistance Program. Moneys from the Employment Representative Program are used primarily for salaries of representatives who provide services solely to veterans. Trade Adjustment Assistance moneys are used for training and support of individuals who have lost their jobs because of competition with foreign firms. The Department also spent approximately \$778,000 of U.S. Department of Labor, Labor Force Statistics Program moneys to gather and analyze employment data.

To comply with applicable restrictions and to limit the State's potential future financial liability for misspending any federal funds, the Department should take steps to ensure that these restricted moneys are spent properly. To do this, the Department should have put in place certain financial-management practices, including the following:

- identifying any restrictions on the use of its moneys, particularly those restrictions imposed by law or regulation
- accounting for each type of restricted money separately from other moneys, so that the Department knows how each type of restricted money is spent
- requiring supervisory oversight to ensure that costs charged to a program actually were incurred by that program
- determining that payments are made only to eligible persons

- allocating joint costs shared by several programs or funds on a logical, consistent basis, so that each program or fund pays only its proper share of those costs.

To find out the Department's practices in this area, we interviewed Department officials, reviewed written procedures, and examined a sample of applicable documents. We found that the Department's practices were well designed and consistent with the "good practices" outlined above.

Did the Department of Human Resources' Procedures Ensure That Local Agencies Spent Moneys Appropriately?

Federal regulations require the Department, when awarding and administering a subgrant, to ensure that its subgrantees are aware of requirements imposed on them by federal laws and regulations. They also require the Department to monitor each subgrant-supported program, function, or activity to ensure that it complies with applicable federal requirements. We found that the Department has established generally adequate practices regarding the oversight of subrecipient's expenditures. However, in some instances these practices weren't followed. Our findings are summarized below.

The Department's Oversight Practices Generally Are Adequate to Ensure That Local Agencies Spend Grant Moneys Appropriately

During fiscal year 1997, the Department of Human Resources transferred almost \$800,000 of U.S. Department of Labor moneys to a local chapter of the American Red Cross under the Senior Community Service Employment Program. These moneys are to be used primarily to subsidize wages for low-income workers age 55 and older.

The Department is responsible for ensuring that local entities properly use these federal moneys. To do so, the Department should have put in place certain oversight practices. Those practices would include the following, as applicable:

- reviewing and approving local spending plans
- conducting on-going monitoring of financial and performance reports
- conducting on-site reviews to ensure that the entity is spending moneys appropriately
- requiring the local agencies to obtain periodic independent audits
- following up on and resolving any discrepancies noted by the reviews and audits

To find out the Department's practices in this area, we interviewed appropriate agency officials, reviewed written procedures, and examined a sample of applicable documents. Our review focused on whether oversight procedures existed, and their likely effectiveness in revealing any misspending.

We found that the Department generally has established procedures which ensure that local agencies spend moneys appropriately. These procedures include all the "good practices" outlined above.

The Department Didn't Fully Implement Its Oversight Procedures During Fiscal Year 1997

To adequately oversee local spending, the Department of Human Resources should do an on-site review of the activities of the local chapter of the American Red Cross. It also should receive an annual audit, and follow up on any applicable audit findings. Although the Department had established these oversight procedures, its staff didn't do any of those procedures for this particular grant during fiscal year 1997.

During that year the grant manager, who normally does the on-site visit, had eye surgery and wasn't able to conduct the visit. The Department had no back-up provisions. In addition, although the Department's grant agreement requires an annual audit of the chapter, the Department didn't ask for a copy of the fiscal year 1997 audit. Because of this lack of oversight, the Department couldn't be sure that local spending was appropriate.

The Department is responsible to the federal government for any inappropriate spending by a subrecipient. Although it's unlikely that any federal moneys were misspent in this case because the chapter has experience in running the program, and an audit was done, the risk of misspending was increased during fiscal year 1997 because of the Department's reduced oversight and the presence of a new local director.

Recommendation

1. To provide for adequate oversight of federal funds it distributes to local agencies, the Department of Human Resources should do the following:
 - a. establish a procedure to arrange for an alternative on-site monitor in the event the grant manager isn't able to perform the review.
 - b. institute a method of ensuring that all subrecipients submit copies of any required audits to the Department.

APPENDIX A

Agency Response

On December 11, 1997, we provided a copy of the draft audit report to the Department of Human Resources. The Department's response is included as this Appendix.

STATE OF KANSAS
DEPARTMENT OF HUMAN RESOURCES



Bill Graves, Governor

Wayne L. Franklin, Secretary

OFFICE OF THE SECRETARY

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December 19, 1997



Ms. Barbara J. Hinton
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RE: Compliance and Control Audit of the Department of Human Resources

Dear Ms. Hinton:

This office is in receipt of and I have reviewed the compliance and control audit of the Department of Human Resources (DHR). I appreciate your invitation to respond. As Secretary of Human Resources, I enthusiastically support the concept of continuous improvement and welcome critiques regarding the performance of the Agency, including recommendations to help us minimize our risk with respect to potential future loss or misuse of State resources.

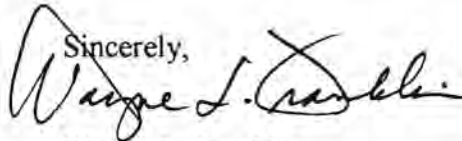
I am in agreement with the recommendation presented in the audit. Oversight and monitoring activities are a top priority of mine. With respect to recommendation 1(a), establishing "a procedure to arrange for an alternative on-site monitor in the event the grant manager isn't able to perform the review," please know that we have identified and are addressing issues of staff cross-training as a means by which to ensure on-site review activities are carried out according to schedule.

With respect to recommendation 1(b), instituting "a method of ensuring that all subrecipients submit copies of any required audits to the Department," we will standardize the audit request in future grant agreements so that the subrecipient has automatic responsibility to provide an audit. In addition, we will draft a standard form letter to subrecipients to remind or follow-up on receipt of an audit, as appropriate. This process will be incorporated into our standard operating procedures.

Letter to Ms. Barbara J. Hinton
Legislative Post Auditor
December 19, 1997
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Overall, I am pleased with the results of the audit. I believe that DHR is performing in a noteworthy manner concerning compliance and control issues related to proper use and oversight of restricted moneys and grants to local agencies. I always, however, welcome the opportunity to improve upon existing methods and procedures.

On behalf of the Agency, please be assured that we appreciate the work of your auditors and take your recommendation seriously. If you have any questions, please do not hesitate to give me a call at (785) 296-7474.

Sincerely,

Wayne L. Franklin
Secretary of Human Resources

WLF;JMC;jc

cc: Jill Crumpacker, Director of Employment and Training
A.J. Kotich, Chief Legal Counsel

