



# KANSAS LEGISLATIVE DIVISION *of* POST AUDIT

The Rundown podcast transcript for the Performance Audit report titled **Economic Development Initiatives Fund: Evaluating the State's Accountability Over the Use of EDIF Funding** – Released October 2019

**Brad Hoff, Host and Recruiting and Training Manager:** [00:00]

From the Kansas Legislative Division of Post Audit, this is The Rundown, your source for news and updates from LPA including performance audits recently released to the Kansas Legislature. I'm Brad Hoff. In October 2019, Legislative Post Audit released a performance audit examining how well programs that receive funds from the state's Economic Development Initiatives Fund or EDIF align with its original intent and whether the state's process for administering this fund aligned with best practices. I'm joined in The Rundown studio by Kristen Rottinghaus, Performance Audit Manager at Legislative Post Audit who managed this audit. Welcome to The Rundown, Kristen.

**Kristen Rottinghaus, Performance Audit Manager:** [00:55]

Thanks Brad. It's good to be here.

**Brad Hoff, Host and Recruiting and Training Manager:** [00:59]

So, to help our listeners better understand the Economic Development Initiatives Fund, please give a little background on EDIF-what it is, how it works, and how much in EDIF monies were spent in recent years.

**Kristen Rottinghaus, Performance Audit Manager:** [01:15]

So, just to start, the Legislature created EDIF back all the way back in 1986 to help with economic development in Kansas. So, it is a specific fund that the Legislature created that actually takes a portion of the state's lottery and gaming revenues and puts it in the fund each year. So, in terms of how it works, state agencies request to use EDIF funding through the normal budgeting process. So, then the Legislature is actually responsible for distributing funds actually to specific agencies and programs again through its normal appropriations process. So, in terms of about how big it is, in fiscal year 2018, about five agencies spent \$42 million in EDIF funding. So that breaks down in the kind of two buckets if you want to think of it that way. So, the

first bucket is that agencies themselves, they spent about \$20 million on a whole bunch of different programs.

**Kristen Rottinghaus, Performance Audit Manager:** [02:19]

And then the second bucket is that the Legislature actually transferred about \$22 million in EDIF funds to other funds such as the state general fund. In terms of how that compares to other years as part of our work, we did actually look at the four previous fiscal years as well and saw that EDIF funding was used generally in the same ways. So, the amount of funding was, was very similar from year to year. So, in terms of everything that we're going to talk about today and kind of our findings in this work, it's all really based on fiscal year 2018

**Brad Hoff, Host and Recruiting and Training Manager:** [02:55]

Now, one of the audit's questions was to determine whether the state's process to administer EDIF follows best practices. So, talk about the best practices that the team used to measure EDIF against.

**Kristen Rottinghaus, Performance Audit Manager:** [03:13]

Sure. So, we went to a couple of different places to look for some best practices. So, the ones we ended up using were from the National State Auditors Association and the Government Finance Officers Association. So, we were looking for practices that kind of identify characteristics of effective economic development programs and specifically we were trying to focus on ones related to oversight. So again, just kind of thinking of easy ways to break the information up. We split the practices into kind of two categories, if you will. So, the first one was looking at practices for designing economic development programs and awarding funding. And then the second kind of bucket was practices for monitoring programs and funding. So just to give you kind of a couple of examples of the kinds of practices that fit within those categories. There's kind of four that I thought I'd highlight. So, one of those is that effective economic development programs should establish clear objectives that can be measured. They should establish clear guidelines for selecting who receives funding. They should assign someone to make sure the agencies submit required performance information, and they should evaluate if agencies meet expectations and are using funds effectively.

**Brad Hoff, Host and Recruiting and Training Manager:** [04:40]

So overall, what did the team find when comparing EDIF against these best practices?

**Kristen Rottinghaus, Performance Audit Manager:** [04:47]

So we found that Kansas doesn't actually follow any of those practices that we were just talking about. For designing programs or awarding EDIF funding or for monitoring EDIF funds. So, again, just some of the evidence that we used to support that there isn't a centralized oversight body to oversee EDIF funds. , and state law

doesn't establish criteria for how agencies should be selected or what the process is for determining if EDIF is effective in supporting economic development.

**Brad Hoff, Host and Recruiting and Training Manager:** [05:25]

So the audit's second question is related to whether the programs that receive EDIF funding are consistent with the intended use of the fund. In other words, the legislative intent of those EDIF disbursements. So, reading the report, the audit team, they reported only about \$8 million of the \$42 million in EDIF spending in fiscal year 2018 went to programs meeting specific requirements in state law. So, what is the legislators' intent for how EDIF is used?

**Kristen Rottinghaus, Performance Audit Manager:** [06:02]

Sure. So, that's a great question and there's actually a lot to unpack here. So, kind of where we started at least was looking at state law to determine what well, what legislative intent was. So, state law kind of very broadly says the EDF should be used for economic development. So that would include things like supporting existing Kansas businesses or promoting new Kansas businesses, but more specifically it requires the EDIF funds go into one of three accounts. So, to kind of figure out, what those accounts were meant to be used for, we actually referred back to Kansas as statewide economic development plan from 1986. So, what we know is in state law today, there's these three accounts. And then from that economic development plan, determine what the intent of those accounts were. So, there's three accounts. That first account is called the capital formation accounts, which is meant to help finance innovative companies or products. A second account is the research and development account and that is pretty much what it sounds like. So, the intent is for that to be used for research and development specifically to support collaboration between Kansas businesses and universities. And then the third account is called the endowment account and that can be used really for any economic development activity, but it does require that at least some of that money be used for community infrastructure development. So, another important point that I think it's important for people to know is that those accounts, those three accounts that we've been talking about, they haven't actually been used by the legislature in recent years. So, the legislature, they designate how much money goes into each of those accounts and then who can spend it, but that hasn't happened recently so we couldn't determine why the legislature hasn't used those funds recently because we're a legislative staff, which is an independence impairment on our part.

**Brad Hoff, Host and Recruiting and Training Manager:** [08:12]

So talk a little bit about the process that the team used to calculate the \$8 million.

**Kristen Rottinghaus, Performance Audit Manager:** [08:18]

So we reviewed program descriptions and talked to agency officials and then kind of used our professional judgment to decide if something aligned with legislative

intent. Something that I think it's important for you and our listeners to know is that we did this work really based only on a high level description of the program. So we didn't actually look at how agencies spent EDIF funding. So, I'll give you an example. The Department of Commerce receives EDIF funding for its general operations. So that funding can be used a lot of different things. So, think about staff salaries, supplies, informational brochures, a whole bunch of different things that could be used for. So when we made our determination, we were evaluating the operating grants as a whole, not the individual uses of the money.

**Brad Hoff, Host and Recruiting and Training Manager:** [09:14]

So give a few examples on what that \$8 million was spent on.

**Kristen Rottinghaus, Performance Audit Manager:** [09:20]

Sure. So, when we, again, this is kind of taking the narrowest interpretation and found that \$8 million that you pointed out that kind of aligned with at least one of those three accounts that covered several programs. So, just a couple of examples. The Department of Agriculture's marketing program helped with research and development and funding for innovative companies. So, for example, it's used to help farmers, ranchers, and agricultural businesses interact with investors and supports research at Kansas universities. Maybe a second example for you would be K-State's extension's systems and agricultural research program, which supports research for agricultural science and technology.

**Brad Hoff, Host and Recruiting and Training Manager:** [10:07]

So the report stated about \$14 million of EDIF spending in fiscal year 2018 while it was related to economic development was not consistent with specific legislative intent. So talk about what evidence that the audit team found to make this conclusion.

**Kristen Rottinghaus, Performance Audit Manager:** [10:31]

So this used the same methodology that we just talked about. So, talking to agency officials, , looking at kind of high level program descriptions to figure out, you know, where we thought things aligned or didn't align with legislative intent. So, when we did that, this \$14 million, we determined it appeared to support economic development more generally but didn't fit with one of the three purposes required in state law. So, a couple of examples for you there to maybe help drive that home. The Department of Commerce has what's called an older Kansans employment program and that provides training and job matching services to residents who are 55 years and older. So, in our opinion, that supports economic development but didn't fit with one of those three accounts. Maybe a second example for you would be the Department of Wildlife, Parks and Tourism, which uses some media funding to promote tourist destinations and Kansas and advertises activities in Kansas magazine. That's kind of the same reasoning behind that one.

**Brad Hoff, Host and Recruiting and Training Manager:** [11:41]

Now the team found that about half or \$20 million of EDIF spending in fiscal year 2018 did not appear to be related to economic development. So, was the team ever able to determine what that \$20 million was spent on?

**Kristen Rottinghaus, Performance Audit Manager:** [11:57]

We do know the legislature transferred \$20 million to the state general fund. So that's what the \$20 million is. Again, this is for fiscal year 2018 so from there we could not determine where it went. So, once it's transferred, there's really no way to track how state general fund money is used. So, it's likely it wasn't spent on economic development, but because the only way to really ensure that it is spent on economic development is to actually give those funds to a specific agency or program.

**Brad Hoff, Host and Recruiting and Training Manager:** [12:34]

Now, the report stated that LPA could not determine if the EDIF funds were dispersed across the state of Kansas as required by state law. Talk a little bit about why that is.

**Kristen Rottinghaus, Performance Audit Manager:** [12:53]

Sure. And I might kind of explain just a little bit about that rule if you will. So, it's state law that requires that at least half of EDIF funds be distributed across Kansas' four congressional districts. So, even though that's a requirement in state law, state law doesn't actually require anyone to track or report that information. So, there's really no way for us to tell or anyone else for that matter.

**Brad Hoff, Host and Recruiting and Training Manager:** [13:23]

What's the main takeaway in this report?

**Kristen Rottinghaus, Performance Audit Manager:** [13:26]

I think it's that the state may be missing out on opportunities to use EDIF funding more effectively. So, as we've discussed already, there's very little guidance or oversight of the fund currently and the legislature is transferring a significant portion of those funds to the state general fund, which isn't of course reserved for economic development specifically. So if the state did have some of those things in place, it might be able to actually better use some of that funding for economic development purposes in Kansas,

**Brad Hoff, Host and Recruiting and Training Manager:** [14:03]

Kristen Rottinghaus is a Performance Audit Manager at Legislative Post Audit. She managed a performance audit examining 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 align with best practices. Kristen, thank you for taking the time to walk me through the audit's findings.

**Kristen Rottinghaus, Performance Audit Manager:** [14:31]

No problem. Brad, thanks again for having me.

**Brad Hoff, Host and Recruiting and Training Manager:** [14:34]

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