

LIMITED-SCOPE AUDIT PROPOSAL

Evaluating Department of Commerce Procurement and Contracting Practices

SOURCE

This audit proposal was requested by Senator Hensley.

BACKGROUND

The Kansas Department of Commerce is the state's economic development agency and is responsible for expanding and recruiting businesses across the state. It is primarily responsible for promoting the Kansas economy and workforce to attract new businesses and investment opportunities. The Department had about 290 positions and a budget of about \$105 million in 2019.

The department often negotiates deals or enters contracts with private businesses. As a result, it is important the department have strong processes to avoid conflict of interests. A conflict of interest can arise if a decision benefits a family member, close friend, or business associate. For example, it is a conflict of interest for an employee in charge of purchasing computer software to evaluate a bid submitted by his brother's software company.

Undisclosed conflicts can reduce government transparency or lead to inefficient spending, fraud, or abuse. Beginning in 2017, Kansas City Star launched an investigation into contracts issued by the Department of Commerce based on concerns over potential conflicts of interest and misuse of state funds. The Star reportedly found numerous cases in which state contracts were issued to personal friends or business partners of Department officials.

To increase transparency, governments can require decision-makers to disclose certain kinds of interests. Further, training, written policies and controls can help employees in charge of purchasing or contracting to recognize and manage conflicts.

Legislators have expressed concern that these cases of potential misconduct could be indicative of other instances of misuse of state resources at the Department of Commerce.

AUDIT OBJECTIVES AND TENTATIVE METHODOLOGY

The audit objectives listed below are the questions we would answer through our audit work. The steps listed for each objective convey the type of work we would do. These may change as we learn more about the audit issues.

Objective 1: Does the Department of Commerce have a good process to manage conflict of interests for the business deals it is involved in?

Our tentative methodology would include the following:

- Work with Department of Commerce and Department of Administration officials and the Revisor's office to identify state laws or other rules that agencies must follow in the procurement or contracting process with a focus on disclosing conflicts of interest.
- Work with Department officials to identify what policies and practices the department has in place to manage potential conflicts of interest. This includes processes when conflicts of interest are identified, such as recusal from the process.
- Work with Department officials to determine what training they provide to staff in this area, and what disclosures staff are required to make.
- Compare the department's processes to state law or other state requirements.
- Follow up with department officials to understand any differences we identify.

ESTIMATED RESOURCES

We estimate this audit would require **100 staff hours** to complete.