

## AUDIT PROPOSAL

### Accuracy of Certain Economic Impact Statements

#### SOURCE

This audit is required by K.S.A. 77-416.

#### BACKGROUND

State law (K.S.A. 77-420 and 77-421) outlines the process for agencies to adopt permanent Kansas Administrative Regulations.

- Agencies must estimate the economic effects of any proposed changes and submit an economic impact statement to the Division of Budget. The economic impact statement covers impacts of the change. That includes the costs and benefits, the effect on business activities, which businesses are affected, compliance costs for those affected, and total annual implementation costs.
- Budget staff complete an 'independent analysis' of the cost factors, an estimate of changes to state level revenues and expenditures, and a long-range economic impact. The agency may be required to re-evaluate and update the economic impact statement, as directed by Division of Budget.
- Once finalized, the economic impact statement is submitted by the agency to Secretary of State, Attorney General, and other entities. Finally, if the estimated impact is more than \$3 million, the agency must have a public hearing regarding the proposed change.

K.S.A. 77-416 requires the Legislative Division of Post Audit to study the accuracy of economic impact statements, the impact the review by Division of Budget had on the accuracy of economic impact statements, and the whether the \$3 million threshold for public hearing is appropriate.

**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 it appear the economic impact statements submitted by state agencies are generally accurate?** Our tentative methodology would include:

- Interview Revisor of Statutes, Division of Budget and other stakeholders to determine the process and requirements for agencies to compile economic impact statements related to any proposed rule or regulation changes.
- Work with Division of Budget and agency officials to select a sample of economic impact statements prepared by agencies over the last 7 years.

- Determine for the sample of statements whether appropriate analysis had been completed, whether assumptions were reasonable, whether the analysis and factors considered were robust, and whether all requirements were included.
- Test the accuracy of the sample of statements by comparing the estimated effect at the time the statement was written to actual effects to the extent possible. This includes costs, benefits, businesses affected, and compliance costs.

**Objective 2: What impact has the review by the director of the budget had on the accuracy of economic impact statements.** Our tentative methodology would include:

- Work with Division of Budget officials to determine the resources used in this process to independently analyze proposed rules and regulation changes.
- For the sample of economic impact statements in Objective 1, determine the original agency submission, the Division of budget's independent analysis and any changes the agency made after Division of Budget's review.
- Based on our work in Objective 1, compare the original agency impact statement and changes made after Division of Budget review to the actual economic effects as best we can determine. Conclude whether Division of Budget review made the statements more accurate or not.
- Discuss results with Division of Budget officials for their explanation.

**Objective 3: Is \$3 million the appropriate amount of economic impact to trigger the hearing procedure?** Our tentative methodology would include:

- Work with legislative staff, Department of Administration Staff, Secretary of State staff and other stakeholders to gather data regarding economic impact statements and their dollar value. Array the data based on economic impact totals.
- Work with those officials to determine whether statements above the \$3 million threshold had public hearings.
- Estimate the number of hearings impacted if the threshold was raised or lowered.
- Discuss results with agencies and appropriate stakeholders and determine the pros and cons of changing the threshold amount.

**ESTIMATED RESOURCES**

We estimate this audit would require a team of **3 auditors** for a total of **5 months** (from the time the audit starts to our best estimate of when it would be ready for the committee).