



MEMORANDUM

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TO: Members, Senate Federal and State Affairs Committee
FROM: Scott Frank, Legislative Post Auditor
DATE: February 7, 2013
SUBJECT: Testimony on SB 102

I appreciate the opportunity to testify in favor of Senate Bill 102, which would amend language in K.S.A. 75-4203 which requires the State Treasurer's Office to report daily cash receipts to the Director of Accounts and Reports (A&R), replacing the reference to A&R with an updated reference to the Secretary of Administration.

Department of Administration Reorganization

In January 2012, the Department of Administration went through a significant internal reorganization which dissolved a number of existing divisions and regrouped certain functions into newly created offices. For example, the duties of the longstanding Division of Accounts and Reports were split between two new areas—the Office of General Services and the Office of Management Analysis and Standards.

One consequence of the department's reorganization is that some positions that are specifically referenced in statute, including the Director of Accounts and Reports, no longer exist. Because internal reorganizations (unlike Executive Reorganization Orders) do not go through the Legislature, there is no trigger for a clean-up bill to update any statutes that are affected. Consequently, a number of current state statutes assign specific responsibilities to positions within the Department of Administration that no longer exist.

Audit Findings for the State Treasurer's Office

The Legislative Post Audit Act requires an annual audit of the operations of the State Treasurer's Office. The audit, which is conducted by a CPA firm under contract with the Legislative Division of Post Audit, evaluates the State Treasurer's compliance with a variety of statutory obligations such as depositing receipts, collateralizing deposits, handling unclaimed property, and distributing local taxes and state aid to local units of government.

In the most recent audit of the State Treasurer's Office, released in December 2012, the auditors found a minor issue with the Treasurer's handling of daily cash sheets. (An excerpt from that report is included as **Attachment A**) Specifically, K.S.A. 75-4203 requires the Treasurer to prepare and sign a daily cash sheet and submit a copy to the Director of Accounts and Reports. Because that position no longer exists, the Treasurer submitted to copies to staff with the Office of Management Analysis and Standards—a practice that makes perfect sense but is not in compliance with the statute.

SB 102 would address this issue by amending K.S.A. 75-4203 to require the Treasurer to submit the cash sheets to "the secretary of administration or the secretary's designee."



EXAMINATION REPORT

Examining Selected Financial Management Practices of the State Treasurer's Office, Fiscal Year 2012

**A Report to the Legislative Post Audit Committee
By RubinBrown Under Contract with the
Legislative Division of Post Audit
State of Kansas
December 2012**

STATE TREASURER'S OFFICE

SCHEDULE OF PROCEDURES PERFORMED AND FINDINGS

Objective	RubinBrown Procedures Performed	Findings
Did the Treasurer's Office deposit receipts it collected in the State bank accounts on a timely basis in accordance with K.S.A. 75-4203?	RubinBrown selected a sample of 25 business days to test that the daily cash sheet was prepared, properly authorized, and a copy was delivered to the Director of Accounts and Reports in accordance with K.S.A. 75-4203.	It was noted that the cash sheet was not submitted to the Director of Accounts and Reports in accordance with K.S.A. 75-4203 but was instead submitted to another member of the Office of Management Analysis and Standards.
Did the Treasurer's Office collateralize moneys in State bank accounts as required by K.S.A. 75-4218?	RubinBrown selected a sample of 20 state bank accounts where deposits were greater than \$250,000 to verify proper collateralization in accordance to K.S.A. 75-4218.	None
Did the Treasurer's office have in place procedures for the following? a. Advertising the receipt of unclaimed property in accordance with K.S.A. 58-3951	RubinBrown selected a sample of 25 Unclaimed properties from the STO internal system (UP3) to determine if unclaimed property was advertised in accordance to KSA 58-3951. RubinBrown selected 25 abandoned property sales and 25 security sales to verify sales were in accordance to K.S.A. 58-3955 and K.S.A. 58-3956.	None
b. Selling abandoned property in accordance with K.S.A. 58-3955		Four of the 25 abandoned properties tested were not sold within three years after the receipt of the property, however there was documented activity in the UP3 system for each of the four properties in the last two years. It is the Department's policy not to sell the property until it is considered inactive and all means of finding the rightful owner have been exhausted. One of the 25 securities was not sold within one year of being delivered to the administrator. The security was listed to be sold within one year, but was pulled from the sale due to a request for more information on a potential owner. It is the department's policy that when a request for more information is submitted, the security linked to the CUSIP will be withdrawn from a sale. Based on the explanations above, the Treasurer's office appears to be in compliance with the related K.S.A. 58.3955
c. Depositing all funds received under the act in the general fund in accordance with K.S.A. 58-3956	RubinBrown used samples from (b) above and traced to general fund using the SMART general ledger system with the assistance of Unclaimed Property personnel.	None



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KANSAS STATE TREASURER

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November 28, 2012

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We have reviewed the Examination Report regarding activities within the State Treasurer's Office that was prepared by your office. We understand the procedures used and the conclusions presented.

The finding of 'not sending the cash sheet to the Director of Accounts and Reports' as required by statute is occurring because that position is vacant at the discretion of the Secretary of Administration. We were instructed by the Director of Management Analysis and Standards to instead send the cash sheet to the accounting staff responsible for cash oversight – and this is being done.

The second finding implies an untimely distribution of Highway Equalization monies. As was explained last year, it is not possible to comply with this statute—having the disbursement done on the 15th. The statutory formula for calculating the equalization distribution requires data from the quarterly Special City and County Highway Distribution, which also has an April 15 processing date. Only after the April 15 fund balance has been certified by the Department of Administration and the quarterly City and County Highway Distribution is calculated and verified, can the calculation of the equalization distribution take place. We will continue to prepare the quarterly Special City and County Highway distributions and the annual Highway Equalization accurately and as timely as possible.

I would like to recommend to the committee that action be taken to modify the statute to allow for a more reasonable processing expectation.

Sincerely,

A handwritten signature in cursive script that reads "Ron Estes".

Ron Estes
Kansas State Treasurer