

Substitute for HOUSE BILL No. 2002

By Committee on Federal and State Affairs

3-20

1 AN ACT concerning the division of post audit; relating to certain financial
2 and security audits; amending K.S.A. 2012 Supp. 46-1106, 46-1118 and
3 74-4921 and repealing the existing sections; also repealing K.S.A. 74-
4 8707.

5
6 *Be it enacted by the Legislature of the State of Kansas:*

7 New Section 1. (a) At least once every three years, there shall be
8 conducted a security audit of the Kansas lottery. Any security audit
9 conducted pursuant to this section shall include a comprehensive study and
10 evaluation of all aspects of security in the operation of such state agency.
11 The auditor to conduct a security audit shall be specified in accordance
12 with K.S.A. 46-1122, and amendments thereto. If the legislative post audit
13 committee specifies under such statute that a person other than the post
14 auditor is to perform all or part of such audit work, such person shall be
15 selected and shall perform such audit work as provided in the applicable
16 provisions of K.S.A. 46-1123, and amendments thereto, and K.S.A. 46-
17 1125 through 46-1127, and amendments thereto. The person selected to
18 perform a security audit shall be experienced in security procedures,
19 including, but not limited to, computer and systems security. A contract to
20 conduct a security audit required by this subsection shall not be awarded
21 until a background investigation is conducted by the executive director of
22 the Kansas lottery on the person or firm selected to perform the audit.
23 Such background investigation shall include: (1) The vendor to whom the
24 contract is to be awarded; (2) all persons who own a controlling interest in
25 such vendor; and (3) all applicable staff having involvement with the audit.

26 (b) For the purpose of conducting a security audit under this
27 subsection, a person or a firm selected to perform the security audit shall
28 not be limited to a legal entity permitted by law to engage in practice as a
29 certified public accountant.

30 Sec. 2. K.S.A. 2012 Supp. 46-1106 is hereby amended to read as
31 follows: 46-1106. (a) (1) A financial-compliance audit shall be conducted
32 each year of the general purpose financial statements prepared by the
33 division of accounts and reports for its annual financial report. This audit
34 shall be conducted in accordance with generally accepted governmental
35 auditing standards. The resulting written audit report shall be issued as
36 soon after the end of the fiscal year as is practicable.

1 (2) In addition, separate written audit reports on the financial
2 management practices of the office of the state treasurer and the pooled
3 money investment board shall be prepared addressing the adequacy of
4 financial management practices and compliance with applicable state laws.
5 The separate audit of the pooled money investment board also shall
6 include a comparative investment performance review and an analysis of
7 the investment program, including an evaluation of investment policies
8 and practices and of specific investments in the pooled money investment
9 portfolio. The analysis of the specific investments in the pooled money
10 investment portfolio shall review whether such investments meet the
11 investment priorities of safety, liquidity and performance. The
12 performance of such investments shall be measured by comparison to an
13 appropriate market index.

14 (3) Copies of the reports of audits conducted pursuant to this
15 subsection (a) shall be furnished to the governor, director of accounts and
16 reports, director of the budget, each state agency, the legislative post audit
17 committee and other persons or agencies as may be required by law or by
18 the specifications of the audit.

19 (4) Any additional costs associated with preparing the separate
20 additional reports on the office of the state treasurer and the pooled money
21 investment board shall be borne by the office of the state treasurer and the
22 pooled money investment board in accordance with K.S.A. 46-1121, and
23 amendments thereto.

24 (b) Including financial-compliance audit work conducted as part of
25 the audit conducted pursuant to subsection (a), financial-compliance audit
26 work shall be conducted at each state agency at least once every three
27 years as directed by the legislative post audit committee. Written reports
28 on the results of such auditing shall be furnished to the governor, director
29 of accounts and reports, director of the budget, the state agency which is
30 audited, the legislative post audit committee and such other persons or
31 agencies as may be required by law or by the specifications of the audit.

32 (c) Books and accounts of the state treasurer and the director of
33 accounts and reports, including the bond register of the state treasurer, may
34 be examined monthly if the legislative post audit committee so determines,
35 and such examination may include detailed checking of every transaction
36 or test checking.

37 Any person receiving tax information under the provisions of
38 subsection (a) or (b) shall be subject to the same duty of confidentiality
39 imposed by law upon the personnel of the department of revenue and shall
40 be subject to any civil or criminal penalties imposed by law for violations
41 of such duty of confidentiality.

42 (d) The post auditor shall report immediately in writing to the
43 legislative post audit committee, governor and attorney general whenever

1 it appears in the opinion of the post auditor that there may have occurred
2 any violation of penal statutes or any instances of misfeasance,
3 malfeasance or nonfeasance by a public officer or employee disclosed by
4 any audit or audit work conducted under the legislative post audit act. The
5 post auditor shall furnish the attorney general all information in the
6 possession of the post auditor relative to any report referred to the attorney
7 general. The attorney general shall institute and prosecute civil
8 proceedings against any such delinquent officer or employee, or upon such
9 officer or employee's official bond, or both, as may be needed to recover
10 for the state any funds or other assets misappropriated. The attorney
11 general shall also prosecute such ouster and criminal proceedings as the
12 evidence in the case warrants. Any person receiving tax information under
13 the provisions of this subsection shall be subject to the same duty of
14 confidentiality imposed by law upon the personnel of the department of
15 revenue and shall be subject to any civil or criminal penalties imposed by
16 law for violations of such duty of confidentiality.

17 (e) The post auditor shall immediately report to the committee on
18 surety bonds and insurance when any audit or audit work conducted under
19 the legislative post audit act discloses a shortage in the accounts of any
20 state agency, officer or employee.

21 (f) In the discharge of the duties imposed under the legislative post
22 audit act, the post auditor may require state agencies to preserve and make
23 available their accounts, records, documents, vouchers, requisitions,
24 payrolls, canceled checks or vouchers and coupons, and other evidence of
25 financial transactions.

26 (g) In the discharge of the duties imposed under the legislative post
27 audit act, the post auditor or firm conducting a financial-compliance audit
28 or conducting any other audit or audit work shall have access to all books,
29 accounts, records, files, documents and correspondence, confidential or
30 otherwise, of any person or state agency subject to the legislative post
31 audit act or in the custody of any such person or state agency. Except as
32 otherwise provided in this subsection, the post auditor or firm conducting a
33 financial-compliance audit or other audit or audit work under the
34 legislative post audit act and all employees and former employees of the
35 division of post audit or firm performing a financial-compliance audit or
36 other audit or audit work shall be subject to the same duty of
37 confidentiality imposed by law on any such person or state agency with
38 regard to any such books, accounts, records, files, documents and
39 correspondence, and any information contained therein, and shall be
40 subject to any civil or criminal penalties imposed by law for violations of
41 such duty of confidentiality. The duty of confidentiality imposed on the
42 post auditor and on firms conducting financial-compliance audits or any
43 other audits or audit work under the legislative post audit act and all

1 employees of the division of post audit and all employees of such firms
2 shall be subject to the provisions of subsection (d), and the post auditor
3 may furnish all such books, accounts, records, files, documents and
4 correspondence, and any information contained therein to the attorney
5 general pursuant to subsection (d). Upon receipt thereof, the attorney
6 general and all assistant attorneys general and all other employees and
7 former employees of the office of attorney general shall be subject to the
8 same duty of confidentiality with the exceptions that any such information
9 contained therein may be disclosed in civil proceedings, ouster
10 proceedings and criminal proceedings which may be instituted and
11 prosecuted by the attorney general in accordance with subsection (d), and
12 any such books, accounts, records, files, documents and correspondence
13 furnished to the attorney general in accordance with subsection (d) may be
14 entered into evidence in any such proceedings. Nothing in this subsection
15 shall be construed to supersede any requirement of federal law.

16 (h) Any firm or firms which develop information in the course of
17 conducting a financial-compliance audit or other audit or audit work under
18 the legislative post audit act which the post auditor is required to report
19 under subsection (d) or (e) shall immediately report such information to
20 the post auditor. The post auditor shall then make the report required in
21 subsection (d) or (e).

22 (i) (1) *A financial-compliance audit shall be conducted annually on*
23 *the accounts and transactions of the Kansas lottery and the Kansas lottery*
24 *commission, of the Kansas public employees retirement system and of any*
25 *other state agency as may be required by law. The auditor to conduct this*
26 *audit work shall be specified in accordance with K.S.A. 46-1122, and*
27 *amendments thereto. If the legislative post audit committee specifies under*
28 *such statute that a firm is to perform all or part of such audit work, such*
29 *firm shall be selected and shall perform such audit work as provided in*
30 *K.S.A. 46-1123, and amendments thereto, and K.S.A. 46-1125 through 46-*
31 *1127, and amendments thereto. The audits required pursuant to this*
32 *subsection shall be conducted in accordance with generally accepted*
33 *governmental auditing standards, and shall be conducted as soon after the*
34 *close of the fiscal year as practicable, but shall be completed no later than*
35 *six months after the close of the fiscal year.*

36 (2) *The financial-compliance audit of the Kansas public employees*
37 *retirement system shall include, but not be limited to, a review of*
38 *alternative investments of the system with any estimates of permanent*
39 *impairments to the value of such alternative investments reported by the*
40 *system pursuant to K.S.A. 74-4907, and amendments thereto. The*
41 *financial-compliance audit may include one or more performance audit*
42 *subjects as directed by the legislative post audit committee. In considering*
43 *performance audit subjects to be included in any such financial-*

1 *compliance audit, the legislative post audit committee shall consider*
2 *recommendations and requests for performance audits, relating to the*
3 *system or the management thereof, by the joint committee on pensions,*
4 *investments and benefits or by any other committee or individual member*
5 *of the legislature. The legislative post audit committee shall specify if one*
6 *or more performance audit subjects shall be included in such financial-*
7 *compliance audit, in addition to such other subjects as may be directed to*
8 *be included in such financial-compliance audit by the legislative post*
9 *audit committee. Except as otherwise determined by the legislative post*
10 *audit committee, one or more performance audit subjects specified by the*
11 *legislative post audit committee shall be included at least once every two*
12 *fiscal years in such financial-compliance audit. The legislative post audit*
13 *committee may direct that one or more performance audit subjects are to*
14 *be included in such financial-compliance audit not more than once during*
15 *a specific period of three fiscal years, in lieu of once every two fiscal*
16 *years.*

17 Sec. 3. K.S.A. 2012 Supp. 46-1118 is hereby amended to read as
18 follows: 46-1118. (a) (1) Except as otherwise provided by statute,
19 whenever the post auditor performs any additional audit work for any state
20 agency to satisfy federal government requirements, and incurs costs in
21 addition to those attributable to the operations of the division of post audit
22 in performance of other duties and responsibilities, the post auditor shall
23 make charges for such additional costs.

24 (2) Except as otherwise provided by statute, whenever the post
25 auditor performs any audit work for any state agency to satisfy financial-
26 compliance audit requirements prescribed by or pursuant to subsection (a)
27 (1) of K.S.A. 46-1106, and amendments thereto, and incurs costs in
28 addition to those attributable to the operations of the division of post audit
29 in performance of other duties and responsibilities, the post auditor shall
30 make charges for such additional costs.

31 (3) The legislative post audit committee may authorize the post
32 auditor to perform additional financial-related audit work at the request of
33 a state agency. Upon the authorization and in accordance with the direction
34 of the legislative post audit committee, the post auditor may make charges
35 for costs incurred for the performance of such financial-related audit work.

36 (4) *The post auditor shall compute the reasonably anticipated cost of*
37 *providing audits pursuant to section 1, and amendments thereto, subject to*
38 *review and approval by the contract audit committee. Upon such approval,*
39 *the state agency that is receiving the audit services shall reimburse the*
40 *division of post audit for the amount approved by the contract audit*
41 *committee.*

42 (5) The furnishing of any such audit services by the division of post
43 audit shall be a transaction between the post auditor and the state agency

1 receiving such services and such transaction shall be settled in accordance
2 with the provisions of K.S.A. 75-5516, and amendments thereto.

3 (b) All moneys received for reimbursement of the division of post
4 audit under this section shall be remitted to the state treasurer in
5 accordance with the provisions of K.S.A. 75-4215, and amendments
6 thereto. Upon receipt of each such remittance, the state treasurer shall
7 deposit the entire amount in the state treasury to the credit of the audit
8 services fund, which fund is hereby created in the state treasury. All
9 expenditures from the audit services fund shall be made in accordance
10 with appropriation acts upon warrants of the director of accounts and
11 reports issued pursuant to vouchers approved by the post auditor or a
12 person or persons designated by the post auditor.

13 Sec. 4. K.S.A. 2012 Supp. 74-4921 is hereby amended to read as
14 follows: 74-4921. (1) There is hereby created in the state treasury the
15 Kansas public employees retirement fund. All employee and employer
16 contributions shall be deposited in the state treasury to be credited to the
17 Kansas public employees retirement fund. The fund is a trust fund and
18 shall be used solely for the exclusive purpose of providing benefits to
19 members and member beneficiaries and defraying reasonable expenses of
20 administering the fund. Investment income of the fund shall be added or
21 credited to the fund as provided by law. All benefits payable under the
22 system, refund of contributions and overpayments, purchases or
23 investments under the law and expenses in connection with the system
24 unless otherwise provided by law shall be paid from the fund. The director
25 of accounts and reports is authorized to draw warrants on the state
26 treasurer and against such fund upon the filing in the director's office of
27 proper vouchers executed by the chairperson or the executive director of
28 the board. As an alternative, payments from the fund may be made by
29 credits to the accounts of recipients of payments in banks, savings and loan
30 associations and credit unions. A payment shall be so made only upon the
31 written authorization and direction of the recipient of payment and upon
32 receipt of such authorization such payments shall be made in accordance
33 therewith. Orders for payment of such claims may be contained on (a) a
34 letter, memorandum, telegram, computer printout or similar writing, or (b)
35 any form of communication, other than voice, which is registered upon
36 magnetic tape, disc or any other medium designed to capture and contain
37 in durable form conventional signals used for the electronic
38 communication of messages.

39 (2) The board shall have the responsibility for the management of the
40 fund and shall discharge the board's duties with respect to the fund solely
41 in the interests of the members and beneficiaries of the system for the
42 exclusive purpose of providing benefits to members and such member's
43 beneficiaries and defraying reasonable expenses of administering the fund

1 and shall invest and reinvest moneys in the fund and acquire, retain,
2 manage, including the exercise of any voting rights and disposal of
3 investments of the fund within the limitations and according to the powers,
4 duties and purposes as prescribed by this section.

5 (3) Moneys in the fund shall be invested and reinvested to achieve the
6 investment objective which is preservation of the fund to provide benefits
7 to members and member beneficiaries, as provided by law and accordingly
8 providing that the moneys are as productive as possible, subject to the
9 standards set forth in this act. No moneys in the fund shall be invested or
10 reinvested if the sole or primary investment objective is for economic
11 development or social purposes or objectives.

12 (4) In investing and reinvesting moneys in the fund and in acquiring,
13 retaining, managing and disposing of investments of the fund, the board
14 shall exercise the judgment, care, skill, prudence and diligence under the
15 circumstances then prevailing, which persons of prudence, discretion and
16 intelligence acting in a like capacity and familiar with such matters would
17 use in the conduct of an enterprise of like character and with like aims by
18 diversifying the investments of the fund so as to minimize the risk of large
19 losses, unless under the circumstances it is clearly prudent not to do so,
20 and not in regard to speculation but in regard to the permanent disposition
21 of similar funds, considering the probable income as well as the probable
22 safety of their capital.

23 (5) Notwithstanding subsection (4): (a) Total investments in common
24 stock may be made in the amount of up to 60% of the total book value of
25 the fund;

26 (b) the board may invest or reinvest moneys of the fund in alternative
27 investments if the following conditions are satisfied:

28 (i) The total of the annual net commitment to alternative investments
29 does not exceed 5% of the total market value of investment assets of the
30 fund as measured from the end of the preceding calendar year;

31 (ii) if in addition to the system, there are at least two other qualified
32 institutional buyers, as defined by section (a)(1)(i) of rule 144A, securities
33 act of 1933;

34 (iii) the system's share in any individual alternative investment is
35 limited to an investment representing not more than 20% of any such
36 individual alternative investment;

37 (iv) the system has received a favorable and appropriate
38 recommendation from a qualified, independent expert in investment
39 management or analysis in that particular type of alternative investment;

40 (v) the alternative investment is consistent with the system's
41 investment policies and objectives as provided in subsection (6);

42 (vi) the individual alternative investment does not exceed more than
43 2.5% of the total alternative investments made under this subsection. If the

1 alternative investment is made pursuant to participation by the system in a
2 multi-investor pool, the 2.5% limitation contained in this subsection is
3 applied to the underlying individual assets of such pool and not to
4 investment in the pool itself. The total of such alternative investments
5 made pursuant to participation by the system in any one individual multi-
6 investor pool shall not exceed more than 20% of the total of alternative
7 investments made by the system pursuant to this subsection. Nothing in
8 this subsection requires the board to liquidate or sell the system's holdings
9 in any alternative investments made pursuant to participation by the
10 system in any one individual multi-investor pool held by the system on the
11 effective date of this act, unless such liquidation or sale would be in the
12 best interest of the members and beneficiaries of the system and be
13 prudent under the standards contained in this section. The 20% limitation
14 contained in this subsection shall not have been violated if the total of such
15 investment in any one individual multi-investor pool exceeds 20% of the
16 total alternative investments of the fund as a result of market forces acting
17 to increase the value of such a multi-investor pool relative to the rest of the
18 system's alternative investments; however, the board shall not invest or
19 reinvest any moneys of the fund in any such individual multi-investor pool
20 until the value of such individual multi-investor pool is less than 20% of
21 the total alternative investments of the fund;

22 (vii) the board has received and considered the investment manager's
23 due diligence findings submitted to the board as required by subsection (6)
24 (c);

25 (viii) prior to the time the alternative investment is made, the system
26 has in place procedures and systems to ensure that the investment is
27 properly monitored and investment performance is accurately measured;
28 and

29 (ix) the total of alternative investments does not exceed 15% of the
30 total investment assets of the fund. The 15% limitation contained in this
31 subsection shall not have been violated if the total of such alternative
32 investments exceeds 15% of the total investment assets of the fund, based
33 on the fund total market value, as a result of market forces acting to
34 increase the value of such alternative investments relative to the rest of the
35 system's investments. However, the board shall not invest or reinvest any
36 moneys of the fund in alternative investments until the total value of such
37 alternative investments is less than 15% of the total investment assets of
38 the fund based on the market value. If the total value of the alternative
39 investments exceeds 15% of the total investment assets of the fund, the
40 board shall not be required to liquidate or sell the system's holdings in any
41 alternative investment held by the system, unless such liquidation or sale
42 would be in the best interest of the members and beneficiaries of the
43 system and is prudent under the standards contained in this section.

1 For purposes of this act, "alternative investment" includes a broad
2 group of investments that are not one of the traditional asset types of
3 public equities, fixed income, cash or real estate. Alternative investments
4 are generally made through limited partnership or similar structures, are
5 not regularly traded on nationally recognized exchanges and thus are
6 relatively illiquid, and exhibit lower correlations with more liquid asset
7 types such as stocks and bonds. Alternative investments generally include,
8 but are not limited to, private equity, private credit, hedge funds,
9 infrastructure, commodities and other investments which have the
10 characteristics described in this paragraph; and

11 (c) except as otherwise provided, the board may invest or reinvest
12 moneys of the fund in real estate investments if the following conditions
13 are satisfied:

14 (i) The system has received a favorable and appropriate
15 recommendation from a qualified, independent expert in investment
16 management or analysis in that particular type of real estate investment;

17 (ii) the real estate investment is consistent with the system's
18 investment policies and objectives as provided in subsection (6); and

19 (iii) the system has received and considered the investment manager's
20 due diligence findings.

21 (6) Subject to the objective set forth in subsection (3) and the
22 standards set forth in subsections (4) and (5) the board shall formulate
23 policies and objectives for the investment and reinvestment of moneys in
24 the fund and the acquisition, retention, management and disposition of
25 investments of the fund. Such policies and objectives shall include:

26 (a) Specific asset allocation standards and objectives;

27 (b) establishment of criteria for evaluating the risk versus the
28 potential return on a particular investment;

29 (c) a requirement that all investment managers submit such manager's
30 due diligence findings on each investment to the board or investment
31 advisory committee for approval or rejection prior to making any
32 alternative investment;

33 (d) a requirement that all investment managers shall immediately
34 report all instances of default on investments to the board and provide the
35 board with recommendations and options, including, but not limited to,
36 curing the default or withdrawal from the investment; and

37 (e) establishment of criteria that would be used as a guideline for
38 determining when no additional add-on investments or reinvestments
39 would be made and when the investment would be liquidated.

40 The board shall review such policies and objectives, make changes
41 considered necessary or desirable and readopt such policies and objectives
42 on an annual basis.

43 (7) The board may enter into contracts with one or more persons

1 whom the board determines to be qualified, whereby the persons undertake
2 to perform the functions specified in subsection (2) to the extent provided
3 in the contract. Performance of functions under contract so entered into
4 shall be paid pursuant to rates fixed by the board subject to provisions of
5 appropriation acts and shall be based on specific contractual fee
6 arrangements. The system shall not pay or reimburse any expenses of
7 persons contracted with pursuant to this subsection, except that after
8 approval of the board, the system may pay approved investment related
9 expenses subject to provisions of appropriation acts. The board shall
10 require that a person contracted with to obtain commercial insurance
11 which provides for errors and omissions coverage for such person in an
12 amount to be specified by the board, provided that such coverage shall be
13 at least the greater of \$500,000 or 1% of the funds entrusted to such person
14 up to a maximum of \$10,000,000. The board shall require a person
15 contracted with to give a fidelity bond in a penal sum as may be fixed by
16 law or, if not so fixed, as may be fixed by the board, with corporate surety
17 authorized to do business in this state. Such persons contracted with the
18 board pursuant to this subsection and any persons contracted with such
19 persons to perform the functions specified in subsection (2) shall be
20 deemed to be agents of the board and the system in the performance of
21 contractual obligations.

22 (8) (a) In the acquisition or disposition of securities, the board may
23 rely on the written legal opinion of a reputable bond attorney or attorneys,
24 the written opinion of the attorney of the investment counselor or
25 managers, or the written opinion of the attorney general certifying the
26 legality of the securities.

27 (b) The board shall employ or retain qualified investment counsel or
28 counselors or may negotiate with a trust company to assist and advise in
29 the judicious investment of funds as herein provided.

30 (9) (a) Except as provided in subsection (7) and this subsection, the
31 custody of money and securities of the fund shall remain in the custody of
32 the state treasurer, except that the board may arrange for the custody of
33 such money and securities as it considers advisable with one or more
34 member banks or trust companies of the federal reserve system or with one
35 or more banks in the state of Kansas, or both, to be held in safekeeping by
36 the banks or trust companies for the collection of the principal and interest
37 or other income or of the proceeds of sale. The services provided by the
38 banks or trust companies shall be paid pursuant to rates fixed by the board
39 subject to provisions of appropriation acts.

40 (b) The state treasurer and the board shall collect the principal and
41 interest or other income of investments or the proceeds of sale of securities
42 in the custody of the state treasurer and pay same when so collected into
43 the fund.

1 (c) The principal and interest or other income or the proceeds of sale
2 of securities as provided in clause (a) of this subsection (9) shall be
3 reported to the state treasurer and the board and credited to the fund.

4 (10) The board shall with the advice of the director of accounts and
5 reports establish the requirements and procedure for reporting any and all
6 activity relating to investment functions provided for in this act in order to
7 prepare a record monthly of the investment income and changes made
8 during the preceding month. The record will reflect a detailed summary of
9 investment, reinvestment, purchase, sale and exchange transactions and
10 such other information as the board may consider advisable to reflect a
11 true accounting of the investment activity of the fund.

12 (11) The board shall provide for an examination of the investment
13 program annually. The examination shall include an evaluation of current
14 investment policies and practices and of specific investments of the fund in
15 relation to the objective set forth in subsection (3), the standard set forth in
16 subsection (4) and other criteria as may be appropriate, and
17 recommendations relating to the fund investment policies and practices
18 and to specific investments of the fund as are considered necessary or
19 desirable. The board shall include in its annual report to the governor as
20 provided in K.S.A. 74-4907, and amendments thereto, a report or a
21 summary thereof covering the investments of the fund.

22 ~~(12) (a) An annual financial-compliance audit of the system,~~
23 ~~including any performance audit subjects which are directed to be included~~
24 ~~in such annual audit by the legislative post audit committee, performance~~
25 ~~audits of the system as prescribed under the Kansas governmental~~
26 ~~operations law, and such other audits as are directed by the legislative post~~
27 ~~audit committee under the Kansas legislative post audit act shall be~~
28 ~~conducted. The annual financial-compliance audit shall include, but not be~~
29 ~~limited to, a review of alternative investments of the system with any~~
30 ~~estimates of permanent impairments to the value of such alternative~~
31 ~~investments reported by the system pursuant to K.S.A. 74-4907, and~~
32 ~~amendments thereto.~~

33 (b) In accordance with this subsection (12), the annual financial-
34 compliance audit may include one or more performance audit subjects as
35 directed by the legislative post audit committee. In considering
36 performance audit subjects to be included in any financial-compliance
37 audit conducted pursuant to this subsection (12), the legislative post audit
38 committee shall consider recommendations and requests for performance
39 audits, relating to the system or the management thereof, by the joint
40 committee on pensions, investments and benefits or by any other
41 committee or individual member of the legislature. Commencing with the
42 financial-compliance audit for the fiscal year ending June 30, 1998, the
43 legislative post audit committee shall specify if one or more performance

1 ~~audit subjects shall be included in the financial-compliance audit~~
2 ~~conducted pursuant to this subsection (12), in addition to such other~~
3 ~~subjects as may be directed to be included in the financial-compliance~~
4 ~~audit by the legislative post audit committee. Except as otherwise~~
5 ~~determined by the legislative post audit committee pursuant to this~~
6 ~~subsection (12), commencing with the financial-compliance audit for the~~
7 ~~fiscal year ending June 30, 1998, one or more performance audit subjects~~
8 ~~specified by the legislative post audit committee shall be included at least~~
9 ~~once every two fiscal years in a financial-compliance audit conducted~~
10 ~~pursuant to this subsection (12). The legislative post audit committee may~~
11 ~~direct that one or more performance audit subjects are to be included in a~~
12 ~~financial-compliance audit conducted pursuant to this subsection (12) not~~
13 ~~more than once during a specific period of three fiscal years, in lieu of~~
14 ~~once every two fiscal years.~~

15 ~~(e) The auditor to conduct the financial-compliance audit required~~
16 ~~pursuant to this subsection (12) shall be specified in accordance with~~
17 ~~K.S.A. 46-1122, and amendments thereto. If the legislative post audit~~
18 ~~committee specifies under such statute that a firm, as defined by K.S.A.~~
19 ~~46-1112, and amendments thereto, is to perform all or part of the audit~~
20 ~~work of such audit, such firm shall be selected and shall perform such~~
21 ~~audit work as provided in K.S.A. 46-1123, and amendments thereto, and~~
22 ~~K.S.A. 46-1125 through 46-1127, and amendments thereto. The audits~~
23 ~~required pursuant to this subsection (12) shall be conducted in accordance~~
24 ~~with generally accepted governmental auditing standards. The financial-~~
25 ~~compliance audit required pursuant to this subsection (12) shall be~~
26 ~~conducted as soon after the close of the fiscal year as practicable, but shall~~
27 ~~be completed no later than six months after the close of the fiscal year. The~~
28 ~~post auditor shall annually compute the reasonably anticipated cost of~~
29 ~~providing the financial-compliance audit pursuant to this subsection (12),~~
30 ~~subject to review and approval by the contract audit committee established~~
31 ~~by K.S.A. 46-1120, and amendments thereto. Upon such approval, the~~
32 ~~system shall reimburse the division of post audit for the amount approved~~
33 ~~by the contract audit committee. The furnishing of the financial-~~
34 ~~compliance audit pursuant to this subsection (12) shall be a transaction~~
35 ~~between the legislative post auditor and the system and shall be settled in~~
36 ~~accordance with the provisions of K.S.A. 75-5516, and amendments~~
37 ~~thereto.~~

38 ~~(d) (b) Any internal assessment or examination of alternative~~
39 ~~investments of the system performed by any person or entity employed or~~
40 ~~retained by the board which evaluates or monitors the performance of~~
41 ~~alternative investments shall be reported to the legislative post auditor so~~
42 ~~that such report may be reviewed in accordance with the annual financial-~~
43 ~~compliance audits conducted pursuant to this subsection (12) K.S.A. 46-~~

1 *1106, and amendments thereto.*

2 ~~(e)~~ (c) The board shall prepare and submit an alternative investment
3 report to the joint committee on pensions, investments and benefits prior to
4 January 1, 2016. Such report shall include a review of alternative
5 investments of the system with an emphasis on the effects of changes in
6 law pursuant to this act and includes specific investment cost and market
7 value information of each individual alternative investment.

8 Sec. 5. K.S.A. 74-8707 and K.S.A. 2012 Supp. 46-1106, 46-1118 and
9 74-4921 are hereby repealed.

10 Sec. 6. This act shall take effect and be in force from and after its
11 publication in the statute book.