



Legislative Post Audit Financial Audit Report Highlights

Highlights

State of Kansas:
Financial Audit of Fiscal Year 2011

Report Highlights

April 2012 • R-12-002

Audit Concern

State law requires an annual audit of the general purpose financial statements and "the financial affairs and transactions of a state agency required to comply with federal government audit requirements..." The results of the audit are presented in two parts. This first part is the report on the state's basic financial statements. The second part, the *Report on Federal Awards in Accordance with OMB Circular A-133*, will be issued separately.

Relevant Facts

RubinBrown, a CPA firm under contract with the Legislative Division of Post Audit, conducted this audit.

The Comprehensive Annual Financial Report, including the Independent Auditor's Report and the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, may be found on the Department of Administration's website at <http://www.da.ks.gov/ar/finrept/CAFRfy2011.pdf>.

Audit Objectives: Financial audits done in accordance with government audit standards assess (1) whether the audited organization's financial statements are fairly presented in accordance with applicable accounting principles, (2) whether there are any significant problems with the organization's internal controls, and (3) whether the organization complied with applicable legal requirements.

AUDIT ANSWER:

- The auditors expressed an unqualified opinion on the state's basic financial statements, meaning that, after the restatements and adjusting journal entries were made, the financial statements present the state's financial position fairly and in conformity with generally accepted accounting principles in all material respects.
- The auditors reported five material weaknesses and one significant deficiency in internal control over financial reporting, indicating that the state does not have adequate controls to prevent or detect a misstatement. The five material weaknesses were as follows:
 - The state's internal control over the review of information that is used to prepare the state's financial statements is not sufficient to identify and correct potential misstatements (Finding 2011-2). This is because the state does not currently have the resources to allow for a sufficient review of this information. As a result, the auditors identified the need for several material adjusting entries as follows:
 - \$582.9 million to recognize state funding received by the universities and the corresponding expenditures.
 - \$52.8 million to record information submitted by one of the universities.
 - The state did not properly report certain revenues and payables because it lacked an adequate understanding of generally accepted accounting principles (Finding 2011-3). The State began preparing its financial statements in compliance with generally accepted accounting principles in 2002, but both Department of Administration staff and the previous auditors misinterpreted how some of these rules should be applied. As a result, the current auditors identified the need for several material adjusting entries as follows:
 - \$333.5 million to correct deferred income tax revenues (required a prior year restatement).
 - \$40.1 million to correct Medicaid receivables and payables (required a prior year restatement).
 - \$14.4 million to correct employment security insurance premiums (no prior year restatement).
 - \$4.4 million to record allowance for uncollectable accounts (no prior year restatement).

Taken together, the first two items (income taxes and Medicaid) created material errors in the previous year's (fiscal year 2010) general fund balance (overstated by \$252.9 million) and other governmental funds balance (overstated by \$40.4 million). This means the beginning fund balances were materially incorrect and had to be restated.

Senate Ways and Means Committee
Date: 01-22-2013

- The state was unable to properly reconcile the pooled cash account (the state's main operating account) after the new SMART accounting system was implemented (Finding 2011-1). Department of Administration and State Treasurer staff did not reconcile the cash account during the fiscal year. When staff first tried to reconcile the account after the end of the fiscal year, they were unable to reconcile the bank statement to the accounting records because of issues related to the conversion to SMART at the start of the fiscal year. Once the conversion issues were addressed, staff were able to reconcile the account.
- The state's internal controls over capital assets were not properly designed to capture all such assets and their related depreciation expenses (Finding 2011-4). Both the Department of Administration staff and the external auditors found errors in capital assets and depreciation. As a result of those errors, beginning net assets were overstated by \$368.2 million for governmental activities and by \$3.8 million for component units on the Government Wide – Statement of Net Assets. This meant that the beginning net assets were materially incorrect and had to be restated. Similar issues were noted at the Department of Transportation but did not require the previous balances to be restated.
- The state did not prepare an accurate Schedule of Expenditures of Federal Awards (SEFA) because it did not include the value of non-monetary expenditures (Finding 2011-5). As a result, both revenues and expenditures were understated by \$470.3 million. The SEFA was also understated by the same amount.
- The audit disclosed no instances of noncompliance with applicable legal requirements that were material to the state's financial statements.
- A report on compliance with federal awards requirements will be issued separately.

SUMMARY OF RECOMMENDATIONS

- The auditors made recommendations aimed at addressing each of the problem findings.

AGENCY RESPONSE

- The Department of Administration, Office of the State Treasurer, and Department of Transportation developed corrective action plans to address each of the findings.

HOW DO I GET AN AUDIT APPROVED?

By law, individual legislators, legislative committees, or the Governor may request an audit, but any audit work conducted by the Division must be approved by the Legislative Post Audit Committee, a 10-member committee that oversees the Division's work. Any legislator who would like to request an audit should contact the Division directly at (785) 296-3792.

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