



# **PERFORMANCE AUDIT REPORT**

**Reviewing Operations of the State Treasurer's Office  
Fiscal Year 2004**

**A Report to the Legislative Post Audit Committee  
By the Joint Venture of Allen Gibbs & Houlik and  
Berberich Trahan & Co., audit firms under contract with the  
Legislative Division of Post Audit  
State of Kansas  
December 2004**

# ***Legislative Post Audit Committee***

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## ***Legislative Division of Post Audit***

**THE LEGISLATIVE POST** Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$10 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U.S. Government Accountability Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. The standards also have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the Representatives, three are appointed by the Speaker of the House and two are appointed by the Minority Leader.

Audits are performed at the direction of the Legislative Post Audit Committee. Legisla-

tors or committees should make their requests for performance audits through the Chairman or any other member of the Committee. Copies of all completed performance audits are available from the Division's office.

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Senator Bill Buntin  
Senator Anthony Hensley  
Senator Dave Kerr  
Senator Chris Steineger

Representative John Edmonds, Vice-Chair  
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LEGISLATURE OF KANSAS  
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December 7, 2004

To: Members, Legislative Post Audit Committee

Senator Derek Schmidt, Chair  
Senator Bill Bunten  
Senator Anthony Hensley  
Senator Dave Kerr  
Senator Chris Steineger

Representative John Edmonds, Vice-Chair  
Representative Tom Burroughs  
Representative Bill McCreary  
Representative Frank Miller  
Representative Dan Thimesch

This report contains the findings, conclusions, and recommendations from the completed performance audit, *Reviewing the Operations of the State Treasurer's Office*. This audit was conducted by the joint venture of Allen Gibbs & Houlik and Berberich Trahan & Co., audit firms under contract with the Legislative Division of Post Audit.

We would be happy to discuss the findings presented in this report with any legislative committees, individual legislators, or other State officials.

A handwritten signature in black ink that reads "Barbara J. Hinton". The signature is written in a cursive, flowing style.

Barbara J. Hinton  
Legislative Post Auditor

## Get the Big Picture

Read these Sections and Features:

1. **Executive Summary** - an overview of the questions we asked and the answers we found.
2. **Conclusion and Recommendations** - are referenced in the Executive Summary and appear in a box after each question in the report.
3. **Agency Response** - also referenced in the Executive Summary and is the last Appendix.

## *Helpful Tools for Getting to the Detail*

- In most cases, an “**At a Glance**” description of the agency or department appears within the first few pages of the main report.
- **Side Headings** point out key issues and findings.
- **Charts/Tables** may be found throughout the report, and help provide a picture of what we found.
- **Narrative text boxes** can highlight interesting information, or provide detailed examples of problems we found.
- **Appendices** may include additional supporting documentation, along with the audit **Scope Statement** and **Agency Response(s)**.

# **EXECUTIVE SUMMARY**

LEGISLATIVE DIVISION OF POST AUDIT

## ***Reviewing the Operations of the State Treasurer's Office***

*As part of its responsibilities, the State Treasurer's Office does the following:*

- *deposits receipts it collects in State bank accounts as applicable*
- *ensures that moneys in those bank accounts are collateralized as required by State law*
- *ensures that cash flow needs of State agencies for moneys in the State Treasury are met*
- *redeems State warrants presented for redemption*
- *maintains adequate custodial accountability for moneys in the State Treasury*
- *administers the State's unclaimed property program*
- *serves as fiscal agent for certain public bonds*
- *distributes local taxes and State aid moneys to cities and counties as required by State law*
- *administers the Agrigultural Production Loan Deposit Program and other linked deposit programs*
- *administers the Kansas Postsecondary Education Savings Program*

*The audit reviewed each of the above areas of responsibility, and found no deficiencies.*

**Agency Response** ..... page 13

This audit was conducted by the joint venture of Allen Gibbs & Houlik and Berberich Trahan & Co., audit firms under contract with the Legislative Division of Post Audit. If you need any additional information about the audit's findings, please contact Randy Tongier at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call us at (785) 296-3792, or contact us via the Internet at [LPA@lpa.state.ks.us](mailto:LPA@lpa.state.ks.us).





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## PERFORMANCE AUDIT REPORT

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### REVIEWING THE OPERATIONS OF THE STATE TREASURER'S OFFICE

FOR THE YEAR ENDED JUNE 30, 2004



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# PERFORMANCE AUDIT REPORT

Reviewing the Operations of the  
State Treasurer's Office

For the Year Ended June 30, 2004

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## Reviewing the Operations of the State Treasurer's Office

### Introduction

The State Treasurer is one of six state officials elected every four years. The State Treasurer is responsible for the timely receipt and deposit of all receipts and revenues into the State treasury. The 1992 Legislature gave the State Treasurer authority to establish a Municipal Investment Pool to enhance investment options for Kansas Municipalities. The State Treasurer has established a director of the following operations:

- Administrative Services (currently the Unclaimed Property Director)
- Bond Services
- Cash Management
- College Savings Plan
- Information Technical Services
- Unclaimed Property

The State Treasurer was designated as the fiscal agent for the State of Kansas (State) in 1908. The Municipal Bond Services program currently operates under the provisions of Chapter 10 of the Kansas Statutes. The registration of the issuance of municipal bonds was originally performed by the State Auditor, but these duties were transferred to the State Treasurer in 1975 when the office of State Auditor was abolished. The enactment in 1982 of PL 97-428, the Tax Equity and Fiscal Responsibility Act, required municipal obligations issued after June 30, 1983 be issued in registered form in order for the interest on these obligations to qualify for exemption from federal income tax. The 1983 Legislature then enacted Senate Bill 265, which made major changes to the State's bond laws in order to permit Kansas municipalities to issue their bonds in the required registered form; this legislation contained provisions which were codified in Kansas Statutes Annotated (K.S.A.) 10-260 et seq., the Kansas Bond Registration Law. As a consequence of this legislation, the State Treasurer has become a registrar and transfer agent for those registered form municipal bonds which designate the Treasurer as paying agent.

The Cash Management Services program is charged with receipt and deposit responsibilities, as well as those relating to payment of warrants. The requirement that the State Treasurer maintain an accurate account of the receipts and disbursements of the Treasury is contained in K.S.A. 75-603, first enacted in 1879, while K.S.A. 75-604, enacted in 1923, entrusts the State Treasurer with the possession of all public moneys paid to the State Treasury and permits the Treasurer to deposit moneys in Kansas banks designated as State depositories. The State Moneys Law (K.S.A. 75-4201 et seq.), enacted in 1967, regulates the designation of banks that receive State accounts, the pledging of securities by these banks, and the rate of interest to be paid on deposits of State moneys. The 1985 session of the Legislature passed House Bill 2122 which increased the pledge requirements for banks on State accounts from 70% to 100% of market value on all funds not covered by the Federal Deposit Insurance Corporation. Senate Bill 480, 1992-session, substantially changed the types and terms of allowable investments. It also authorized the State Treasurer to offer a Municipal Investment Pool for the benefit of all Kansas taxing units.

The Director of Accounts and Reports is required by K.S.A. 75-3732, enacted in 1953, to pay the State's obligations by issuing warrants drawn on the State Treasurer and to remit to the State Treasurer a duplicate copy of the Director's record of all warrants issued. K.S.A. 75-607 and 75-608, originally enacted in 1879, require respectively that the Treasurer return paid warrants to the Director of Accounts and Reports and that the State Treasurer prepare an annual report.

In 1992, K.S.A. 75-628 charged the State Treasurer with the responsibility of reviewing and making recommendations for efficient handling of cash and cash equivalents for the State. In that regard, education and assistance in cash management practices, consideration of the operating needs of State agencies, and government wide efficiencies are principles which are to be addressed.

The 1999 Legislature passed K.S.A. 75-640 through 75-648 which authorized the Treasurer to implement and administer a qualified tuition savings plan as defined in Internal Revenue Code, Section 529. The language in the bill was broad enough to allow the Treasurer many decisions in designing the program. In fiscal year 2000, the Treasurer hired a program manager, adopted rules and regulations and developed a marketing plan. The implementation date for the program was July 1, 2000.

The Disposition of Unclaimed Property Act (K.S.A. 58-3934 *et seq.*), enacted in 1979, designates the State Treasurer to administer functions established by the Act. Amendments to the Act in 1983 broadened the definition of abandoned property to which the Act applies. Senate Bill 326 enacted by the 1989 Legislature shortened the holding period for unclaimed property from seven to five years on most property and allowed aggregate reporting of amounts up to \$ 25. The 1994 Legislature enacted Senate Bill 393 which repealed several of the Statutes relating to unclaimed property and enacted a more recent version of the model Uniform Unclaimed Property Act. The legislation recognized new financial instruments developed since the 1954 Uniform Code was adopted. In 1996, House Bill 2643 amended the Act to raise the aggregate dollar amount to \$ 100, defined when a financial institution must presume a demand account to be abandoned, and allowed additional flexibility in the advertisement of owner names.

#### Audit Objective, Scope and Methodology

K.S.A. 46-1106(a) requires a written audit report on the financial management practices of the State Treasurer's Office (STO) for each fiscal year. The objective of the following report is to address ten specific questions. We have addressed those questions and have included a summary of each area and our conclusions and recommendations regarding those questions.

To accomplish our objective, we reviewed State Statutes, policies, and procedures; interviewed STO personnel; reviewed records; observed STO operations; and tested samples of transactions when applicable. Sample sizes were determined based on inherent and control risk assessments. Samples were chosen on a random basis.

The audit work was performed in accordance with *Government Auditing Standards* for performance audits.

**Did the Treasurer's Office properly deposit the receipts that it collected in State bank accounts?**

The primary activity of the receipt depository process is handled by cashier's cage personnel. All receipts are accounted for through the cage. This includes cash and check receipt vouchers as well as ACH and wire transfers. Checks for certain large agencies, such as the Department of Revenue, are encoded prior to submission to the cage. The remaining items are encoded by the Cashier.

On a daily basis, the Cashier accounts for and deposits all funds received into the State bank accounts. The daily cash receipts are summarized and posted to the daily cash sheet. The daily cash sheet provides a summary of daily receipt and disbursement activity, the total bank balances and the daily analysis of investments, receivables and other items.

Wire transfers out and between the bank accounts held by the State Treasurer's Office are entered into the accounting system by the cashier. The transfers are reviewed by the Director of Cash Management, the Accounting Specialist, or the Assistant State Treasurer. The original documentation of the transfer is received, amounts are checked and the funds then transferred in accordance with current statutory authority.

The daily cash sheet acts as the daily deposit form. This form is signed by the Cashier, who has been duly authorized by the Treasurer, and filed with the Director of Accounts and Reports in accordance with K.S.A. 75-4203.

No exceptions were noted.

**Did the Treasurer's Office ensure that moneys in State bank accounts were collateralized as required by State law?**

All State bank accounts are collateralized at all times. When a financial institution requests funds from the STO, the institution is issued a resolution form and a security agreement form. These forms must be filled out completely and signed before any funds are released. After the requested amount has been determined, the financial institution is required to go through a third party to obtain sufficient collateral for the funds. After the required collateral has been obtained, all supporting documentation including a custodial agreement signed by the custodial bank is forwarded to the Securities Custodian (the Custodian). The Custodian verifies that the collateral is sufficient to cover the requested funds and notifies Pooled Money Investment Board (PMIB) to authorize the release of the funds. All collateral support information is filed and maintained by the Custodian.

At the end of each month, the Custodian runs exception reports to determine whether any accounts, other than the operating, clearing or benefit accounts, are deficient. In cases of deficiency, the Custodian immediately informs the undercollateralized bank and additional collateral is pledged.

The operating, clearing and benefit accounts are not included in the analysis because of the nature of the activity in the accounts. The operating account is established by contract. The contract specifies that the bank:

“ . . . has executed a Security Agreement in favor of the Kansas State Treasurer and/or Pooled Money Investment Board granting a security interest in any collateral pledged to secure the deposit of public funds, directly or indirectly . . . ”

The contract is supported by the bank's procedure manual stating the “depository bank shall pledge securities that have a market value equal to at least 100% of the amount of the total deposits of public funds in depository bank . . . ” In addition, the Cashier analyzes the account balance at mid-day since additional cleared deposits may increase the balance in the account. Near the close of each month, the balance may exceed the standard collateralization level thereby requiring that additional collateralization be pledged. Normally the bank pledges additional collateral, but if not, the Cashier notifies the Vault Custodian to secure additional collateral.

No exceptions were noted.

**Did the Treasurer's Office have a good way to ensure that cash flow needs of State agencies for moneys in the State Treasury were met?**

The 1992 Legislature enacted changes to the law that applies to the investment of State moneys, known as the State Moneys Law. The new law authorized additional investment personnel to implement and continuously generate cash forecasting information to maximize interest earnings. Two forecasting procedures are performed.

The first is a daily forecast. A daily cash flow analysis is provided to maintain the amount of funds in the operating account to clear all obligations and to allow for investment of idle funds on a daily basis. A current cash position analysis is prepared each morning to determine the amount of money available for investment that day.

The second forecast is long-term and provides data for 15-24 months of daily receipts and disbursements. The forecast also provides assistance in computing investment portfolio maturity information. The Assistant State Treasurer prepares the forecasts based on historical data and constantly changing legislative actions. This forecast is concerned with the overall picture of the total pool, which includes cash available in State funds, special revenue funds, federal funds, certain trust funds, capital projects fund, and enterprise, intra governmental and clearing funds. The performance measure for the forecast is the Pooled Money Investment Board's feedback on whether or not the information is accurate for investing.

No exceptions were noted.

**Did the Treasurer's Office properly redeem State warrants presented for redemption?**

On a daily basis, warrants are presented to the Federal Reserve Bank (FRB), which acts as a clearinghouse for the STO. There are currently two types of presentation: Direct Presentation (a small group of banks present warrants directly to the Fed) and FRB (all other banks' warrants go through the Federal Reserve System). Each day these warrants are read and split into two files: Direct and Federal Reserve. The files are downloaded by Warrant Cash Management through a direct connection to the Fed Web on the internet. The data is downloaded directly to Warrant Cash Management's hard drive. The STO network Payment System is compared to the files by running a program called Warrant Start. Each paid warrant is compared to the outstanding warrant record in the STO system. A totals summary report is printed and given to the Cashier who then verifies that the totals from the report correspond to the totals obtained from the Fed Web.

The System generates a "Warrant Exception Report". All exceptions are investigated and cleared. The Federal Reserve keeps images of checks on-line for a specific amount of time. These images can be accessed by the STO to aid in following up on the exception items. If older check images are needed, the images can be accessed upon request.

Separate spreadsheets are prepared for each type of outstanding exception for each account. As each of the exceptions are cleared, they are marked as such. A copy of the spreadsheet is sent to the Cashier, who enters them as cash items on the daily cash reconciliation. This process provides accountability as exceptions are resolved.

The warrant payment system is well designed to safeguard against payments of forgeries and altered warrants. All presented warrants are compared with the disbursement records. The system properly redeems warrants as presented for redemption.

No exceptions were noted.

**Did the Treasurer's Office maintain adequate custodial accountability for moneys in the State Treasury?**

The vault is responsible for two major areas of custodianship: Adequacy of collateral on all STO deposits, and safeguarding of other assets of the STO.

**Adequacy of Collateral**

Approximately every other day, the Securities Custodian runs an "undercollateralized bank exception report," which highlights any bank which is close to its collateralized limit. This is a special report generated from a software program (The Vault). The market value of pledged collateral is compared to total bank balances including accrued interest for each bank. For each undercollateralized bank, the Securities Custodian calls the bank and notifies them that they must increase their pledge. When the pledge is made, the custodial (safekeeping) bank faxes a notice to the Securities Custodian and an entry is posted to the pending collateral in The Vault. The collateral remains pending until the safekeeping receipt and submission forms are received. All collateral is priced monthly using electronic communications with a national pricing service.

### Safeguarding of Other Assets

When certificates of deposit (CD) and other securities are bought by STO and other agencies, a deposit slip is filled out and delivered to the Securities Custodian along with the appropriate documentation (safekeeping receipt, CD, etc.). The Securities Custodian maintains a file of deposit slips. The related asset is kept in the vault. When an agency sells an instrument or the instrument matures, the agency fills out a withdrawal form. After it has been determined that the requested security will not adversely affect collateralization agreements, the withdrawal form is signed. The Securities Custodian records the carryforward balance, the deposit or withdrawal, and the new balance on the control sheet. A perpetual inventory system has been developed which currently tracks all safekeeping inventory.

No exceptions were noted.

### Did the Treasurer's Office properly handle unclaimed property in accordance with the requirements of State law?

The Unclaimed Property Division seeks to return various forms of unclaimed property to the rightful owners or heirs. Unclaimed property is property that is presumed abandoned if it is unclaimed by the apparent owner during the time set forth in K.S.A. 58-3935 for the particular type of property. All property that meets the statutory requirements for presumption of abandonment must be reported and remitted to the State Treasurer. The State Treasurer, upon taking possession of the abandoned personal property, becomes the custodian in perpetuity, preserving the right of the original owners or heirs to claim the property.

The Unclaimed Property Division is divided into two sections: Holder Services and Owner Services. Holders of unclaimed property are required to submit unclaimed property and an "Unclaimed Property Holder Report" form annually per K.S.A. 58-3950. The property is received by Holder Services. When safe deposit box contents are remitted to Holder Services, an inventory is taken and the contents are secured in the vault. In accordance with K.S.A. 58-3955, tangible property must be sold within three years after receipt of the property unless, in the judgment of the State Treasurer, the probable cost of sale exceeds the value of the property. If a claim is received after the property has been sold, the owners receive the proceeds from the sale.

When the unclaimed property is money, the funds are posted by a Holder Services employee to the Unclaimed Property System. All funds received by the Unclaimed Property Division are deposited in the State's General Fund in accordance with K.S.A. 58-3956. Transfers are made from the General Fund to the Unclaimed Property Fund account as needed in order to pay claims. There are also fund transfers to the Unclaimed Property Expense account, which is used to pay all expenses and salaries of the Unclaimed Property Division.

The Unclaimed Property Division reconciles the daily cash receipts and disbursements activity to the STARS system. Currently, however, there is no reconciliation of the Unclaimed Property Division's cash balance to the total cash balance in the State's General Fund per the STARS system, due to the inability of the STARS system to track balances in sub accounts. The State Treasurer's Office believes that it is not practical to establish a reconciled balance in the State's General Fund, because of the difficulty involved in developing a balance for activity that extends back more than twenty years and was under various levels of accountability.

After all receipts are posted, the Owner Services section assumes responsibility for locating all possible owners and/or heirs. Owner Services uses various methods to locate owners, including, but not limited to, social security number matches, address matches, the State Treasurer's Office website, and local network television events.

When potential owners believe they have unclaimed property held by the State Treasurer, they notify Owner Services. A claim form is sent to the potential owner. This procedure can also be done directly over the Internet. After the completed form is returned, Owner Services reviews it for possible payment. If all the information is accurate, the claim is paid. All claims greater than \$ 1,500 require dual approval. If there are any uncertainties, a letter is sent stating that additional information is required. If there is no response within one year, the claim becomes inactive and the unclaimed property is once again available to be claimed by the original owners and/or heirs.

The procedures for the receipt and processing of safe deposit boxes states that inventory of a safe deposit box should be securely and neatly packaged in a new package or container. The outside of the container should be labeled with the property number, date received, owner's name (if applicable), and initials of the inventory team. During fiscal year 2003, the State Treasurer's Office was in the process of revising the procedure to eliminate writing the owner's name on the outside of the package as the computer system tracks this information. This revision was completed in fiscal year 2004.

No exceptions were noted.

#### **Did the Treasurer's Office properly handle its fiscal agency responsibility?**

The STO maintains responsibility as the fiscal agency and paying agent for bond issues for municipalities and state-issued bonds. All bonds except for Industrial Revenue Bonds must be registered with the STO. A unique registration number is assigned to each bond issue. For 80 - 90 percent of the municipal bonds issued, the STO becomes the paying agent. Currently, the STO is the paying agent for over 2,100 active issues.

For new bond issues, the STO reviews certain key aspects of the bond, such as the name of the municipality, the series of bonds, date, amount, number, maturity, purpose, and name and address of the bondholder to ensure proper registration. A CUSIP number is ordered by the bond underwriter and assigned to each bond issue. The Attorney General reviews the bond transcript to ensure that all legal requirements have been met. The bond printer provides bond stock to the STO. These are inventoried and reviewed for accuracy and completeness and held in the vault until issuance. Upon closing, the bond is issued to the purchaser or Depository Trust Corporation (holder for purchaser). The STO collects a registration and/or certification fee in accordance with the State statute.

The STO is also responsible for collecting the funds needed to pay bondholders. Approximately 30 - 45 days before the due date, a notice is sent to the municipalities stating that a bond payment is due. The municipality informs the STO of the payment process they plan to follow, i.e., check, wire, ACH, date of payment, etc. State statute requires that payments be received by the STO within 20 days of its due date. If payments are not received 20 days prior to its due date, the STO sends a second notice of payment due. (During our examination, we noted several instances in which the municipality submitted payment to the STO less than 20 days prior to its due date. However, the payment was always received by the due date and therefore, the payments to bondholders were never late.) Once the payment is received, a deposit is made and the transaction is posted to the system. A daily reconciliation is performed on the deposits and system entries.

Once funds are collected from the municipalities, STO initiates the payment to the bondholders. An individual from STO posts the transaction to the bonds/coupons, determines the amount needed for payment, and begins the warrant issuance process. A supervisor completes this process by using the End of Day Processing activities. The individual at the disbursement desk reviews the bond and warrant for the propriety of the amount, bondholder and date.

The STO also handles transfers of bond ownership. The old bonds, which must be notarized, are collected from the bondholder. New bonds are retrieved from the vault and are reprinted for the new bondholder. The Treasurer signs the bonds and they are forwarded to the new bondholder. The old bonds are canceled and retained by the STO.

Municipalities are required by Statute to submit a report on its annual indebtedness to the STO by July 15<sup>th</sup> every year. Most municipalities cannot meet this deadline, therefore, the STO gives them until November to submit their annual indebtedness report so it can be posted on the web-site by January of the following year.

No exceptions were noted.

**Did the Treasurer's Office properly distribute local taxes and State aid moneys to cities and counties as required by State law?**

The Treasurer's Office distributes tax collections and aid money to cities and counties. For those calculations made by the Department of Revenue (DOR) a memo is submitted to the STO by DOR authorizing the total amount and a payment voucher. The warrant department transfers the data from DOR and prints a report showing the amount to be paid to each city/county. The warrant information is then processed to the Division of Accounts and Reports for distribution in a similar fashion to other state warrants. Approximately 40% of the local units utilize ACH as their distribution method.

For the remaining distributions not calculated by the Department of Revenue, the Treasurer and the Department of Administration provide the support for the calculation defining the distributions. The warrant preparation and distribution is handled as previously described. The following table outlines the taxes and local aid distributions.



Distribution Description	Statutory Distribution Dates	State Treasurer's Distribution Dates	Distributed to Whom	Who Calculates Distribution Amount
<u>Local Ad Valorem Tax Reduction</u> (LAVTR) - FY 2004 distribution statutorily states no distribution for FY 2004. Otherwise, state sales tax distribution based 65% on population and 35% on tangible valuation - also considering a base year amount.	January 15* and July 15*	Same as statute	Counties	Department of Administration and State Treasurer's Office
<u>County and City Revenue Sharing</u> - FY 2004 distribution statutorily states no distribution for FY 2004. State sales tax distribution based 65% on population and 35% on tangible valuation. The funds allocated to the county are then allocated based on ½ remaining at the county and ½ allocated to the cities in the county based on population in the county.	July 15* and December 10*	Same as statute	Counties and cities	Department of Administration and State Treasurer's Office
<u>Local Alcoholic Liquor</u> - Collections of the liquor private club tax. Distributed to the locality in which the club resides. Cities with a population of (1) more than 6,000 will receive 70% and (2) 6,000 or less will receive 46 2/3% of the total collected from the respective localities. The county receives (1) 70% of the total funds collected outside the corporate limits of any city, and (2) 23 1/3% of the amount collected within a city with a population of 6,000 or less.	March 15, June 15, September 15, and December 15	Same as statute	Counties and cities	Department of Revenue
<u>Special City and County Highway Distribution</u> - Collections of the state's motor fuel gallonage tax plus certain demand transfers from the SGF. Factors of calculations include avg. miles of travel; total miles of road; registration fees collected.	February 15**, May 15**, July 15, and October 15	Shortly after statutory date	Counties and cities	Department of Administration and State Treasurer's Office
<u>Highway Equalization Distribution</u> - \$2.5 million collected from state's motor fuel gallonage tax is distributed to counties either to make up a deficit or on the regular calculation method.	May 15**	May 19	Counties	State Treasurer's Office
<u>Rental Motor Vehicle Excise Tax</u> - Excise tax collections distributed to counties where transaction took place.	June 30 and November 30	Same as statute	Counties	Department of Revenue
<u>Transient Guest Tax</u> - Guest tax collections distributed to localities where the transaction took place.	January 30, April 30, July 30, and October 30	Same as statute	Counties and cities	Department of Revenue
<u>Local Retail Sales and Compensating Use Tax</u> - Collections have historically been distributed monthly since the funds are truly local moneys. Funds are distributed according to Dept. of Revenue instructions.	At least quarterly	Monthly	Counties and cities	Department of Revenue

\*These distributions were not made during the year ending June 30, 2004 due to legislative action.

\*\*These dates were changed from January 15 and April 15 to the dates shown for 2004 only per House Bill No. 2444.

<u>Tax Increment Financing Revenue Replacement</u> - Method for cities with redevelopment districts established prior to July 1, 1996 to recoup any reduction of ad valorem taxes imposed on those districts due to legislative changes in the school finance formula. Once a year each city with an affected district certifies to the Director of Accounts & Reports an amount equal to the amount of tax reduction. Subsequently, the Director of Accounts & Reports certifies these amounts to the Treasurer who then pays each city its certified amount prior to April 15.	April 15	February 17	Cities	Department of Administration
<u>Racing Admissions Aid</u> - Taxes are imposed for: (1) 10% of (a) the amount received from charges for admissions, excluding any amount paid for retailers sales tax; and (b) the value of free or complimentary admissions, computed as if regular & usual rates were charged; and (2) Racetrack sites exempt from local and ad valorem property taxes must collect \$0.20 on each admission and remit those funds to the Racing Commission. Each city where a racing facility is located receives ½ the amount collected, each county with a facility located within the city receives ½, and each county with a facility located outside the city receives the entire amount.	Quarterly	Same as statute	Counties and cities	Racing Commission

No exceptions were noted.

**Did the Treasurer's Office properly administer the Agricultural Production Loan Deposit Program and other linked deposit programs as required by State law?**

The Agricultural Production Loan Deposit Program was authorized by House Bill 2527 during the 2000 Legislative Session and began July 1, 2000. The purpose of the program is to provide money to lenders at less than market rates that will be loaned to farmers to fund their operating expenses. The program has a pool of \$ 55 million to draw from and funds will be provided on a first come, first serve basis. The maximum loan per borrower is \$ 250,000 with a term of up to eight years at a rate that is 2% less than the current market rate through April 16, 2003 (as determined by PMIB). On April 17, the Legislature passed House Bill 2055. This bill amended K.S.A. 75-4272.1(c) and set the maximum loan rate to borrowers at 4% until June 30, 2003, when the maximum loan rate will be 4% greater than the interest rate on the agricultural production loan deposit with the State Treasurer. Until July 1, 2003, the change affects only new loans. Any current outstanding loans still fall under the old rules.

A Certification of Compliance by Lending Institution must be completed by each lending institution who wishes to participate in the program. The certification states that the lender has performed the following: (1) received written certification from each of the borrowers evidencing the borrowers' eligibility for this program, (2) approved the loan package submitted by each of the borrowers based on its internal guidelines of creditworthiness, (3) ensured that no other agricultural production loan is outstanding to any of the borrowers, and (4) once approved, the lender will fund the loan to each approved eligible agricultural borrower.

The Agricultural Borrower's Certification of Eligibility (as defined above) must be completed by each borrower and submitted to the lending institution upon application. The borrower certifies the following: (1) the borrower is an entity that is involved in farming, (2) the borrower has a debt-to-asset ratio of 40 percent or greater, (3) the borrower does not have another loan outstanding under this program, and (4) the loan will be used exclusively for operating expenses involved in farming.

A loan package (consisting of both certifications noted above) is submitted to the STO by the lending institution. The STO reviews the loan package and approves it for future funding. If funds are available, the STO certifies the amounts and terms with the PMIB. PMIB posts applicable interest rates on its website on a daily basis. STO refers to these rates when administering a new loan. Upon approval and funding availability, PMIB places a deposit in the amount certified by the Treasurer with the eligible lending institution. On an annual basis, STO confirms the loans outstanding with each lending institution.

Interest rates change every July 1 and January 1 and are reported to the eligible lending institutions. Interest payments are due twice a year (the first banking day following June 30 and December 31). Per State statute, STO and PMIB must give the lending institutions 14 days notice of interest payments that are due before they can electronically withdraw the money from the lending institutions. The June 30, 2004 and December 31, 2003 payments were received in a timely manner.

State statute requires a re-certification of lending institutions and borrowers biennially. Re-certifications were performed in January 2003. The STO reported on this program as part of their annual report to the State Legislature. Re-certifications are to be performed again in January 2005.

No exceptions were noted.

**Did the Treasurer's Office properly administer the Kansas Postsecondary Education Savings Program as required by State and Federal law?**

The Kansas Postsecondary Education Savings Program was created by the 1999 Legislature and was implemented July 1, 2000. This program permits individuals and organizations to contribute to education savings accounts to pay postsecondary education expenses for individuals they designate or for themselves. The program allows tax advantages under both Kansas and federal law. The STO administers the program and American Century Investments (ACI) of Kansas City is the program manager. ACI is responsible for individual education savings accounts and ensuring that all aspects of the program comply with the Internal Revenue Code Section 529, as amended, applicable to qualified state tuition programs.

During 1999, the STO sent out request for proposals for investment managers to manage the funds collected for this program. The request went nationwide and only eight companies responded. Through various meetings, a committee narrowed the companies to three and requested additional information from them. After further review, the STO chose American Century Investments to manage the investments for this Program.

When an individual is interested in participating in this program, an enrollment kit is mailed to them by ACI or by the Program's administrative office. Once the enrollment kit is completed, it is mailed directly back to ACI, who then establishes an account for the participant (account owner). Account owners receive quarterly statements from ACI and a 1099 at year-end.

The Program Director receives weekly reports from ACI regarding the number of account owners and the dollar value of total investments by Kansas and out-of-state account owners compared to total. In addition, the Program Director receives monthly and semi-annual reports, which include the same information plus various statistics on the account owners such as age range, household income, etc.

ACI charges a management fee of 1% of portfolio value. The STO is reimbursed quarterly by ACI for administrative costs, which is in accordance with the management agreement. During fiscal year 2004, the STO billed ACI the amount budgeted for administrative costs and these fees were deposited into a fee fund account.

In accordance with State statute, the STO elected to have the program audited this year. The audit was conducted by PricewaterhouseCoopers, LLP and an unqualified opinion was issued on August 19, 2004. As part of its audit, PricewaterhouseCoopers, LLP tested ACI's compliance with the State statutes regarding the procedures for establishing and maintaining accounts for the account owners. No major deficiencies were noted. The STO did not elect to perform its own separate examination of ACI and the program since it was audited in the current year.

No exceptions were noted.

#### Summary

Our observation of the efforts of the STO is that the employees are experienced, dedicated and responsive to the mission of that office.



STATE OF KANSAS

**Lynn Jenkins, CPA**  
TREASURER

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TOPEKA, KANSAS 66612-1235

TELEPHONE  
(785) 296-3171

November 22, 2004

Karen Keehn  
Berberich Trahan & Co., P.A.  
Certified Public Accountants  
3630 SW Burlingame Road  
Topeka KS 66611-2050

RE: Performance Audit Report

Dear Ms. Keehn:

We have reviewed the Performance Audit Report regarding certain activities within the State Treasurer's Office that was prepared by your office. I am pleased to see there were no findings or recommendations reported.

It is a pleasure working with you and your staff. We appreciated the open discussion we were able to have with you and your staff throughout the process.

Sincerely,

A handwritten signature in cursive script that reads "Lynn Jenkins".

State Treasurer Lynn Jenkins, CPA