

## AUDIT PROPOSAL

### Evaluating Spending from the Economic Development Initiatives Fund

#### SOURCE

This audit proposal was requested by Senator Mike Thompson.

#### BACKGROUND

The Economic Development Initiatives Fund (EDIF) was established in 1986 to support and enhance the state's economy. EDIF is funded through gaming proceeds. Up to \$50 million in revenues from the Kansas Lottery is transferred each year to the State Gaming Revenue Fund, a holding fund from which further transfers are made to other funds. After a small transfer to the Problem Gambling and Addictions Grant Fund, 85% of the balance in the gaming fund is transferred to the EDIF (a maximum of approximately \$42 million a year).

The Legislature distributes EDIF funds through the state's annual budget request process. Agencies request EDIF funds based on the amount of funding that's available and the Legislature distributes funds to specific agency programs through its appropriation bills. State law requires that EDIF funds be used to support and enhance the state's economy. It also requires EDIF funds to flow through specific accounts that support innovative companies and products, research and development, and infrastructure development.

In 2019, Legislative Post Audit (LPA) completed an audit evaluating the state's use of EDIF funding in fiscal year 2018. In that year, the state spent \$42.3 million in EDIF funds. LPA found that only 18% of EDIF funds went to programs whose purposes aligned with the three accounts specified in state law. Another 34% of EDIF funds went to programs broadly related to economic development, but 48% of EDIF funds (\$20 million) were transferred to the state general fund, which did not align with legislative intent.

Legislators have expressed interest in understanding whether this problem has been corrected or if EDIF funds continue to be spent on programs that don't align with the original intent of the fund.

#### AUDIT OBJECTIVES AND TENTATIVE METHODOLOGY

*The audit objective listed below is the question we would answer through our audit work. The steps listed for the objective convey the type of work we would do. These may change as we learn more about the audit issues.*

**Objective 1: Are the programs that receive EDIF funding consistent with the intended use of the fund?** Our tentative methodology would include the following:

- Review state law and work with the Office of the Revisor of Statutes to determine the intended use of EDIF.

- Work with the Legislative Research Department and state agencies and review publicly available documents to identify the programs that received EDIF funding in recent years and understand their purposes.
- Compare the purpose of each program to the intended use of the EDIF fund to determine whether they align.
- Note: We would not determine why EDIF funding was distributed to any programs that may not be consistent with the intent of the fund because funding decisions are made by the Legislature and we're legislative staff.

### **ESTIMATED RESOURCES**

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