



— KANSAS LEGISLATIVE —
DIVISION *of* POST AUDIT

EVALUATING THE STATE'S ACCOUNTABILITY OVER THE USE OF EDIF FUNDING

NCSL ROUNDTABLE | OCTOBER 28, 2020

A little bit about Kansas LPA...

- About 20 performance auditors
- Report to a 10-member legislative committee
- Any legislator or legislative committee can request an audit, but our oversight committee ultimately decides which audits we will conduct
- Our staff work with legislators to develop scope

And more about the EDIF audit request

- Bipartisan request from two legislators (also members of our oversight committee)
- Concerned about oversight and accountability of the state's Economic Development Initiatives Fund (or EDIF)
- Asked us to answer two questions:
 - 1. Does the state's process to administer EDIF follow best practices?**
 2. Are the programs that receive EDIF funding consistent with the intended use of the fund?

Background

- Kansas Legislature created EDIF in 1986
- Part of the state's annual lottery and gaming revenues fund EDIF
- State law requires EDIF be used for economic development—required to go to one of three accounts:
 1. innovative Kansas companies or products
 2. research and development
 3. community infrastructure development
- The Legislature distributes EDIF funds through annual budget request process
 - Agencies request EDIF funds
 - The Legislature appropriates EDIF funds to specific agencies and programs

Program administration findings

•Q: Does state follow best practices to administer EDIF funds?

•A: **No, it doesn't.**

- 1. The state doesn't design and award EDIF funds according to best practices.**
- 2. It doesn't track EDIF recipients' performance or evaluate whether EDIF is effective.**
- 3. The Legislature has not used the three EDIF accounts specified in state law in recent years.**

1. It doesn't design and award funds according to best practices

- Looked to National State Auditors Association and Government Finance Officers Association for best practices
- Boiled down to several key practices
 - We split into two categories
 - Not specific to a particular program or agency
 - But provide general practices common to well-administered programs

Designing & Awarding Funding	Economic development programs should have: <ul style="list-style-type: none">• clear and measurable objectives.• policies and procedures that define how the program will run.• policies and procedures for making agreements with recipients.• an application process to pick recipients. The process should say what recipients must do and what may happen if they do not meet expectations.
Performance Monitoring & Management Reporting	Program management should: <ul style="list-style-type: none">• make sure recipients meet expectations and submit required information timely.• analyze all parts of a program and report on its status. This includes checking whether recipients follow policies and procedures and collect accurate information.• decide and report on whether the program is achieving its goals.• management may also suggest changing laws or policies to improve the program.

2. It doesn't track performance or evaluate effectiveness

- We reviewed state law, talked to several key agencies and determined Kansas didn't do any of them
 - State law lacks criteria for selecting agencies to receive EDIF funds
 - State law doesn't specify how to judge potential recipients
 - Kansas doesn't have a documented economic development plan or set objectives for EDIF spending

 - State law doesn't specify who should oversee funds, make sure they're used properly/effectively
 - State law doesn't establish monitoring process or process to determine whether EDIF is effective in supporting economic development
- Essentially Kansas distributes EDIF funds like state general funds

3. The Legislature hasn't used accounts in state law

- Even though state law says all funding must go into one of three accounts...
- FY 2018 EDIF spending showed:
 - 18% to programs that aligned with one of three accounts in state law
 - 34% was related to eco devo more generally
 - 48% not related to eco devo (transferred to state general fund)
- No mechanism to make sure this happens; up to Legislature to appropriate money to these accounts.
- Legislature hadn't used three accounts for long time; made direct appropriations to individual agency budget instead



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