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Tom McDaniel, Chair, Dispute Resolution Committee
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Committee Chair McDaniel,

This communication is in response to your later dated March 6, 2025, regarding the Final Determination Findings of Non-Compliance (FDFNC) and the hearing scheduled for August 21, 2025.

We accept the results and findings of the Peer Review. We would like the committee to know that Kansas takes the audit requirements seriously and we have been proactively seeking ways to meet our 3% goal. During the review period of 2015-2019 we were short 22 audits. Kansas proposed to make up the Audit shortage as follows: Continue to do 4 quarter Audits (which we still continue to do) and hire 1 additional staff member to increase our audits by 8, each year. However, in the 2020-2024 review period, we were short 98 audits. Kansas faced four major issues: **1.)** COVID disrupted normal operations **2.)** the implementation of a new IFTA software system **3.)** a major loss of IFTA staff due to retirements, resignations and change in employment trends and **4.)** increase in number of registrants. These circumstances had a major impact on the number of IFTA audits that were able to be completed.

COVID disrupted normal operation

During the beginning of the COVID situation there was a Governor-declared mandatory two-week period when no one worked at all as we were not set up or prepared for the entire audit service staff to work remotely. After two weeks of not working, there was a transition to fully remote work then eventually a hybrid schedule was allowed starting on August 17, 2020. There was training and adaptation to electronic-based audit files due to COVID. Although we did not count 2020 in the review period issues persisted. After the COVID situation, many auditor applicants now demand 100% remote work, which is not allowed or feasible for training and developing skilled auditors. Thus, many potential applicants are turned away.

Implementation of new IFTA software systems

In 2019 significant time was spent by the IFTA/IRP Manager and senior auditors on configuration and training manuals necessary to switch systems. All staff were required to do mandatory training. There were external dedicated staff, but it was entirely dependent on our Audit staff to roll out the software. 2020 was a transition year where both outstanding cases on the old software were being completed and new cases were being started on the new software. Both systems were operated side-by-side, which slowed productivity. During 2019 and 2020 a total of 891 hours were used for new software development and training. Using an average of 70 hours per audit, this is equivalent to 13 audits.

Loss of IFTA staff due to retirements, resignations and change in employment trends

We have experienced staff turnover and difficulty recruiting auditors in an extremely competitive job market. We have been consistently short 1-2 auditors at any given time during this review period. We are also short on

experience/tenured audit staff. The Audit Manager retired in December 2021, and a productive auditor was promoted to fill the role at the end of January 2022. During the period we have hired 7 new auditors while losing 6 and another to the manager role. Most auditors leaving have been for other opportunities within KDOR or relocating out of state. Only the manager and two auditors have been here before 2020, all others that are still here came in 2022 (two), 2024 (two) and 2025 (two). Each new hire takes 10 weeks of instructional training by a senior auditor and the manager, then followed by another 6 weeks of supervised work as the trainee is assigned their own audits. Each training session takes away time from conducting audits. For 2020-2024, a total of 1762 hours were expended training new staff, the equivalent of 6 weeks per auditor. Using an average of 70 hours per audit, this is equivalent to 25 audits. During the review periods of 2020-2024 there were 7 individuals trained. Only 4 of those remain employed.

Wages did not keep up with inflation. Only recently (last 3 years) has our legislature recognized this and provided cost of living or “market wage” increases. However, the wages are still less than what can be found in private industries, thus limiting our ability to attract and retain auditors.

In recent years the willingness to stay with a single employer and commit to developing a long-term career as an auditor has diminished. The amount of time they conceive to stay at a job does not align with the timeframe to become a full performance auditor. The development cycle of a trainee auditor to a full performance auditor is typically 4-5 years, which is longer than many of the applicants are willing to stay. They choose to move on when they are approaching the next level of proficiency.

Increase in registrants

During the review cycle Kansas had a significant increase in the number of registrants. For 2015-2019 a net increase of 262. For 2020-2025 a net increase of 464. This requires us to continually add additional staff.

Strategies implemented during the review period to counteract the above issues

1. Job qualification changes for recruitment of auditors

Previously, to qualify for an Auditor I position, the Department prefers the applicant to have completed four (4) years of college and twenty-four (24) hours in accounting. However, in 2019 we changed the requirement to include education in accounting/auditing, business administration, or economics. This has helped us attract more applicants. Currently the majority of our auditors have non-accounting majors such as math, finance, business administration, and economics.

2. Use of Temp Agency

Due to no or very few applicants from the state job board, we began using a temp-to-hire employment service to assist us in recruiting and identifying qualified applications for our auditor positions. This presents an increased cost to the Department but was the only viable option. 4 out of the 8 current auditors have been recruited using this option.

3. Added auditor positions.

In 2015 Kansas was authorized six auditor positions. In October 2023 and September 2024 additional positions were added for a total of 8, not including the Audit Manager. An additional position was recently added in March 2025 for a total of 9 auditor positions. Authorized positions were increased to counteract auditor turnover and the increased required number of audits.

4. Record Review Implementation

In August 2023 we launched a Records Review program for both IFTA & IRP to enhance our compliance program, aid in training new auditors and bolster the number of equivalent audits.

5. Senior auditors being freed from non-audit responsibilities

The manager now conducts most of the new hire training. Also audit appeals are handled by the manager rather than the auditor who originally conducted the audit. Both strategies free up the auditor's time to focus exclusively on audits.

Summary and proposal to remedy the audit deficiency

Kansas took proactive steps early on to meet the 3% audit requirement but there were several situations beyond our control that hampered our progress. We expended resources beyond historical norms by using a Temp Agency and reallocating auditor positions to the IFTA team diverting resources from other audit programs. Along with other jurisdictions we have attempted to maximize the number of records reviews completed. Despite our best efforts to adapt, Kansas finds itself in the same situation as 17 other jurisdictions.

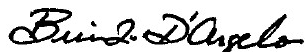
In the meantime, besides the strategies mentioned above, we propose the following:

- During the current review period, 2025-2029, we will complete the 98 audits from the last review period in addition to the 22 audits from the previous period. This will increase our goal by 30 extra audits per year, which should be possible provided all auditors continue with employment.
- Report quarterly progress to the PCRC.

During this time, we will:

- Continue seeking to fill out the current open position to have a total of 9 auditors.
- Continue conducting only 4 Qtr. audits to keep the size of each audit manageable.
- Complete the maximum allowable Records Reviews.
- Reevaluate our current audit process to identify additional efficiencies.

Thank you for your consideration,



Brian D'Angelo
Deputy Director-Audit Services

cc:

Mark Gallegos- IFTA/IRP Audit Manager
Teri Agnew- IFTA Commissioner
Nathan Hoeppner- Attorney
Mark Burghart- Secretary of Revenue