

AUDIT PROPOSAL

Department of Corrections: Comparing the Merits of Lease and Bond Options For Improving or Replacing the Lansing Correctional Facility

SOURCE

This audit proposal was requested by Representative Adam Lusker.

BACKGROUND

The Kansas Department of Corrections (KDOC) is a cabinet-level agency responsible for the state's nine correctional facilities. In February 2017, KDOC announced it would explore options for constructing a new facility in Lansing to replace the existing facility structures which were built in the 1860s. One option the department is considering is to have a private company build a new prison and lease it back to the state. KDOC officials estimated this option would cost contractors up to \$140 million, which they would recoup over time through annual state lease payments of up to \$13.5 million a year. Another option the department has considered is to sell bonds to raise sufficient funds to pay for necessary improvements to the Lansing facility. Testimony provided by KDOC estimated that it could raise approximately \$155 million through bonds but would incur about \$12 million in annual debt service to do so. Legislators have expressed interest in knowing more about differences in the costs, the potential risks, and the potential benefits of each option.

AUDIT OBJECTIVES AND TENTATIVE METHODOLOGY

The audit objectives listed below represent the questions that we would answer through our audit work. The proposed steps for each objective are intended to convey the type of work we would do, but are subject to change as we learn more about the audit issues and are able to refine our methodology.

Objective 1: How do the costs, benefits, and risks of bonding versus leasing compare as a way to pay for improvements to the Lansing Correctional Facility? Our tentative methodology would include the following:

- Interview KDOC officials and review relevant documents to better understand the details of each the two options for improving or replacing the Lansing Correctional Facility, including the assumptions and methods they used to calculate total project costs and debt service.
- We would review professional literature and talk with subject matter experts to verify the accuracy and reliability of KDOC officials estimates and would follow-up with KDOC officials to resolve any significant issues we identified.
- Interview KDOC officials and other relevant stakeholders to identify and compare the potential risks and benefits associated with the two options.
- Interview several officials in other states who have either made significant improvements to old correctional facilities or have used private contractors to provide new facilities to identify any other relevant issues or risks associated with either option.

ESTIMATED RESOURCES

We estimate this audit would require a team of **three (3) auditors** for a total of **four (4) months** (from the time the audit starts to our best estimated of when it would be ready for the committee).