

**ALASKA STATE LEGISLATURE
LEGISLATIVE BUDGET AND AUDIT COMMITTEE**
Anchorage, Alaska
September 7, 2017
2:03 p.m.

MEMBERS PRESENT

Senator Bert Stedman, Chair
Senator Anna MacKinnon
Senator Cathy Giessel
Senator Lyman Hoffman (via teleconference)
Senator Natasha von Imhof (alternate)

Representative Andy Josephson, Vice Chair
Representative Scott Kawasaki (via teleconference)
Representative Ivy Spohnholz
Representative Jennifer Johnston
Representative Dan Ortiz (alternate, via teleconference)

MEMBERS ABSENT

Senator Click Bishop
Representative Paul Seaton

COMMITTEE CALENDAR

ELECTION OF CHAIRMAN
APPROVAL OF AGENDA
APPROVAL OF MINUTES
SPECIAL AUDIT REQUEST
EXECUTIVE SESSION
FINAL AUDIT RELEASE
PRELIMINARY AUDIT RELEASE
OTHER COMMITTEE BUSINESS

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

REPRESENTATIVE DAN SADDLER
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Requested an audit of the Village Public Safety Officer program.

KRIS CURTIS, Legislative Auditor
Legislative Audit Division
Legislative Agencies and Offices
Legislative Affairs Agency
Juneau, Alaska

POSITION STATEMENT: Provided comments and answered questions during the special audit request.

ACTION NARRATIVE

2:03:11 PM

CHAIR BERT STEDMAN called the Legislative Budget and Audit Committee meeting to order at 2:03 p.m. Representatives Kawasaki (via teleconference), Spohnholz, Johnston, Ortiz (alternate, via teleconference), and Josephson and Senators MacKinnon, Giessel, Senator Von Imhof (alternate) and Stedman were present at the call to order. Senator Hoffman (via teleconference) arrived as the meeting was in progress.

ELECTION OF CHAIRMAN

2:04:41 PM

VICE CHAIR JOSEPHSON moved to elect Senator Stedman as chair of the Legislative Budget and Audit Committee. There being no objection, the election of Senator Stedman as chair was so ordered.

APPROVAL OF AGENDA

2:05:16 PM

REPRESENTATIVE JOSEPHSON made a motion that the Legislative Budget and Audit Committee approve the agenda. There being no objection, it was so ordered.

APPROVAL OF MINUTES

2:05:45 PM

REPRESENTATIVE JOSEPHSON made a motion to approve the minutes of the Legislative Budget and Audit Committee of July 25, 2017, with the following correction of the word "lasting" to "lapsing"

as it appeared three times on page 4. There being no objection, the minutes from the meeting of July 25, 2017, were approved, as corrected.

SPECIAL AUDIT REQUEST

2:06:36 PM

CHAIR STEDMAN announced that the next order of business would be a special audit request.

2:07:19 PM

REPRESENTATIVE DAN SADDLER, Alaska State Legislature, requested an audit of the Village Public Safety Officer (VPSO) program. He stated that he serves on the House Finance Public Safety Subcommittee, and during work on the fiscal year 2018 (FY 18) operating budget, he had raised questions regarding the management and financing of the VPSO program. He said the Department of Public Safety gave him budget data and answered some questions; however, he said he feels a more detailed analysis related to expenses and contractual obligation is necessary.

REPRESENTATIVE SADDLER offered a background of the VPSO program, which started in 1979 but has not been audited in the past 14 years, since 2003. He said there has been a steady decline in the average number of VPSOs employed in Alaska - the current number is 52. Since 1996, he reported, the turnover rate has been almost 95 percent. He expressed another concern is that those hired in the VPSO program have no contractual obligation to take the job; there are cases wherein VPSOs have been trained, at the state's expense, "only to turn around pretty quickly after graduation and take jobs with other [employers]." He suggested that may not be the best way to spend state dollars to ensure the hire of Alaskans to improve public safety.

2:09:34 PM

REPRESENTATIVE SADDLER stated that the VPSO program is funded 100 percent by undesignated general funds. He opined that in Alaska's current fiscal situation, it is important to spend the state's dollars "wisely and appropriately and prudently." He stated, "It's especially fitting to look at this program, when the dollars budgeted and the positions authorized so far exceed the number of VPSOs actually doing the job."

REPRESENTATIVE SADDLER said he thinks the funding process also needs review. Currently, there are 10 grantees, who receive most of their funds in the fiscal year cycle, even when the funded positions are not even filled, which he remarked may actually incentivize grantees to not fill vacant positions, because under current operations, they can retain funds in excess of their actual expenses and "spend them for purposes that may be only peripherally related to the VPSO program." He stated that [the legislature's] responsibility related to the public employees' retirement system (PERS) is to ensure that money is spent on intended purposes, not marginally so.

REPRESENTATIVE SADDLER acknowledged that audits cost money, but he thinks an audit of the VPSO program is justified, because the public has high expectations of the program, which he described as "near and dear, especially to rural legislators and their constituents - the residents of Bush Alaska." He said [the program] provides an important role in providing public services in [rural] areas without "intrinsic, local police departments." He related that the state spent \$18 million [on the VPSO program] in 2015 and "now it's about \$14 million." He said, "That's \$185,000 per VPSO per year. We need to make sure those dollars are being expended prudently." He emphasized the strong possibility that an audit could result in savings and efficiencies in the VPSO program, and "that information would help inform our efforts and your efforts to improve public safety in rural Alaska."

2:11:51 PM

CHAIR STEDMAN suggested the target time for [the audit] would be about 1.5 years, and he indicated that a conversation between the Legislative Budget and Audit Committee, Representative Saddler, and the chairs of the House and Senate Finance Committees could take place during that waiting time in order to address any questions that may arise and "refine this a little."

2:12:51 PM

VICE CHAIR JOSEPHSON noted that the operating budget from FY 17 had intent language that stated that the intent of the legislature was that "the VPSO program grantees be permitted to charge their federally approved indirect cost to their VPSO program grant, provided the statewide average does not exceed 30 percent." He referred to Representative Saddler's mention of the \$185,000 and asked, "Should the audit move forward consistent with that intent language?"

REPRESENTATIVE SADDLER answered that he would like the audit to be "wide range and ask those kinds of questions." He said that in looking at "the history of the VPSO program," it was "telling" that there has been a "quasi audit done by [Legislative] Audit at that time, which indicated that the indirect costs were between 17 and 28 percent, and in the most recent budget year we have they're basically 27-28 percent." He said he hoped it would not reach 30 percent. He said he thinks the intent language has been constructive and gives direction to the legislature; however, he said he encouraged the legislature's seeking opportunities to keep costs as low as possible.

VICE CHAIR JOSEPHSON indicated that a report related to the operating budget of 2017 states an intent to expand the program into additional rural areas. He asked Representative Saddler, "So, there's nothing about the audit that is designed to run counter to that intent, in your mind?"

REPRESENTATIVE SADDLER answered, "Certainly not." He said he wants to ensure the VPSO program is running "successfully and efficiently" and is serving rural Alaskans well. He expressed his hope that by finding efficiencies, it would be easier for the legislature, as budgeters, to expand the program to more communities.

VICE CHAIR JOSEPHSON noted that in the second paragraph of Representative Saddler's letter requesting the audit, it is written that the audit "should evaluate the degree that the VPSO program has been effective at providing public safety services to rural Alaska villages." He said it strikes him that is a tough thing to determine, because that would require weighing "what the absence of the program would look like." He asked if that was language that Representative Saddler and his staff could "hone in some way."

REPRESENTATIVE SADDLER answered that the premise upon which audits are done is the determination of whether programs are "operating to achieve their desired end," and he thinks that is appropriate. He noted that further in the paragraph there are more specific metrics, including: turnover rates, average years of experience, and number of filled positions. He named the degree to which search and rescue is operating and public safety is being provided, as well as the number of unsolved crimes, as possible areas for which "we can actually put ... some edges on that request," while "keeping the overall directive."

2:16:49 PM

SENATOR MACKINNON asked Representative Saddler if he had worked with the state auditor in the process of bringing forward this audit request.

REPRESENTATIVE SADDLER answered yes, to have general questions narrowed down to "more achievable, measureable points."

SENATOR MACKINNON said she served on [the Legislative Budget and Audit Committee] for at least six years, and she said the process [for requesting audits] is to bring something before the full committee and for the committee to hear from the state auditor. She said she supports taking up the issue without delay and hearing from the auditor as to whether "these are measurable goals in looking at this preference."

2:18:41 PM

REPRESENTATIVE KAWASAKI said he chaired [the House Finance Public Safety Subcommittee] and some of the questions being asked were asked of Captain Merrill (ph), the head of the VPSO program, [during the subcommittee meetings]. He asked Representative Saddler what information he anticipates discovering that would be different from that which was already given during the subcommittee meetings.

REPRESENTATIVE SADDLER acknowledged that the subcommittee had received general information regarding the number of VPSO positions authorized, but he indicated he would like deeper analysis of the following: the degree to which the program is succeeding, the reason for some of the indirect cost increases, the reasons for turnover, the expenses of training and how much of that is lost. Further, he said there are other questions beyond the actual operation of the program. For example, there is the possibility of looking to the federal government or other sources for funding for the program. He said there is also the question of whether there could be better ways in which to manage the program, either by contracting with individual villages or VPSOs. He continued:

Those are ... higher level analytical questions that you really can't ask the department that's operating the program as it stands now to say how they would change it, because obviously they believe that it's working the way it should, because it's working the

way it is. It's our job as the policy makers to consider what may be a better way to implant a policy.

REPRESENTATIVE KAWASAKI asked Representative Saddler if he had read the 1985 and 2003 audits.

REPRESENTATIVE SADDLER answered yes.

REPRESENTATIVE KAWASAKI said he wished everyone had copies of those audits, because many of the questions of the committee may mirror the questions previous legislatures had about the VPSO program, which went through an audit process and "were never listened to." He expressed his hope that "this is not another exercise in futility" and that the Legislative Budget and Audit Committee uses the audit recommendations from 1985 and 2003, "which clearly outline problems within the VPSO program that have still yet not been corrected." He said he supports having an audit done, as long as the auditor believes it can be done in a timely manner and "without being a burden to other, maybe more important, audits that are out there." He said the VPSO program represents only 9 percent of the general fund budget within the department, whereas in contrast the Alaska State Troopers represent 75 percent of the department's general fund budget. He said he would like to see the audit done in an "effective and efficient and frugal manner."

REPRESENTATIVE SADDLER responded that he shares Representative Kawasaki's desire to not have an audit done that "will result in a report against us." He said, "One of our presiding officers has a very close, personal interest in the VPSO program and has worked to extend it and change it, and I think if there's information that already exists that can be used to provide a foundation ... for the [legislative] auditor, that will very useful and might save time and money."

2:22:57 PM

SENATOR MACKINNON requested that the Legislative Budget and Audit Committee work as a team with the auditor to "start going back through departments" and try "to start implementing some of the good work that our auditors have provided for us." She said she would look for public acknowledgement to be able to "go forward sooner than later on that process and work towards prioritizing which departments we might have in front of us over the next few months" in order to "ask why these old audit recommendations are not being put into place."

2:23:58 PM

CHAIR STEDMAN indicated that would be the general direction taken by the committee to avoid doing audits "just for the exercise of doing audits." He said this audit will be brought forward by the Legislative Budget and Audit Committee over the next meeting or two; however, he reiterated that the process may take about 1.5 years. He said he would like refinements made before the audit request is passed to the state auditor. He further expressed his desire for the committee to address concerns regarding the budget process to avoid ending up "with two budget cycles behind us."

2:25:36 PM

KRIS CURTIS, Legislative Auditor, Legislative Audit Division, Legislative Agencies and Offices, Legislative Affairs Agency, stated that she had worked with the Department of Public Safety (DPS) and Representative Saddler and staff to help them craft the audit request. Regarding the question about evaluating the program's effectiveness, she said:

In considering what we might do in order to wrap our arms around that very large question, I believe we end up surveying the stakeholders to what degree they believe that the program is effective and what ideas they may have in improving the program. So, that is something that I don't believe has ... been done for quite some time.

MS. CURTIS, regarding timing, said [the special audit request] would be entered into Legislative Audit's queue of audits. She explained that because there are four or five audits ahead of this one, she does not expect the division would begin this audit for at least 1.5 years.

CHAIR STEDMAN indicated that the list of audits could be streamlined to speed the process.

2:26:54 PM

SENATOR MACKINNON asked for information regarding the four or five audits awaiting the division's attention.

MS. CURTIS answered that the Alaska Mental Health Trust Authority audit is being expedited, and she said that audit is ongoing. The only audit stacked ahead of that one is one from

Senator Giessel for the Board of Game Advisory Committee, and the division hopes to start the audit this fall. The other two audits were requested on December 2016 and relate to Medicaid and the Children's Health Insurance Program (CHIP) travel costs and the Gasline Development Corporation. Ms. Curtis added that there are two older, backlogged audit requests. One was made in 2009, by then Senator Davis, for Matanuska Maid, for which all of the audit objectives have been met except a report on the disposition of all property. She explained that there was one building that had not been sold up until January 2017; the division can now report on the disposition of that building. She said whether a full audit is done or a memorandum to expedite the process and use resources efficiently will be a decision for the Legislative Budget and Audit Committee. The second backlogged audit request was made in 2013, by then Representative Austerman, on the motor vessel (M/V) Tustumena, to determine problems related to the maintenance of the ferry that resulted in a lawsuit. She explained that the request was put on hold until the litigation was complete; now that it is complete, the division will be coming back before the Legislative Budget and Audit Committee to discuss the terms of the settlement and to re-ask the committee if it wants the resources spent to ask the questions or to terminate the audit request.

2:29:24 PM

SENATOR MACKINNON stated that she understands that with older requests, the information may not be as valuable today as it could have been when the original requests were submitted. She asked if, of the Alaska Mental Health Trust Authority, Board of Game Advisory Board, Gasline Development Corporation, and Medicaid audits, there is any way to "contract out" the audits in order to complete the process in less than a year and a half.

MS. CURTIS answered that hiring an outside auditor would be a high liability; it is not something that can be done by a CPA firm. Furthermore, she said the Legislative Audit Division does not have sufficient funds to contract out audits. She added, "In the past, it's been more of a consultant you would hire to answer questions and it wouldn't be an audit in accordance with standards."

SENATOR MACKINNON offered her understanding that the federal government may require documentation regarding the tardy audits. She stated for the record that the backlog of the Legislative Audit Division is not the fault of Ms. Curtis or her staff;

there has been a transition in new information technology (IT) that has prevented "our staff" from moving forward. She mentioned trouble regarding Medicaid and all the litigation that the state has experienced. She inquired whether the committee would be getting an update regarding the ramifications related to [the late audits and the federal government]. She offered her understanding that "those records are submitted now."

2:31:46 PM

CHAIR STEDMAN said he thinks "the sure answer to that is yes," but asked Ms. Curtis to expound upon the issue.

MS. CURTIS explained that what Senator MacKinnon had been referring to is the implementation of the new state accounting system, called IRIS, which went live in July 2015. She said FY 16 is the first year in which the statewide single audit was prepared using records from the new system. She indicated that the division sent out communications and alerts as notification of the likelihood that information would not be available [for the legislature] when it arrived [in Juneau] in January 2017. She said the information was not available until May, and according to federal requirement, the single audit is due by March 31.

MS. CURTIS expressed her hope that the Legislative Budget and Audit Committee would release that [single audit] as the final public document at today's meeting. She said she has staff standing by to upload it in the [Federal Audit] Clearing House. She said she has been working with both federal and state agencies about the release [of the single audit], and there has been threat by the federal government to withhold funding because the audit has not been released. She offered her understanding that to date, the division has been able to avoid that happening, and hopefully the division will be able to get it to the clearing house by today.

SENATOR MACKINNON stated that does answer the question but does not prevent the extra scrutiny that will be faced over the next few years. She said she hopes the federal government understands that it is difficult to implement technology in the Forty-Ninth state. She expressed appreciation for the auditing team. She surmised the federal government would be setting up a "variety of scenarios where we're definitely tracked on things."

MS. CURTIS responded, "When you submit the audit report late, you become a high-risk auditee." She said there are other ways

to become a high-risk auditee, for example, by having a "modified opinion," which Alaska has had in previous years; therefore, the state is already a high-risk auditee. She said that designation lasts for two years and affects the audit coverage required, but Alaska already has enough coverage; therefore, [the timing of the single audit] "will not impact the number of federal programs we're required to select."

EXECUTIVE SESSION

2:35:37 PM

CHAIR STEDMAN announced that the next order of business would be an executive session.

2:35:49 PM

VICE CHAIR JOSEPHSON moved that the Legislative Budget and Audit go into Executive Session under Uniform Rule 22 for the purpose of discussing confidential audit reports under AS 24.20.301. He asked that the following individuals remain in the room: Kris Curtis, Linda Day, Brenda Tchernykh, Brian Blackwell, Mark Lundahl, Dawn Borjesson, and any legislators not on the Legislative Budget and Audit Committee and any staff working for committee members.

2:36:26 PM

The committee took an at-ease from 2:36 p.m. to 4:01 p.m. for the purpose of the executive session.

4:01:19 PM

CHAIR STEDMAN called the Legislative Budget and Audit Committee back to order at 4:01 p.m. Representatives Kawasaki (via teleconference), Spohnholz, Johnston, Ortiz (alternate, via teleconference), and Josephson and Senators MacKinnon, Giessel, Hoffman (via teleconference), Von Imhof (alternate, via teleconference), and Stedman were present at the call back to order.

FINAL AUDIT RELEASE

4:02:53 PM

VICE CHAIR JOSEPHSON made a motion that the Legislative Budget and Audit Committee release the following final audits: the

Real Estate Commission, the Board of Martial and Family Therapy, the Board of Professional Counselors, and the FY 16 single statewide audit. There being no objection, it was so ordered.

PRELIMINARY AUDIT RELEASE

4:03:54 PM

VICE CHAIR JOSEPHSON made a motion that that Legislative Budget and Audit Committee release the following preliminary audits to the appropriate agency for response: the Board of Certified Real Estate Appraisers. There being no objection, it was so ordered.

OTHER COMMITTEE BUSINESS

4:04:26 PM

CHAIR STEDMAN announced there would be an upcoming meeting before the end of 2017 and another meeting in January 2018.

4:05:20 PM

ADJOURNMENT

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 4:06 p.m.