

# *Alaska State Legislature*

## *Legislative Affairs Agency*

*Office of the Executive Director*

*Terry Miller Legislative Office Building, Room 217*

*Mailing Address: State Capitol, Rm. 3 Juneau, Alaska 99801-1182 Phone (907)465-3800 Fax (907)465-3234*

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### MEMORANDUM

TO: Legislative Council Members

FROM: Pam Varni, Executive Director

A handwritten signature in black ink, appearing to be "Pam Varni", written over the name in the FROM field.

DATE: February 21, 2013

SUBJECT: FY 12 Legislature Audit

Per AS 24.20.140 attached is a copy of the FY 12 Legislature's Audit by an independent auditor. Our auditors Elgee Rehfeld Mertz, LLC have issued to the Members of Legislative Council and the Budget & Audit Committee a Management Letter and Schedules of Appropriations, Expenditures and Encumbrances and Schedule of Revenues for the Legislature for FY 12. There are no audit exceptions.

The Agency has a contract with Elgee Rehfeld Mertz, LLC in the amount of \$18,250 for our FY 12 Audit, which is paid by the five separate Agencies of the Legislature. There is no action required by Legislative Council.

The Agency has one renewal remaining on our contract with Elgee Rehfeld Mertz, LLC for our FY 13 Audit.

Enclosures

ALASKA STATE LEGISLATURE  
(A Department within the State of Alaska General Fund)

Letter to the Members of the Legislative Council  
and the Legislative Budget and Audit Committee

For the Year Ended June 30, 2012

January 14, 2013

# ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

9309 Glacier Highway, Suite B-200 • Juneau, Alaska 99801  
907.789.3178 • FAX 907.789.7128 • www.ermcpa.com

January 14, 2013

The Members of the Legislative Council  
and the Legislative Budget and Audit Committee

We have audited the Schedule of Appropriations, Expenditures and Encumbrances and the Schedule of Revenues (the schedules) of the Alaska State Legislature (the Legislature) as of and for the year ended June 30, 2012, and have issued our report thereon dated January 14, 2013. Professional standards require that we advise you of the following matters relating to our audit.

## **Our Responsibility under Generally Accepted Auditing Standards and Government Auditing Standards**

As communicated in our engagement letter dated June 1, 2012, our responsibility, as described by professional standards, is to plan and perform our audit to form and express an opinion about whether the schedules that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the schedules does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the schedules are free of material misstatement. An audit of schedules includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Legislature solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

## **Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

## **Qualitative Aspects of the Entity's Significant Accounting Practices**

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Legislature is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2012. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for

significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

#### *Financial Statement Disclosures*

The financial statement disclosures are neutral, consistent, and clear.

#### **Significant Difficulties Encountered During the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

#### **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. No material misstatements were identified as a result of our audit procedures that required correction by management.

#### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Legislature's financial statements or the auditors' report. We are pleased to report no such disagreements arose during the course of the audit.

#### **Representations Requested from Management**

We have requested certain written representations from management, which are included in the attached letter dated January 14, 2013.

#### **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

#### **Other Significant Findings or Issues**

In the normal course of our professional association with the Legislature, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Legislature's auditors.

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This report is intended solely for the information and use of the Members of the Legislative Council and the Legislative Budget and Audit Committee and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*ERM*

ALASKA STATE LEGISLATURE  
(A Department within the State of Alaska General Fund)

Schedule of Appropriations, Expenditures and Encumbrances  
and Schedule of Revenues

For the Year Ended June 30, 2012

Together With Independent Auditors' Report

# ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITORS' REPORT

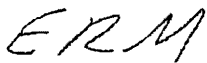
To the Members of the Legislative Council  
and the Legislative Budget and Audit Committee  
of the Alaska State Legislature

We have audited the accompanying schedule of appropriations, expenditures and encumbrances and the schedule of revenues of the Alaska State Legislature (Legislature) as of and for the year ended June 30, 2012. These schedules are the responsibility of the Legislature's management. Our responsibility is to express an opinion on these schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedules presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the schedules of the Legislature are intended to present the appropriations, expenditures, encumbrances and the revenues of only that portion of the State of Alaska General Fund that is attributable to the transactions of the Legislature. They do not purport to, and do not, present fairly the appropriations, expenditures and encumbrances and the revenues of the State of Alaska General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the schedules referred to above present fairly, in all material respects, the appropriations, expenditures, encumbrances and revenues of the Legislature for the year ended June 30, 2012, in conformity with accounting principles generally accepted in the United States of America.



January 14, 2013

ALASKA STATE LEGISLATURE  
(A Department within the State of Alaska General Fund)  
Schedule of Appropriations, Expenditures and Encumbrances  
For the year ended June 30, 2012

	Appropriations	Expenditures	Encumbrances	Unencumbered Balance	
				Continuing	Lapsed
Operating:					
Legislative Budget and Audit Committee:					
Legislative Audit:					
Personal Services	\$ 3,822,152	\$ 3,822,152	\$ -	\$ -	\$ -
Travel	76,774	77,873	(1,099)	-	-
Services	834,098	341,577	2,364	-	490,157
Commodities	125,457	97,788	27,669	-	-
Equipment	42,219	42,219	-	-	-
	<u>4,900,700</u>	<u>4,381,609</u>	<u>28,934</u>	<u>-</u>	<u>490,157</u>
Legislative Finance:					
Personal Services	5,271,971	5,271,971	-	-	-
Travel	333,700	330,971	2,729	-	-
Services	4,548,830	548,613	-	-	4,000,217
Commodities	58,705	40,479	18,226	-	-
	<u>10,213,206</u>	<u>6,192,034</u>	<u>20,955</u>	<u>-</u>	<u>4,000,217</u>
Committee Expenses:					
Personal Services	265,117	265,117	-	-	-
Travel	26,404	26,404	-	-	-
Services	5,298,826	780,884	-	-	4,517,942
Commodities	1,753	1,753	-	-	-
	<u>5,592,100</u>	<u>1,074,158</u>	<u>-</u>	<u>-</u>	<u>4,517,942</u>
Legislative State Facilities Rent:					
Services	227,000	226,843	-	-	157
	<u>227,000</u>	<u>226,843</u>	<u>-</u>	<u>-</u>	<u>157</u>
Total Legislative Budget and Audit Committee	<u>20,933,006</u>	<u>11,874,644</u>	<u>49,889</u>	<u>-</u>	<u>9,008,473</u>
Legislative Council:					
Legislators' Salaries and Allowances:					
Personal Services	4,838,839	4,838,839	-	-	-
Travel	1,634,742	1,634,742	-	-	-
Services	820,920	820,724	15	-	181
Commodities	116,068	116,068	-	-	-
	<u>7,410,569</u>	<u>7,410,373</u>	<u>15</u>	<u>-</u>	<u>181</u>
Administrative Services:					
Personal Services	8,991,867	8,991,867	-	-	-
Travel	173,809	173,809	-	-	-
Services	2,767,461	2,746,124	18,337	-	3,000
Commodities	671,734	619,123	48,360	-	4,251
Equipment	223,520	216,531	6,989	-	-
	<u>12,828,391</u>	<u>12,747,454</u>	<u>73,686</u>	<u>-</u>	<u>7,251</u>
Session Expenses:					
Personal Services	6,871,289	6,871,289	-	-	-
Travel	531,330	531,330	-	-	-
Services	988,580	760,697	-	-	227,883
Commodities	291,051	290,501	60	-	490
	<u>8,682,250</u>	<u>8,453,817</u>	<u>60</u>	<u>-</u>	<u>228,373</u>
Council and Subcommittees:					
Personal Services	253,453	253,453	-	-	-
Travel	227,776	227,776	-	-	-
Services	870,076	45,200	-	750,000	74,876
Commodities	25,675	23,180	2,495	-	-
	<u>1,376,980</u>	<u>549,609</u>	<u>2,495</u>	<u>750,000</u>	<u>74,876</u>

(continued)

See accompanying notes to schedules.

ALASKA STATE LEGISLATURE  
(A Department within the State of Alaska General Fund)  
Schedule of Appropriations, Expenditures and Encumbrances  
For the year ended June 30, 2012

	Appropriations	Expenditures	Encumbrances	Unencumbered Balance	
				Continuing	Lapsed
Legal and Research Services:					
Personal Services	3,711,172	3,711,172	-	-	-
Travel	25,746	25,746	-	-	-
Services	24,488	23,488	-	-	1,000
Commodities	85,617	85,617	-	-	-
Equipment	5,762	5,762	-	-	-
	<u>3,852,785</u>	<u>3,851,785</u>	<u>-</u>	<u>-</u>	<u>1,000</u>
Select Committee on Legislative Ethics:					
Personal Services	173,366	173,366	-	-	-
Travel	26,262	26,262	-	-	-
Services	31,058	22,029	-	-	9,029
Commodities	7,614	2,620	4,994	-	-
	<u>238,300</u>	<u>224,277</u>	<u>4,994</u>	<u>-</u>	<u>9,029</u>
Office of Victims' Rights:					
Personal Services	705,642	705,642	-	-	-
Travel	10,222	10,222	-	-	-
Services	80,021	79,021	-	-	1,000
Commodities	21,855	18,391	3,464	-	-
	<u>817,740</u>	<u>813,276</u>	<u>3,464</u>	<u>-</u>	<u>1,000</u>
Ombudsman:					
Personal Services	1,021,137	1,021,137	-	-	-
Travel	15,141	15,141	-	-	-
Services	55,953	54,739	714	-	500
Commodities	19,720	11,855	7,865	-	-
	<u>1,111,951</u>	<u>1,102,872</u>	<u>8,579</u>	<u>-</u>	<u>500</u>
Total Legislative Council	<u>36,318,966</u>	<u>35,153,463</u>	<u>93,293</u>	<u>750,000</u>	<u>322,210</u>
Legislative Operating Budget:					
Personal Services	9,806,165	9,806,165	-	-	-
Travel	660,022	660,022	-	-	-
Services	2,112,462	1,362,094	-	423,748	326,620
Commodities	46,750	46,099	651	-	-
Equipment	16,656	16,656	-	-	-
Total Legislative Operating Budget	<u>12,642,055</u>	<u>11,891,036</u>	<u>651</u>	<u>423,748</u>	<u>326,620</u>
Total Operating	<u>69,894,027</u>	<u>58,919,143</u>	<u>143,833</u>	<u>1,173,748</u>	<u>9,657,303</u>
Capital Improvements	<u>21,721,435</u>	<u>1,293,624</u>	<u>-</u>	<u>20,257,526</u>	<u>170,285</u>
	<u>\$ 91,615,462</u>	<u>60,212,767</u>	<u>\$ 143,833</u>	<u>\$ 21,431,274</u>	<u>\$ 9,827,588</u>
Current year expenditures against prior year encumbrances		<u>151,883</u>			
		<u>\$ 60,364,650</u>			

See accompanying notes to schedules.



ALASKA STATE LEGISLATURE  
(A Department within the State of Alaska General Fund)

Schedule of Revenues

For the year ended June 30, 2012

	Appropriated Revenues	Actual Revenues
Unrestricted Revenues:		
Prior Year Recovery	\$ -	\$ 38,870
Miscellaneous	-	52,761
Total Unrestricted Revenues	-	91,631
Restricted Revenues:		
Federal Compliance Audit	300,000	300,000
Print Shop	65,000	77,081
Lounge	55,000	66,401
Teleconferences	7,000	6,680
Subscriptions	7,000	6,510
Statute Handling Charges	7,500	6,212
Directory of State Officials	7,000	2,749
Press Message Center	2,600	2,450
Total Restricted Revenues	451,100	468,083
Total Revenues	\$ 451,100	\$ 559,714

See accompanying notes to schedules.

ALASKA STATE LEGISLATURE  
(A Department within the State of Alaska General Fund)

Notes to Schedules

For the Year Ended June 30, 2012

(1) Summary of Significant Accounting Policies

(a) *Organization*

The Alaska State Legislature (Legislature) consists of legislative committees and the Legislative Affairs Agency, the Legislative Finance Division, the Legislative Audit Division, the Office of the Ombudsman, and the Office of Victims' Rights.

The Legislative Affairs Agency (Agency) provides legal services and office space as well as general administrative support services to the Alaska Legislature. The Agency also provides teleconference sites throughout Alaska along with other information services to the public. The Agency is responsible to the Legislative Council, which is a permanent interim committee of the Alaska Legislature. The Legislative Council is comprised of the President of the Senate and six other Senators appointed by the President, and the Speaker of the House of Representatives and six other Representatives appointed by the Speaker.

The Legislative Finance Division is responsible for performance of fiscal analysis and budget review functions. The Legislative Audit Division is responsible for completion of the post-audit function. These divisions report to the Legislative Budget and Audit Committee. This committee is comprised of six members of the Senate and six members of the House.

The Office of the Ombudsman is responsible for the receipt and independent investigation of citizen complaints about the administrative acts of state government. The Ombudsman makes findings and recommendations to rectify governmental actions found to violate standards outlined in AS 24.55.150. The Office of the Ombudsman performs a portion of the legislative responsibility for providing oversight of the other branches of government including their boards, commissions, corporations, and the university system.

The Office of Victims' Rights, established under AS 24.65.010, provides free legal services to victims of crime to help them obtain the rights they are guaranteed under the Alaska Constitution and statutes with regard to their contacts with police, prosecutors, judges and other criminal justice agencies in the State of Alaska.

The Legislature is accounted for by the State of Alaska as a department within the State of Alaska General Fund (General Fund). The accompanying schedules of appropriations, expenditures and encumbrances and the schedule of revenues (collectively referred to as "Schedules") present only the activity attributable to the Legislature within the General Fund and not the General Fund as a whole.

(b) *Measurement Focus and Basis of Accounting*

Basis of accounting determines when transactions are recorded in the financial records and reported on the schedules. The Legislature uses a flow of current financial resources measurement focus and the modified accrual basis of accounting.

ALASKA STATE LEGISLATURE  
(A Department within the State of Alaska General Fund)

Notes to Schedules

*Appropriations*

The appropriations are authorized by the Legislature from the General Fund. Appropriations lapse at June 30 of each year except for those pertaining to capital improvements which are carried forward to the completion of the project and those which have been specifically extended by the Legislature.

*Expenditures*

Expenditures are recognized in the period in which the liability incurred.

*Encumbrances*

Encumbrance accounting, under which commitments for the expenditure of funds are recorded in order to reserve appropriated funds, is employed as an extension of formal budgetary integration in the accounting system.

Encumbrances outstanding at year-end do not constitute expenditures or liabilities.

*Revenue Recognition*

Reimbursements for expenditures are recorded against the corresponding expenditure accounts and all other receipts and interagency charges are recorded in revenue accounts when measurable and available.

(2) Leases

The Legislature leases certain office space and equipment under various lease agreements. These leases expire in various years through 2017. These leases generally contain renewal options for periods ranging from one to five years, but are cancelable by the Legislature in the event sufficient funds are not appropriated by the Legislature. The office space rental rates are subject to periodic escalation based on changes in the Anchorage Consumer Price Index.

The following is a schedule of future minimum lease payments for office space and equipment leases (with recognition of remaining terms in excess of one year) as of June 30, 2012:

	Office	Equipment
2013	\$ 1,955,962	\$ 27,612
2014	764,326	9,204
2015	648,944	-
2016	634,103	-
2017	263,491	-
Total minimum lease payments	<u>\$ 4,266,826</u>	<u>\$ 36,816</u>

Rental expenditures related to all leases for office space totaled \$2,094,343 in 2012.

ALASKA STATE LEGISLATURE  
(A Department within the State of Alaska General Fund)

Notes to Schedules

(3) Retirement Commitments

(a) *Alaska Public Employees' Tiers I-III Defined Benefit Retirement Plan*

Plan Description

The Legislature contributes to the State of Alaska Employees' Retirement System (PERS), which was originally established as an agent multiple-employer defined benefit plan. On July 1, 2008, state legislation (Senate Bill 125) converted the plan to a cost-sharing multiple-employer plan. Under the cost-sharing plan arrangement, the State of Alaska Division of Retirement and Benefits will no longer track individual employer assets and liabilities. Rather, all plan costs and past service liabilities will be shared among all participating employers.

The Plan was established and administered by the State of Alaska to provide pension and post-employment healthcare, death and disability benefits, and cost of living adjustments for eligible State and local government employees. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

With the exception of contract employees, all legislative employees participate in the PERS if they work any portion of the year during the legislative session. All full-time employees, except contract employees, are active members of the PERS even if they do not work during the legislative session. Elected officials have the option of not participating in the PERS.

Each fiscal year, PERS issues a stand-alone financial report which includes financial statements and required supplementary information. That report may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

Funding Policy

The Legislature's contribution requirements are established and may be amended by legislation. Defined benefit PERS plan members are required by statute to contribute 6.75% (3.04% for pension and 3.71% for healthcare) of their annual covered salary.

AS 39.35.255 established a statutory employer contribution rate of 22%. Out of the 22%, 9.92% funded pension benefits and 12.08% funded other postemployment benefits (OPEB).

AS 39.35.280 required additional State contributions to make up the difference between 22.00% and the actuarially determined fiscal year 2012 contribution rate of 33.49%. However, because the Legislature is legally responsible only for the payments of up to 22% of covered payroll, this amount has been excluded from pension and OPEB costs as shown below.

ALASKA STATE LEGISLATURE  
(A Department within the State of Alaska General Fund)

Notes to Schedules

The Legislature's annual pension and OPEB costs for the year ended June 30, 2012 and the amounts actually contributed are listed below.

<u>Period Ended</u>	<u>Annual Pension Cost</u>	<u>Annual OPEB Cost</u>	<u>Total Benefit Cost</u>	<u>Percentage of Required Contribution Contributed</u>
June 30, 2012	\$ 1,980,055	\$2,411,196	\$ 4,391,251	100%
June 30, 2011	\$ 1,567,322	\$2,945,909	\$ 4,513,231	100%
June 30, 2010	\$ 1,602,459	\$2,824,223	\$ 4,426,683	100%

(b) *Alaska Public Employees' Tier IV Defined Contribution Retirement Plan*

The Alaska Legislature enacted into law Senate Bill 141 to create the Public Employees' Retirement System (PERS) Tier IV defined contribution retirement plan for all new employees who first became members on July 1, 2006, including elected officials. The plan was established and is administered by the State of Alaska to provide pension and other post-employment benefits for eligible state and local government employees. Benefit and contribution provisions are established by State law and may be amended only by the Legislature.

Benefits depend solely on amount contributed to the plan and investment earnings. Employees are eligible to participate from the date of employment. Contributions made by employees and any investment earnings on the account are vested to the employee immediately. Qualified employees contribute 8% of their annual covered wages.

Annual contributions by the Legislature for the year ended June 30, 2012 were 22% of annual covered payroll. This rate consisted of 5% pension, .20% occupational death and disability, .51% retiree medical, and 5.71% Health Reimbursement Arrangement, with the rest of the rate funding PERS Tiers I-III defined benefit unfunded liability.

The Legislature made PERS Tier IV employer pension, other post-employment benefits and Tiers I-III defined benefit unfunded liability contributions of \$406,079, \$300,779 and \$1,009,945, respectively, for the year ended June 30, 2012. The Legislative PERS Tier IV employees made pension contributions of \$765,592 during fiscal year 2012.

(4) *On-behalf Payments for Fringe Benefits*

The State of Alaska provided financial relief to entities participating in the State of Alaska Public Employees' Retirement System by making direct contribution to the PERS plan and reducing annual contribution rates paid by employers. PERS on-behalf amounts were not recognized by the Legislature in the schedules.

(5) *Contingencies*

In the normal course of its activities, the Legislature is involved in various claims and litigation. In the opinion of management and Legislature's legal counsel, ultimate resolution of these matters is not expected to have a material adverse effect on the Legislature.

ALASKA STATE LEGISLATURE  
(A Department within the State of Alaska General Fund)

Notes to Schedules

(6) Commitments

In the normal course of its activities, the Legislature has entered into various contracts, including construction contracts which are not reflected as outstanding encumbrances in the Schedule of Appropriations, Expenditures and Encumbrances as the encumbrance is closed at year end and re-appropriated in the next fiscal year. There were no significant contracts outstanding at June 30, 2012.