

**ALASKA STATE LEGISLATURE
JOINT COMMITTEE ON LEGISLATIVE BUDGET AND AUDIT**

April 27, 2004

7:05 a.m.

MEMBERS PRESENT

Representative Ralph Samuels, Chair
Representative Mike Chenault
Representative Mike Hawker
Representative Vic Kohring

Senator Gene Therriault, Vice Chair
Senator Ben Stevens
Senator Con Bunde
Senator Gary Wilken

MEMBERS ABSENT

Representative Beth Kerttula
Senator Lyman Hoffman

COMMITTEE CALENDAR

APPROVAL OF MINUTES
ASCG'S VETERANS' HOME STUDY PRESENTATION
AUDIT REQUESTS
SCHOOL DISTRICT COST STUDY REVISION BY ISER

WITNESS REGISTER

SCOTT MILLER, Senior Manager
McDowell Group
Juneau, Alaska

POSITION STATEMENT: Presented ASCG's Veterans' Home Study report.

PAT DAVIDSON, Legislative Auditor
Division of Legislative Audit
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Provided information on six audit requests and answered questions regarding other audit issues.

HENRY WEBB, Staff
to Representative Ralph Samuels
Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Reported on the School District Cost Study revision by ISER.

ACTION NARRATIVE

TAPE 04-4, SIDE A

Number 0001

CHAIR RALPH SAMUELS called the Joint Committee on Legislative Budget and Audit meeting to order at 7:05 a.m. Representatives Samuels, Chenault, Hawker, and Kohring, and Senators Bunde and Wilken were present at the call to order. Senators Therriault and Ben Stevens arrived as the meeting was in progress.

^APPROVAL OF MINUTES

Number 0030

REPRESENTATIVE HAWKER made a motion to approve the minutes of March 29, 2004, and February 19, 2004. There being no objection, it was so ordered.

^ASCG'S VETERANS' HOME STUDY PRESENTATION

Number 0040

CHAIR SAMUELS said that the committee contracted out to the Arctic Slope Consulting Group (ASCG), on a two-part basis for the past two years, a study on the veteran's home. This is the final piece of that contract, he noted.

Number 0050

SCOTT MILLER, Senior Manager, McDowell Group, spoke about the transition plan [for the State Veterans' Home] by first making a correction to the document before the committee. He said that a new addendum has been added at the end of the document because the administrative code language governing pioneer homes is going to be changing. He said his company has prepared a transition plan for the Palmer Pioneer Home to become a State Veterans' Home and some of the specifics have not entirely been worked out. He called his report a general scenario of how the current population of the Palmer Pioneer Home is transitioned to the proportions that are going to be needed under a State Veteran's Home. Right now there are about 17 veterans in the Palmer Home. Ultimately, there will be about 75 percent

veterans [in the State Veterans' Home] and the plan looks at how that will be phased in, he related. The transition period would last about two years, he said.

MR. MILLER explained that there are two scenarios described in the plan. One calls for 25 percent of the veterans on the waiting list of the Fairbanks and Anchorage Pioneer Homes to end up at the State Veterans' Home. The other plan calls for 50 percent [of those veterans] to end up at the State Veteran's Home. He said it is assumed that any veterans that want to go to the State Home will go there. In either case it will take about two years to get to 90 percent occupancy. At the end of two years the home will need to attract about 55 or 56 veterans from around the state. The demand assessment, which was part of the original feasibility study, suggests that there will be at least 65-70 veterans who will want to go to the home for assisted living care, and probably that many again who will be looking for nursing home care by the year 2015, he added. There is substantial demand for the number of beds that will be available in this [Veterans' State Home], he concluded.

[Ron Bisset and Donna Logan declined to make additional comments (via teleconference).]

Number 0520

REPRESENTATIVE HAWKER made a motion that the Joint Committee on Legislative Budget and Audit accept the State Veterans' Home report by ASCG, Incorporated, and the supplemental documents. There being no objection, it was so ordered.

^AUDIT REQUESTS

Number 0650

PAT DAVIDSON, Legislative Auditor, Division of Legislative Audit, Alaska State Legislature, referred to a memorandum before the committee which lists six audit requests from various members of the legislature. She stated that the first one is from Chair Samuels asking for a review of recidivism rate for various treatment programs, specifically identifying [Alaska Court System's] therapeutic court programs. The audit process will review the mathematical accuracy and methodology of the court's data, and then building on [those results], will look at other therapeutic programs that are funded by the state and see if recidivism rates can be developed. Standardization will also be a recommendation, she said.

MS. DAVIDSON explained that the second audit request is from Representative Chenault and looks at two community center grants. It will be a performance audit and it will be limited to some degree because these are grantees of the state instead of state entities, she said.

MS. DAVIDSON said that the third audit request is from Senator Ben Stevens and asks for a review of the Department of Administration's (DOA) Public Employees Retirement System (PERS) Board and the Teachers' Retirement System (TRS) Board in terms of how they have been dealing with recommendations coming from the various contractors and specialists that help them manage their funds.

REPRESENTATIVE HAWKER asked if the scope [of the audit] is contemplated to go into looking at the decision-making process and the various actuarial policies.

MS. DAVIDSON replied that it is a relatively briefly stated audit request that will deal with how the boards deal with the information coming from their actuaries and what sort of guidelines and policies PERS and TRS boards set that the actuaries have to follow. She said that the actuaries themselves will not be audited.

Number 0900

SENATOR THERRIAULT responded, "You said it's briefly stated." He requested a review of any kind of correspondence the board or the department has that shows whether there is an indication in advance from actuaries, or anybody, that a problem is developing. He said he has been told there was a similar issue regarding workers' compensation, and that the previous administration had indications that a problem was developing and those signs were ignored.

CHAIR SAMUELS recognized that Senators Therriault and Ben Stevens had joined the meeting.

SENATOR BUNDE asked if the committee would be moving into executive session to discuss audits.

CHAIR SAMUELS replied no.

SENATOR STEVENS said he wanted to make sure that the [Alaska State Pension and Investment Board] is included in [the audit]. He asked Ms. Davidson if another request is warranted.

MS. DAVIDSON replied that the only the PERS and TRS Boards are included and she requested that the inclusion of the Alaska State Pension and Investment Board be stated as part of the record.

Number 1042

SENATOR STEVENS made a motion to amend his audit request so that the Alaska State Pension and Investment Board is included in the audit. He said he wants to make sure that the Board is diligently handling the money as well as following the criteria.

CHAIR SAMUELS asked if there was any objection [to the amendment to Senator Steven's audit request]. Hearing none, Chair Samuels said that the amendment would be included in the motion to approve all of the audits.

Number 1111

MS. DAVIDSON continued to explain that the fourth audit request is from Senator Elton and Representative Kerttula asking for a review of the Alaska Marine Highway System's (AMHS) move to Ketchikan. That request initially came in before the hearings and a small amount of information analyzing the proposed lease, as opposed to a standard lease contract, was provided, she said. Given the limited time frame there was no way to answer questions about how the move would affect management or improve operations.

CHAIR SAMUELS asked if the results of the audit will be gotten too late and if it is a good use of Ms. Davidson's time.

MS. DAVIDSON replied it will be more of an evaluation of how good the decision was to make that move, because it will look at how the operation has changed and what the real cost was. It will be an evaluation post-decision, and the requesters knew that the audit would take six to eight months before the audit is started, she added.

Number 1248

SENATOR THERRIAULT asked when the completion date would be.

MS. DAVIDSON said it is tough to tell. The financial part won't be that tough, she opined, but the question will be in evaluating the operational changes.

SENATOR THERRIAULT asked if the audit is begun six months from now, and the move is in the transition phase, will it be difficult to evaluate.

Number 1400

MS. DAVIDSON replied, "If it got to be that point and we didn't feel like we could actually do an evaluation, what we typically would do is talk to the requesters and tell them - even if we went in right now we wouldn't give you a very good answer because it's in transition - and ask if they would like us to delay the start of the audit, in which case, the next one in line would come up."

CHAIR SAMUELS suggested that the start date could be delayed until almost a year from now.

SENATOR THERRIAULT said that since the requesters are not present to ask their opinions, he suggested holding off on this audit rather than approving it and delaying the start date.

CHAIR SAMUELS said he agrees and would take that into consideration when making the final motion [to adopt the audit requests].

Number 1539

MS. DAVIDSON indicated that the fifth audit request comes from the House Finance Committee and asks for a review of the Special Education Service Agency (SESA). During testimony on the sunset extension for that agency, questions were raised about having a nine-year extension. Senator Green, as the bill's [sponsor], was seeking a standard four-year extension. That audit did have some significant recommendations for changes in its operations and the House Finance Committee found a compromise and passed out the nine-year extension; however, it asked that in four years a sunset audit be done on SESA so that how the agency has been implementing those recommendations could be evaluated. The report would be available to the legislature for review in 2008, which would have been a typical four-year time period, she added.

Number 1634

MS. DAVIDSON reported that the last audit request is from Representative Weyhrauch and asks for a review of the implementation of a pilot program for state procurement that was authorized in Chapter 51, SLA 03. The idea with that audit is to determine if the implementation of the program is consistent with the testimony that was provided to the legislature in terms of the estimated savings to be achieved and the number of departments to which it can be applied.

SENATOR THERRIAULT related that the original statute was a three-year pilot program, but it took a year to get the contract signed. He asked if that was correct and if Ms. Davidson had looked at the statute.

MS. DAVIDSON replied that she was not able to do much research on this request.

SENATOR THERRIAULT responded that it is a pilot program and he does not know if it requests a report to the legislature at the conclusion of the program two years from now. He wondered if the question doesn't answer itself.

MS. DAVIDSON said that this audit request came in yesterday, so she was not able to do much research on it, other than find out that HB 313 turned into Chapter 51.

SENATOR THERRIAULT suggested that before a motion is made on this audit request, that it be moved to the bottom of the agenda while he directs his staff to look up the current statute.

CHAIR SAMUELS asked for a motion to accept audits 1, 2, 3, and 5.

Number 1853

SENATOR THERRIAULT made a motion for audit requests 1, 2, 3, and 5 to be accepted by the Joint Committee on Legislative Budget and Audit, including the amendment to Senator Steven's request. There being no objection, it was so ordered.

^ SCHOOL DISTRICT COST STUDY REVISION BY ISER

Number 1930

CHAIR SAMUELS related that as a result of the peer review done by the Institute of Social and Economic Research (ISER), ISER

determined that they could go in and fix some of the parameters on cost found in the American Institutes for Research (AIR) study. The issue before the committee is to approve of a contract with ISER to go forward and work with AIR on that project.

Number 2000

HENRY WEBB, Staff to Representative Ralph Samuels, as Joint Committee on Legislative Budget and Audit committee aide, stated that there were three areas that Professor Tuck said should be cleaned up in the AIR study: travel, energy costs, and personnel costs. He said an economist would be needed to work through the personnel costs because there is no way to just plug numbers into it. Professor Tuck estimated that cleaning up the AIR study would not cost more than \$50,000 and he estimated that the work would be done by mid-December at the latest, Mr. Webb explained.

MR. WEBB mentioned that Senator Wilken's staff is interested in using the same model. He said that Professor Tuck had suggestions on how to do that by moving the program from Microsoft Access to Microsoft Excel because it is easier to manipulate and more accessible. Professor Tuck also suggested that it would be good to update this model every three to four, or even five years, which would cost \$10,000 to \$20,000 to have a university economist work on the personnel portion. It was suggested that every ten years the whole model should be re-evaluated, Mr. Webb added.

Number 2151

SENATOR WILKEN suggested that [ISER] move the schedule up to before mid-December. He said it would be helpful to him and others to be able to really digest the plan. He said that the issues from Fairbanks' point of view are not going to go away, and what was intended to be done two years ago should not be put off any longer than it has to be. He agreed with the idea to update the report every five years.

Number 2330

SENATOR THERRIAULT made a motion that the Joint Committee on Legislative Budget and Audit authorize the chair to enter into contract with ISER in the amount not to exceed \$50,000 in order to make corrections to the AIR School District Cost Study. There being no objection, it was so ordered.

The committee took an at-ease from 7:20 a.m. to 7:23 a.m.

CHAIR SAMUELS, [referring to the audit request by Representative Weyhrauch], stated that there is no requirement for a report under [Chapter 51, SLA 03]. He said he would have a conversation with Representative Weyhrauch, the sponsor of the audit request to see if he wants to get more information on the report.

REPRESENTATIVE THERRIAULT, looking at the language from last year's [Chapter 51], said it does not require a report, but talks about a contract, and there may have been a component of the contract itself that required some kind of reporting. He suggested that there is time to find out more information and get back to it at a future meeting.

CHAIR SAMUELS requested that Ms. Davidson also research [Representative Weyhrauch's] audit request.

MS. DAVIDSON said she would follow up on that, review the request for proposals (RFP), and find out how long the contract is for.

CHAIR SAMUELS mentioned that a contract has been entered into with Bonnie Robson, a consultant to the legislature on gas line issues. During the interim there will be meetings on this topic, he said.

ADJOURNMENT

There being no further business before the committee, the Joint Committee on Legislative Budget and Audit meeting was adjourned at 7:25 a.m.