

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

February 20, 2008
8:35 a.m.

MEMBERS PRESENT

Representative Ralph Samuels, Chair
Representative Mike Chenault
Representative Mike Hawker
Representative Mike Kelly
Representative Mike Doogan
Senator Lyman Hoffman, Vice Chair
Senator Lyda Green
Senator Bert Stedman
Senator Gene Therriault
Senator Charlie Huggins (alternate)

MEMBERS ABSENT

Senator Johnny Ellis
Representative Reggie Joule (alternate)
Representative Kevin Meyer (alternate)

COMMITTEE CALENDAR

APPROVAL OF MINUTES
AUDIT REQUEST
CONTRACTS
EXECUTIVE SESSION
PRELIMINARY AUDIT - FY 07 STATEWIDE SINGLE AUDIT
OTHER COMMITTEE BUSINESS

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

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

POSITION STATEMENT: Presented testimony on the audit request and answered questions.

ACTION NARRATIVE

CHAIR RALPH SAMUELS called the Legislative Budget and Audit Committee meeting to order at [8:35:41 AM](#). Representatives Doogan, Chenault, Kelly, Samuels, and Senators Hoffman, Stedman, Therriault, Green, and Huggins were present. Representative Hawker arrived as the meeting was in progress.

APPROVAL OF MINUTES

[8:35:48 AM](#)

CHAIR SAMUELS announced that the first order of business would be approval of minutes.

SENATOR HOFFMAN made a motion to approve the minutes of the December 10, 2007, and January 29, 2008, meetings of the Legislative Budget and Audit Committee. There being no objection, it was so ordered.

AUDIT REQUEST

[8:36:07 AM](#)

CHAIR SAMUELS announced that the next order of business would be the audit request.

SENATOR STEDMAN requested an audit of the Gravina Access Project to identify and analyze all monies authorized and appropriated through the Federal Highway Administration (FHWA), federal earmarks, and state legislative appropriations for the project since 1996. He expressed interest in detailed analysis of the allocation of federal funds with respect to earmarks. He related that the Gravina Access Project has been a 30 year transportation improvement program project that has undergone the environmental impact statement (EIS) process, which included selecting a preferred alternative. Federal funds were appropriated and earmarked, but the project, he said, "has continued to wallow deep in the bowels of the financial arena." He expressed concern about the accuracy of the accounting process, and about the procedures used by the Department of Transportation & Public Facilities (DOT&PF) to move the project forward. He stated that his memorandum of February 15, 2008, in the committee packet, details his audit request. He acknowledged that the audit would delve into the federal arena, but expressed confidence in the outcome. He noted he has broader concerns with DOT&PF with respect to the Statewide

Transportation Improvement Program (STIP) process and federal monies. "This may well fall in line with the cockroach theory, where you find one, you find many, many more," he said. He said he refrains from drawing any conclusions until the Division of Legislative Budget and Audit completes its thorough audit. Since the scope of the audit request is extensive it will not likely be completed by the end of this legislative session, he opined.

[8:39:35 AM](#)

PAT DAVIDSON, Legislative Auditor, Division of Legislative Audit, Alaska State Legislature, said that she has had an opportunity to work with Senator Stedman's staff on the scope and objectives of the audit. The division frequently audits DOT&PF not only in response to audit requests, but also because substantial federal funds flow through the agency. She offered that the [Gravina Access Project] audit will focus on compliance with the laws and regulations that govern the federal program, but would also encompass a new area for the division, to examine the federal legislation. She noted that the division has contacts and can utilize expertise from the Government Accountability Office and General Accounting Office (GAO), as well as the Office of the Inspector General (OIG) for the U.S. Department of Transportation in the course of conducting the audit.

[8:40:48 AM](#)

SENATOR THERRIAULT inquired as to whether the FHWA conducts accountability reviews to ensure appropriations to DOT&PF are appropriately spent. He further inquired whether it will be necessary for the department to generate the information and analysis of the oversight or if there is substantial federal audit information available.

MS. DAVIDSON answered that federal oversight typically consists of reviewing the approval process DOT&PF uses to develop its projects, such as the STIP. Once the DOT&PF identifies a project, the federal oversight reviews the approval of the individual project and phases. Oftentimes funding is allocated for primary or secondary roads, but DOT&PF or the state identifies the specific roads that will be funded. While the federal agency doesn't have control in the final project decision, it reviews whether the state has appropriately followed the process to identify the roads.

8:42:24 AM

SENATOR THERRIAULT inquired whether the federal accounting system would catch expenditures charged counter to an earmark for a specific state project.

MS. DAVIDSON answered it is difficult for her to assess the federal oversight on earmarks because it probably would depend on the specificity of the earmark. She related that if an earmark identifies funding for a project from milepost "X" to "Y" the federal accounting process could probably determine if funding was spent on the specific project. She hesitated to more fully respond, but offered that once the audit begins she will have a better idea of the [accountability on] federal earmarks.

8:43:40 AM

REPRESENTATIVE DOOGAN inquired as to whether auditors can investigate whether the final decision to proceed with the Gravina Access Project was made by DOT&PF. He offered his understanding that the decision was not made by DOT&PF. He inquired as to the audit process when decisions are made.

MS. DAVIDSON specified as long as decisions were made by someone within the state entity, the auditor can ask questions "all the way up line." However, if [decisions were made by] someone in a federal agency, the audit would focus on the directives documented by the federal agency and whether DOT&PF's action was consistent with its directive.

MS. DAVIDSON, in response to a question by Representative Doogan, agreed that if one of the decisions were to lead to the governor's office, the auditor would investigate it.

8:45:29 AM

MS. DAVIDSON, in response to a question by Senator Therriault, speculated that the division's audit team would be active within four to six weeks. She offered that it is difficult to assess the length of time to complete the audit since auditors will need to understand the specifics of Congressional appropriations and earmarks. She offered that she is not currently familiar with the "twists and turns associated" with the Gravina Access Project.

SENATOR THERRIault further inquired as to an estimate of the general length of project queue and for a projection of the preliminary audit completion date.

MS. DAVIDSON specified that so long as the audit team is in place within four to six weeks, the preliminary audit will be completed by the beginning of the next legislative session.

8:47:03 AM

SENATOR HOFFMAN made a motion to approve Senator Stedman's request for an audit of the Gravina Access Project. There being no objection, it was so ordered.

CONTRACTS

8:47:19 AM

CHAIR SAMUELS announced that the next order of business would be to take up contracts.

CHAIR SAMUELS outlined an overview of the five gas line contracts the committee will consider. He offered that the committee will consider whether to extend the contract for Steve Porter, who is currently working and meeting with committee members. The contract for Dan Dickinson is an extension although he is not as actively engaged in this project at the current time. The contract for Econ One [Research, Inc] is a new contract because the original contract [in 2005] evolved to focus more on oil taxation issues. Under the advice of the legislative auditor and legal counsel, the contract has been rewritten. While the scope of the contract with Econ One Research, Inc. has not changed, it has been adjusted to reflect a more accurate statement of work currently being done. He noted that at the request of Representative Harris, the committee has tasked Econ One Research, Inc. with analysis of the Alaska Gasline Port Authority (AGPA) project.

CHAIR SAMUELS advised that the committee has also compiled a list of potential firms in order to issue a request for proposal (RFP) for a financial firm to conduct an analysis of corporate finances of companies. The firm will assess the financial ability of companies such as TransCanada PipeLines Limited and ConocoPhillips Alaska, Inc., their overall earnings, "how much they make in their hub" and whether they can take on such a large scale project. The final contract is for rate experts to perform rate analysis [on proposals forwarded for the

construction of a gas pipeline]. He noted that [it is in the committee's best interest to issue this contract] as a sole source contract. The contract is with Dr. John Neri of Benjamin Schlesinger and Associates. He offered to examine other areas to pull in expertise committee members need, but thus far the only request has been the one previously mentioned from Representative Harris.

[8:50:48 AM](#)

REPRESENTATIVE KELLY expressed concern about the liquefied natural gas (LNG) pricing and tariffs. He stressed the importance of revisiting pricing and tariffs with respect to Alaska Gasline Port Authority (AGPA), and for the committee to scrutinize the information AGPA provides, as well as review its past assertions. Since AGPA's presentation [to the state] "showed an interesting twist", he offered that it must now be required to defend its position on tariffs and pricing.

[8:52:22 AM](#)

CHAIR SAMUELS confirmed that Econ One Research, Inc. is currently tasked to review questions posed with respect to price and tariff. He recalled that the AGPA's presentation asserted that its tariff is higher, but related that the market price was Henry Hub plus three, the increase due to Asian influences affecting the market price. Although the committee could contract out for pricing reports, it probably "can pull them off the shelf" as well, he opined. If the committee desires more information, Econ One Research, Inc. could likely provide it. Further, Econ One Research, Inc. could be the "point person" to determine if the market is firm, for example, at Henry Hub plus three [percent], and whether the tariff will be a little higher, or if it is going to be quite a bit higher.

[8:53:17 AM](#)

REPRESENTATIVE KELLY recalled the three blowouts at the end [of the special legislative session]. He urged that if AGPA is going to get back in the queue that it is important to have AGPA respond to specific questions.

CHAIR SAMUELS, in response to a request by Representative Kelly, offered to provide members a list of questions that the consultants are tasked to examine. He stated that several questions have been already been posed such as Mr. William A. Mogel, Saul Ewing LLP, is tasked to examine the \$9 billion

question and to determine whether there is a contingency in the TransCanada PipeLines Limited "TransCanada" Alaska Gasline Inducement Act (AGIA) bid. Mr. Porter has been tasked to provide more general guidance and [expertise] by briefing committee members.

8:54:32 AM

SENATOR THERRIAULT inquired as to how Dr. Neri was identified as a potential contractor.

CHAIR SAMUELS answered that Mr. William A. Mogel, Saul Ewing LLP, provided the committee with his name. He noted that Dr. Neri's resume is included in the committee packet. He offered that the committee can cross check rate making with Jane Kidd, Econ One Research, Inc.

8:55:25 AM

CHAIR SAMUELS, in response to Senator Therriault, stated that the proposed contracts are not to exceed the stated amount and he briefly reviewed the proposed contract amounts. He offered while he was not certain of the amount spent to date on the contract with Econ One Research, Inc., that the proposed motion would revise the contract amount from inception to the present time not to exceed \$200,000. He said that the amount for Dr. John Neri for expert rate work and the amount for the financial houses RFP are not to exceed \$100,000 each, and that the contracts for Mr. Dickinson and Mr. Porter are not to exceed \$200,000 each.

SENATOR THERRIAULT inquired as to the proposed contracts for Mr. Dickinson and Mr. Porter, and surmised that each bring unique skills as former employees of the Department of Revenue. Furthermore, Mr. Porter's skills from his work in the oil patch provides a good mix. Despite Mr. Dickinson's expertise in tax policy, Senator Therriault questioned what unique [expertise] Mr. Dickinson offers in the current realm.

CHAIR SAMUELS responded that Mr. Dickinson has recently been [testifying] before the Senate on tax policy legislation, although Mr. Porter is tasked with more responsibilities than Mr. Dickinson at the present time.

CHAIR SAMUELS, in response to a question by Senator Therriault, advised that the committee will consider whether to do the following: extend the current contracts for Mr. Porter and Mr.

Dickinson, to approve a new contract for Econ One Research, Inc. which better reflects the assigned tasks, to approve an RFP to select a financial [analysis firm], and to approve a sole source contract with the rate expert, Dr. Neri.

[8:57:43 AM](#)

SENATOR HOFFMAN prefaced his motions for the first three contracts by stating that it is in the committee's best interest to issue sole source contracts and not follow the legislative procurement solicitation requirements in order to be responsive to the proposal submitted under the Alaska Gasline Inducement Act (AGIA) and other proposals forwarded for a gas pipeline.

SENATOR HOFFMAN made a motion to authorize the chair to amend a professional services contract with Steven B. Porter to an amount not to exceed \$200,000. There being no objection, the amended contract was approved.

[8:58:29 AM](#)

SENATOR HOFFMAN made a motion to authorize the chair to amend a professional services contract with Dan E. Dickinson to an amount not to exceed \$200,000.

SENATOR Therriault objected.

A roll call vote was taken. Representatives Chenault, Kelly, and Samuels, and Senators Hoffman, Stedman, Green, and Huggins voted in favor of the motion. Representative Doogan and Senator Therriault voted against it. Therefore, Mr. Dickinson's amended contract was approved by a vote of 7-2.

[8:59:27 AM](#)

SENATOR HOFFMAN made a motion to authorize the chair to enter into a sole source contract in an amount not to exceed \$200,000 with Econ One Research, Inc. [for professional analysis and expert economic advice with respect to gas pipeline proposals submitted to the state]. There being no objection, it was so ordered.

[8:59:44 AM](#)

SENATOR HOFFMAN made a motion to authorize the chair to solicit for and enter into a contract with a financial analyst for an amount not to exceed \$100,000 to perform financial analysis on

proposals forwarded for the construction of a natural gas pipeline. There being no objection, it was so ordered.

[9:00:02 AM](#)

SENATOR HOFFMAN made a motion to authorize the chair to enter into a professional services contract in an amount not to exceed \$100,000 with Dr. John Neri of Benjamin Schlesinger and Associates, Inc. There being no objection, the contract was approved.

[9:00:20 AM](#)

CHAIR SAMUELS, in response to a question by Senator Green on the motion for a contract for a financial analyst, clarified that the motion is to allow an RFP to select a financial analyst firm.

[9:00:33 AM](#)

CHAIR SAMUELS, in response to a question by Representative Chenault, advised members to direct any questions for consultants to the chair or to Ms. Sutton, the Project Director, to forward to the respective consultant. He noted that the majority of the expenditures to date have been spent on analysis and tracking information. He offered that one area that has not yet been contracted for is an analysis of price forecasting, but he opined that information is already available.

[9:02:48 AM](#)

SENATOR THERRIAULT inquired as to whether all members will get copies of any questions submitted to the consultants.

CHAIR SAMUELS agreed that questions will be compiled and he has already posed some questions to the consultants. He advised that members are informed quickly once answers are received. He offered to compile a list of questions already posed, as well as any questions for the committee's consultants and to distribute them. He noted his office will maintain confidentiality of the member's identity [because the questions] come from the committee rather than the individual.

[9:03:53 AM](#)

SENATOR HUGGINS said that he appreciates the open and transparent process the chair and his staff maintain as the committee goes through this process.

[9:04:05 AM](#)

MS. DAVIDSON inquired as to whether the motion to approve Dr. Neri's contract is also a sole source contract and will not follow legislative procurement solicitation requirements because it is in the committee's best interest. She offered that she wanted to be certain that information was included in the committee record.

CHAIR SAMUELS noted his agreement that Dr. Neri's contract is a sole source contract for the reason stated.

[9:04:39 AM](#)

CHAIR SAMUELS, in response to a request by Senator Therriault, noted copies of all of the contracts are available and will be posted on the Legislative Budget and Audit Committee's web site.

EXECUTIVE SESSION

[9:05:03 AM](#)

SENATOR HOFFMAN made a motion to move to executive session for the purpose of discussing confidential audit reports under AS 24.20.301. There being no objection, the committee went into executive session at 9:05 a.m.

[9:10:57 AM](#)

CHAIR SAMUELS brought the committee back to order at 9:10 a.m. He noted the following committee members were in attendance, Representatives Doogan, Kelly, Chenault, and Samuels, and Senators Green and Therriault.

PRELIMINARY AUDIT

[9:11:01 AM](#)

REPRESENTATIVE KELLY made a motion for the preliminary audit for the State of Alaska Single Audit for Fiscal Year Ended June 30, 2007, to be released to the appropriate agency for response. There being no objection, the motion to release the preliminary audit was approved.

9:11:16 AM

ADJOURNMENT

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 9:11 a.m.