

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

March 15, 2007

8:02 a.m.

MEMBERS PRESENT

Representative Ralph Samuels, Chair
Representative Mike Chenault
Representative Mike Hawker
Representative Mike Kelly
Representative Mike Doogan
Representative Reggie Joule (alternate)

Senator Lyman Hoffman, Vice Chair
Senator Lyda Green
Senator Bert Stedman
Senator Gene Therriault
Senator Charlie Huggins (alternate)

MEMBERS ABSENT

Representative Kevin Meyer (alternate)

Senator Johnny Ellis

COMMITTEE CALENDAR

APPROVAL OF MINUTES
STATUS OF CONTRACTS
PROCUREMENT REQUEST(S)
EXECUTIVE SESSION
RELEASE OF AUDITS

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: Testified regarding the procurement request to contract audit services.

ACTION NARRATIVE

CHAIR RALPH SAMUELS called the Legislative Budget and Audit Committee meeting to order at [8:02:40 AM](#). Representatives Doogan, Chenault, Hawker, Kelly, Joule and Samuels, and Senators Green, Stedman, Huggins, and Hoffman were present at the call to order. Senator Therriault arrived as the meeting was in progress.

APPROVAL OF MINUTES

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

[8:03:35 AM](#)

REPRESENTATIVE HAWKER made a motion to approve the minutes of the February 8, 2007 meeting. There being no objection, the minutes of February 8, 2007 were approved.

[8:03:48 AM](#)

STATUS OF CONTRACTS

CHAIR SAMUELS announced that the next order of business would be the status of contracts. He noted that he previously met with members to discuss plans for the various contracts. He said that the contract with Mr. Don Shepler, which is through Greenberg Traurig, LLP., was extended until the end of 2007. The contract with Econ One Research, Inc. will also be extended, although it is unknown whether modeling will be needed. He explained that previously, the administration "borrowed" the legislature's lawyer. During a budget subcommittee meeting, he spoke with Mr. Larry Ostrovsky with the Department of Law, about the possibility of "borrowing" a lawyer that is familiar with the subject in question. While in Washington D.C., he met with Mr. Robert Loeffler, who is an attorney with Morrison & Foerster, LLP. He stated his intention to send a letter to the administration requesting Mr. Loeffler's advice on the Alaska Gasline Inducement Act (AGIA) and Federal Energy Regulatory Commission (FERC) issues. He commented that this would result in an additional lawyer that has "two masters." Greenberg Traurig, LLP., and Morrison & Forrester, LLP., have offered to provide an additional list of names to consider. He said "So, we might get Mr. Loeffler to come in and testify, we'll still have Mr. Shepler, and we're still looking for yet another [attorney] ... that is completely autonomous." He also spoke

with Dr. Daniel Yergin, Chairman of Cambridge Energy Research Associates, Inc. (CERA), winner of the Pulitzer Prize for his book The Prize: The Epic Quest for Oil, Money and Power, regarding research that CERA can do. This is in the preliminary stages, and timelines have not been set. He commented that by the time the bill reaches the House Finance Committee, more information will be available.

[8:07:27 AM](#)

REPRESENTATIVE DOOGAN commented that he had hoped that work done for the previous administration regarding the constitutionality of freezing taxes in AGIA might be used. However, the attorney-client privilege is still being asserted. He questioned why this is being done for an issue that is no longer active. He expressed hope that the committee would consider finding an advisor for the aforementioned tax concerns.

CHAIR SAMUELS replied that he would begin looking for a constitutional lawyer, adding that his staff has already begun to assimilate the opinions that the legislature and the administration received. This information will be distributed to the members of the legislature.

[8:08:44 AM](#)

SENATOR THERRIault inquired as to whether the full consultant group previously retained under Econ One, Inc. would remain under contract.

CHAIR SAMUELS explained that the contract was with Econ One, Inc., and was then subcontracted out. He commented that if taxes are not discussed initially, then certain individuals will not be needed. The contract with Econ One, Inc. will be extended, and he will meet with Econ One, Inc. to find out whether the aforementioned subcontracts will be extended.

[8:09:30 AM](#)

SENATOR STEDMAN commented that he would "hate to see" consultants be "cut loose" by the legislature and then migrate to the administration. He suggested that this be considered when dealing with the consultants.

CHAIR SAMUELS stated that he is unsure of the confidentiality provisions for each contract. He offered to provide this

information, adding that he is not aware of any work that was not previously made public.

8:10:13 AM

REPRESENTATIVE KELLY shared his understanding that future conflicts of this type would not be allowed. He opined that these conflicts can create problems, adding that this should not be done in the future.

CHAIR SAMUELS said that he previously told Mr. Shepler that he regrets having allowed the administration to use a consultant retained by the legislature. He commented that it is difficult to find a lawyer that is familiar with the entire operation, adding that he made a mistake with the aforementioned sharing agreement. Additionally, he noted that the companies whose contracts are not being extended may choose to contract with the administration or the companies involved.

REPRESENTATIVE KELLY surmised that this may be an issue in the future. He stressed the importance of being clear that this type of agreement will not happen again.

CHAIR SAMUELS said that during his discussion with Mr. Loeffler, he expressed concern that if Mr. Loeffler were to testify, it would be unclear which client's interest was being considered. He reiterated that the two consulting firms are putting together a list of names for the legislature to consider, and said members would be informed as soon as the information becomes available. He encouraged members to come forward with concerns.

PROCUREMENT REQUEST(S)

8:13:01 AM

PAT DAVIDSON, Legislative Auditor, Division of Legislative Audit ("the Division"), Alaska State Legislature, stated that the Division is requesting approval for a professional services contract in excess of \$25 thousand. She explained that the Division is looking to solicit and award a contract for audit services in an amount not to exceed \$125 thousand. The Division has done this in the past, contracting with audit firms throughout the state in order to "rent" additional audit staff. This would shorten the length of time needed to conduct the statewide single audit. She stated that the Division must meet a federal deadline of March 31. In order to move forward, the Division is planning to contract additional staff for the months

of May, June, July, and possibly August, for the fiscal year 2007 (FY 07) audit. The FY 06 audit is being completed and is expected to be before the committee at the next meeting as a preliminary audit report.

[8:14:52 AM](#)

REPRESENTATIVE HAWKER offered his understanding that the same procedure was done the previous year. He then inquired as to how the cost of this request compares to the actual cost of the previous year's audit.

MS. DAVIDSON replied that last year, the total cost was over \$200 thousand. She explained that the Division may end up contracting audit services for the aforementioned months, coming back before the committee in September to request additional staff for November, December, and January. During the intervening months, most of the Division's staff is focused on the financial portion of the statewide audit. She explained that the most efficient way to complete the audit is to blend the federal compliance work in at the beginning and end, and to complete the financial portion in the intervening months. The Division may need to contract a total amount of \$200-\$250 thousand.

REPRESENTATIVE HAWKER asked for clarification regarding whether this amount would be commensurate with the amount of the previous year, as well as whether the scope of the audit remained the same.

MS. DAVIDSON replied that the scope of the audit has not changed, and the funding request is approximately the same. The only change is in the fiscal year being audited.

REPRESENTATIVE HAWKER inquired as to the availability of staff on the open market.

MS. DAVIDSON replied that the market is very tight. She explained that the Division is competing with private Certified Public Accountant (CPA) firms throughout the state. She stated that individuals that have 3-5 years of work experience with the Division are often hired for jobs that are 3-4 ranges higher than what the Division pays. When looking at finance officers in key areas throughout the state, previous work experience with the Division can be seen. She stated that while this is good, it makes managing the office "a little difficult."

REPRESENTATIVE HAWKER questioned whether there is a market for contract audit staff at the rate being offered by the Division.

MS. DAVIDSON replied that the contract audit staff is paid a higher rate than the average hourly rate paid to Division employees. While there has been some response, it has not been overwhelming. She said that the Division hires all the work that is offered.

8:18:41 AM

REPRESENTATIVE HAWKER made a motion to authorize the Division of Legislative Audit to solicit and award contracts for audit services in an amount not to exceed \$125 thousand. There being no objection, it was so ordered.

SENATOR THERRIAULT in regard to the consulting contracts, offered his understanding that when the legislature entered into the sharing agreement with the administration, the legislature was to receive all documents that were exchanged. He asked whether an official request had been made regarding these documents.

CHAIR SAMUELS replied that he would be meeting with [Mr. Shepler] and would make the request at that time. He noted that according to [Mr. Shepler], there is not "a lot of work product." He said that he would distribute the aforementioned documents to the members as soon as they are available.

SENATOR THERRIAULT opined that this information will "illuminate" the work being done.

8:20:00 AM

EXECUTIVE SESSION

REPRESENTATIVE HAWKER 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 8:20 AM.

CHAIR SAMUELS brought the committee back to order at 9:00 AM.

RELEASE OF AUDITS

9:00:52 AM

REPRESENTATIVE HAWKER made a motion for the preliminary audits for the Department of Health and Social Services - Use of Recidivism Rates By State Agencies, Overview of Current Practices, February 23, 2007; Department of Health and Social Services - Use of Recidivism Rates by State Agencies, Recidivism Rates for the Alcohol Safety Action Program, March 13, 2007; and Department of Health and Social Services - Use of Recidivism Rates by State Agencies, Recidivism Rates for Alaska Sex Offenders, March 8, 2007, to be released to the appropriate agency for response. There being no objection, it was so ordered.

ADJOURNMENT

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at [9:01:24 AM](#).