

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

February 22, 2013

8:01 a.m.

MEMBERS PRESENT

Senator Anna Fairclough, Chair
Senator Click Bishop
Senator Cathy Giessel
Senator Donald Olson
Senator Mike Dunleavy (alternate)

Representative Mike Hawker, Vice Chair
Representative Kurt Olson
Representative Andy Josephson

MEMBERS ABSENT

Senator Kevin Meyer

Representative Alan Austerman
Representative Bob Herron
Representative Scott Kawasaki (alternate)
Representative Bill Stoltze (alternate)

COMMITTEE CALENDAR

APPROVAL OF MINUTES
EXECUTIVE SESSION
RELEASE OF AUDITS
OTHER COMMITTEE BUSINESS

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

KRISTIN CURTIS
Legislative Auditor
Legislative Audit Division
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Provided information on the audit request.

SENATOR HOLLIS FRENCH

Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Requested an audit of the Department of Revenue (DOR) oil and gas production tax audit process.

ACTION NARRATIVE

[8:01:10 AM](#)

CHAIR ANNA FAIRCLOUGH called the Legislative Budget and Audit Committee meeting to order at 8:01 a.m. Representatives Olson, Josephson, and Hawker and Senators Fairclough, Bishop, Olson, Giessel, and Dunleavy (alternate) were present at the call to order.

Approval of Minutes

[8:01:59 AM](#)

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

REPRESENTATIVE HAWKER made a motion to approve the minutes of January 29, 2013. There being no objection, the minutes from the meeting of January 29, 2013 were approved.

Executive Session

[8:02:16 AM](#)

CHAIR FAIRCLOUGH announced that the next order of business would be to move into Executive Session.

REPRESENTATIVE HAWKER made a motion to move to executive session under Uniform Rule 22 for the purpose of discussing confidential audit reports under AS 24.20.301. There being no objection, the committee went into executive session at 8:02 a.m.

[8:45:19 AM](#)

CHAIR FAIRCLOUGH brought the committee back to order at 8:45 a.m. Representatives Olson, Josephson, and Hawker and Senators Fairclough, Bishop, Olson, Giessel, and Dunleavy (alternate) were present at the call back to order.

Release of Audits

REPRESENTATIVE HAWKER made a motion for the preliminary audit for the State of Alaska Single Audit for FY 12 to be released to the appropriate agency for response. There being no objection, it was so ordered.

Other Committee Business

8:45:55 AM

CHAIR FAIRCLOUGH announced that the next order of business would be reports on the next audits on the agenda.

KRISTIN CURTIS, Legislative Auditor, Legislative Audit Division, Alaska State Legislature, explained that the preliminary audit report on the Knik Arm Bridge & Toll Authority was not yet prepared for release. She expressed anticipation that the report would be brought to the committee "in the near future."

8:46:29 AM

MS. CURTIS briefed the committee on the status of the audit on the Alaska Statewide System for Employee Time (ASSET) which had been started two years prior. She reported that ASSET had been purchased by Department of Administration to replace its time and attendance system. The audit had been initiated by the legislative auditor to support the opinion on the financial statements. She directed attention to a status report, "ASSET" [Included in members' packet] which revealed that the project had been cancelled in July, 2012. She relayed that the Legislative Budget and Audit Committee formal policies and procedures had a procedure for termination of an audit; however, these procedures referred to a special request audit, and, as this was not a special request audit, it was not necessary to follow these procedures. Therefore, no action was necessary by the committee members. Referring to an earlier Legislative Budget and Audit Committee meeting in which she had reported that ASSET was an ongoing audit, she stated that this audit was now terminated as the ASSET project had been cancelled.

8:48:09 AM

CHAIR FAIRCLOUGH announced that the final order of business would be an audit request by Senator French.

8:48:22 AM

SENATOR HOLLIS FRENCH, Alaska State Legislature, directed attention to his letter to the committee, dated February 13, 2013, requesting that an audit be performed on the effectiveness of the Department of Revenue's oil and gas production tax audit process [Included in members' packets]. He reported that Alaska had shifted to a profits based tax system in 2006, which was then modified in 2007. He acknowledged that, as this was "a new and difficult era of auditing company tax returns," there had been a request at that time by Department of Revenue for additional staff because it had been difficult to retain senior auditors. He noted that the recently released Statewide Single Audit Report had, as in past years, "pointed out significant deficiencies in our auditing function." He relayed that he had met earlier in the year with Ms. Curtis, and had asked for her help to streamline his "broad request into specific verifiable, measureable items," which were now listed in the aforementioned letter. He questioned the reasons for the tax audit delay, noting that this was the sixth year of the new tax system without audits.

[8:50:14 AM](#)

CHAIR FAIRCLOUGH asked if he had submitted these requests to Department of Revenue (DOR) for a response.

SENATOR FRENCH replied that he had not.

[8:50:28 AM](#)

REPRESENTATIVE HAWKER confirmed that the Legislative Budget and Audit Committee had addressed this issue several times previously, and that the Statewide Single Audit Reports were the only public documents. He endorsed a preliminary conversation with DOR for a better understanding of its perspective before framing this audit request.

[8:51:33 AM](#)

REPRESENTATIVE JOSEPHSON asked Senator French if he had been a legislator prior to Alaska's Clear and Equitable Share (ACES) and the production profits tax (PPT).

SENATOR FRENCH replied that was correct.

REPRESENTATIVE JOSEPHSON asked Senator French if he had any personal recollection for a "backlog at audit under the old severance production tax system."

SENATOR FRENCH replied that he did not have any timing information for audit returns during the economic limit factor (ELF) tax system.

SENATOR FRENCH directed attention to an e-mail he had received from DOR concerning the completion of audits. He confirmed that he had "checked with them about the level of completion." He read from this e-mail from Matt Fonder, Director, Tax Division: "the department has completed certain audits covering the 2007 tax year, first filed in March, 2008, and is in the process of finalizing the remainder of the 2007 audits." Senator French shared that Mr. Fonder had pointed to the complexity of the 2007 audits due to that tax year being divided between the PPT and ACES tax systems.

8:53:20 AM

CHAIR FAIRCLOUGH asked Ms. Curtis about the timing for completion to this audit request.

MS. CURTIS replied that, currently, there was one audit in the queue, approved at a previous Legislative Budget and Audit Committee meeting, on the Alaska Public Offices Commission (APOC). She suggested conducting this proposed DOR tax audit alongside the Statewide Single Audit during the upcoming summer; however, she pointed to the difficulty for making conclusions about assessments prior to completion of the DOR audit. She requested more information on the DOR timeline for completion, as that could impact the audit schedule.

8:55:01 AM

CHAIR FAIRCLOUGH asked for a projected date for resolution to this audit.

MS. CURTIS replied that the proposed audit would begin during the upcoming summer, and be available during the next legislative session.

8:56:09 AM

CHAIR FAIRCLOUGH, noting that the result for the proposed audit would not be available until next legislative session, whether or not it was requested today or in the near future, suggested bringing DOR to speak directly to the committee and then determining the timing for an audit proposal.

8:57:22 AM

REPRESENTATIVE HAWKER expressed his agreement.

8:57:42 AM

REPRESENTATIVE JOSEPHSON offered his agreement.

8:57:55 AM

CHAIR FAIRCLOUGH said that the Legislative Budget and Audit Committee would meet in 30 days, and that the Tax Division of DOR would be scheduled to testify. She endorsed that a decision for the proposed audit be determined after this presentation by DOR.

SENATOR FRENCH expressed his agreement.

8:58:44 AM

ADJOURNMENT

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 8:58 a.m.