

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

April 6, 2013

4:33 p.m.

**MEMBERS PRESENT**

Senator Anna Fairclough, Chair  
Senator Kevin Meyer  
Senator Click Bishop  
Senator Cathy Giessel  
Senator Donald Olson

Representative Mike Hawker, Vice Chair  
Representative Alan Austerman  
Representative Bob Herron  
Representative Kurt Olson  
Representative Andy Josephson  
Representative Scott Kawasaki (alternate)

**MEMBERS ABSENT**

Senator Mike Dunleavy (alternate)  
Representative Bill Stoltze (alternate)

**OTHER LEGISLATORS PRESENT**

Representative Les Gara  
Representative Mike Chenault  
Representative Chris Tuck  
Representative Beth Kerttula  
Representative Jonathan Kreiss-Tomkins

Senator Bert Stedman

**COMMITTEE CALENDAR**

APPROVAL OF MINUTES

EXECUTIVE SESSION

RELEASE OF AUDITS

OVERVIEW: OIL AND GAS PRODUCTION TAX AUDITS - DEPARTMENT OF  
REVENUE

AUDIT REQUEST

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

BRUCE TANGEMAN, Deputy Commissioner  
Office of the Commissioner  
Department of Revenue (DOR)  
Anchorage, Alaska

**POSITION STATEMENT:** Testified and answered questions during an overview on the oil and gas production tax process.

MATTHEW FONDER, Director  
Anchorage Office  
Tax Division  
Department of Revenue (DOR)  
Anchorage, Alaska

**POSITION STATEMENT:** Testified and answered questions during an overview on the oil and gas production tax process.

LENNIE DEES, Audit Master  
Production Audit Group  
Tax Division  
Department of Revenue (DOR)  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions during the DOR presentation.

SENATOR HOLLIS FRENCH  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Presented a request for an audit to the effectiveness of the Department of Revenue oil and gas production tax audit process.

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

**POSITION STATEMENT:** Provided information on the audit request.

**ACTION NARRATIVE**

[4:33:47 PM](#)

**CHAIR ANNA FAIRCLOUGH** called the Legislative Budget and Audit Committee meeting to order at 4:33 p.m. Representatives

Austerman, Herron, Olson, Josephson, Kawasaki, and Hawker, and Senators Fairclough, Meyer, Bishop, Giessel, and Olson were present at the call to order. Also in attendance were Representatives Chenault, Tuck, Gara, and Kerttula, and Senator Stedman.

### **Approval of Minutes**

[4:34:29 PM](#)

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

[4:34:35 PM](#)

REPRESENTATIVE HAWKER made a motion to approve the minutes of March 28, 2013. There being no objection, the minutes from the meeting of March 28, 2013 were approved.

### **Executive Session**

[4:34:51 PM](#)

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

[4:34:56 PM](#)

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 4:35 p.m.

[4:35:13 PM](#)

The committee took an at-ease from 4:35 p.m. to 5:16 p.m.

[5:16:19 PM](#)

CHAIR FAIRCLOUGH brought the committee back to order at 5:16 p.m. Representatives Austerman, Herron, Olson, Josephson, Kawasaki (alternate) and Hawker, and Senators Fairclough, Meyer, Bishop, Giessel, and Olson were present at the call back to order. Also in attendance were Representatives Tuck, Gara, Kerttula, and Kreiss-Tomkins, and Senator Stedman.

[5:16:51 PM](#)

REPRESENTATIVE HAWKER asked to clarify that Representative Chenault had left prior to the meeting being called back to order.

### Release of Audits

[5:17:04 PM](#)

REPRESENTATIVE HAWKER made a motion for the final audit for the Department of Transportation & Public Facilities, Knik Arm Bridge and Toll Authority, Knik Arm Crossing Project to be released to the public for response. There being no objection, it was so ordered.

### Overview: Oil and Gas Production Tax Audits - Department of Revenue

[5:17:30 PM](#)

CHAIR FAIRCLOUGH announced that the next order of business would be an Overview on Oil and Gas Production Tax Audits by the Department of Revenue (DOR).

[5:18:16 PM](#)

CHAIR FAIRCLOUGH explained that, as there was an audit request before the Legislative Budget and Audit Committee, she was extending this opportunity to DOR to explain its processes and "enlighten the committee why we would or would not" continue with this request.

[5:18:33 PM](#)

BRUCE TANGEMAN, Deputy Commissioner, Office of the Commissioner, Department of Revenue (DOR), declared that there were a lot of misconceptions and confusions regarding the definitions for financial and performance audits. He explained that statements regarding the DOR audits for 2007 gave people the impression that DOR had "absolutely no clue what happened in 2008, 2009, 2010, 11, and 12, and that could not be further from the truth." He said there was a vast amount of tax information received monthly by the department from the oil companies, which had given DOR a great amount of information from 2008 to the present. He stated that the information for the final audit was "in-hand, has been analyzed, and we will proceed a lot quicker once we're through 2007." He noted that the years of 2008 and

2009 would be combined, and he offered to discuss the internal details for a financial audit, and examine the differences between a performance audit and a financial audit.

5:20:09 PM

CHAIR FAIRCLOUGH asked if he would address the audit findings from prior years, as there could be questions. She suggested that the committee listen to the presentation before asking questions.

5:21:14 PM

MATTHEW FONDER, Director, Anchorage Office, Tax Division, Department of Revenue (DOR), presented a PowerPoint entitled "Production Tax Audits." [Included in members' packets] He reported that this would be a step by step presentation to share the process for the review of oil and gas production tax returns. He directed attention to slide 2, "Oil and Gas Production Tax Processes," which was an overview of the monthly process for auditors. He read: "Oil and Gas Producers are required to make monthly installment payments of estimated taxes and surcharges to the Department." He said that both explorers and producers were required to submit monthly information reports to DOR in accordance with statutes and regulations. The economic group would then analyze this monthly information, and use this information to answer any questions from the public or the legislature. He reported that the tax technicians would review and document all the monthly tax payer information and would assist the accounting group to ensure the oil and gas revenues were properly accounted for and recorded.

5:22:47 PM

MR. FONDER moved on to slide 3, "Oil and Gas Production Tax Processes (continued)", and spoke about the annual processes. He noted that by March 31, all the oil and gas tax returns and other information had to be received by DOR. He declared that this filing was a "true-up" of the twelve previously received monthly payments. He explained that the March tax filings were immediately reviewed by oil and gas production tax auditors, a process which often took many months for verification of the information. He noted that a full audit would take place at a later date. He mentioned that the State of Alaska did not have to pay any interest on overpayments of estimated tax, if the overpayment was returned within ninety days.

[5:25:06 PM](#)

MR. FONDER pointed to slide 4, "Production Tax Audits/Assessments." He explained that production tax audits were not performance audits, and were not utilized to determine if a statute was "working," as this was not a role of the Tax Division. He declared that the purpose of the oil and gas production tax audit was to ensure that the taxpayer had filed and paid the appropriate amount of production tax as required by the statutes and regulations. He noted that the amount of tax must be assessed within six years after the tax return was filed. He reported that DOR often received amended returns, which would then start the clock for another six years on that specific issue. He noted that amended returns for the 2007 tax returns had been coming in until December, 2010. He said that taxpayers had the right of appeal to an audit assessment, and that the process began in the Tax Division. He said, "generally speaking, our oil and gas production tax assessments have ranged from a refund of \$5 million to an assessment of \$82.5 million over the last five years. For comparison purposes, in the year that we assessed \$82.5 million, FY 11, we collected over \$4.5 billion in production tax revenues. The assessments for FY 11 were less than two percent of the total production tax revenues received for that year."

[5:27:46 PM](#)

MR. FONDER introduced slide 5, "Production Tax Audits/Assessments (continued)." He explained that, due to high interest and penalty provisions, there was an incentive for taxpayers to be accurate on the estimated monthly payments and tax return filings. He clarified that the department most often issued an assessment because the taxpayer and DOR disagreed as to how the statutes applied to a certain set of facts. The assessment was then subject to the appeals process, which began in the Tax Division, and could be appealed through the Alaska Supreme Court, often taking months or years.

[5:28:38 PM](#)

MR. FONDER presented slide 6, "Oil and Gas Production Tax Credit Processes," and stated that, as there was no time frame for filing credit applications, DOR was working on them throughout the year. He declared that all the tax credit applications underwent a due diligence review prior to granting the credit. He emphasized that these reviews were often as detailed as a full audit. He noted that all alternative credits for oil and

gas exploration underwent a full audit prior to being issued. He observed that expenditures which supported credits applied against a tax liability were audited at the time of the tax return.

[5:29:43 PM](#)

MR. FONDER acknowledged slide 7, "Confidentiality," declaring that the Tax Division was required to hold taxpayer information confidential, and was unable to discuss any specific information contained in any given audit or assessment. He shared that any statistical information aggregated among three or more taxpayers would be released for publication in the Revenue Sources Book and the Annual Report. However, the Tax Division was allowed to share taxpayer specific information with legislators in executive session as long as the necessary confidentiality agreements were signed. He offered his belief that this offer for discussion in executive session had never been requested.

[5:30:47 PM](#)

MR. FONDER reviewed slide 8, "Audit Effectiveness," and stated that the next slides addressed the points in the request for the audit of DOR.

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The committee took a brief at-ease.

[5:31:29 PM](#)

CHAIR FAIRCLOUGH brought the committee back to order.

[5:31:36 PM](#)

MR. FONDER stated that this slide addressed audit effectiveness, noting that the Tax Division conducted a full audit on every production tax return filed with a tax liability. He noted that a full audit was also performed on all exploration claims for credit, before the credit certificate was issued. He offered his belief that the timeliness for ACES audits was not an issue, as DOR had six years to conduct the audit, and had not ever missed a deadline. He explained that, in 2007, taxpayers had agreed to extend the statute of limitations for the production tax audits of filings. He offered his belief that low assessments were good, as it signified a better understanding of the tax system and better voluntary compliance by taxpayers.

5:33:07 PM

MR. FONDER explained slide 9, "Impediments of ACES/PPT Audits," directing attention to the formula and the necessary data to arrive at the tax due under the economic limit factor (ELF) taxation. He ascertained that the gross value at the point of production (GVPP) was a result of taxable volume multiplied by taxable value. He noted that the taxable value was defined as the destination value after subtracting the marine tanker cost, pipeline tariffs, and quality bank adjustments. The resulting GVPP was multiplied by the ELF rate, which was less than one; this result was multiplied by the tax rate, which equaled the monthly production tax. After the credits were subtracted, and the conservation surcharges were added, the result was the total tax due.

5:34:11 PM

MR. FONDER commented on slide 10, "Impediments of ACES/PPT Audits, (continued.)" He noted the amount of data received under Alaska's Clear & Equitable Share (ACES), and explained the tax calculation formula. He explained that the GVPP was again a result of taxable volume multiplied by taxable value. The taxable value was now defined as the volume of taxable oil and gas produced times the wellhead value, which was the sales price minus the transportation costs and quality bank adjustments. From the resulting GVPP, one-twelfth of the total annual lease expenditures, the combined capital expenditure (CAPEX) and operating expenditure (OPEX), was subtracted and the result was the monthly production tax value (PTV). The PTV was used to calculate the monthly progressivity tax when the PTV was greater than \$30 per barrel. The monthly PTV was then multiplied by the base tax rate to equal the base tax. The monthly progressivity and the base tax were added to equal the monthly production tax due. Credits were subtracted from the monthly production tax due, resulting in the annual tax due. The conservation surcharges were then added to the annual tax due resulting in the total tax due under the ACES taxation system.

5:35:18 PM

MR. FONDER provided slide 11, "Impediments of ACES/PPT Audits, (continued)" and explained some of the data that DOR received for review during an ACES audit. He stated that lease expenditures contained much of the information in an ACES audit, and the expenditures included the Taxpayers Accounting System,

as all taxpayers had accounting systems where the information necessary to file the tax returns was maintained. These lease expenditures also included joint interest billings (JIBs), which were detailed billings of all monthly expenditures made by the unit operator and sent to each of the working interest owners. These were also submitted by each owner and reviewed in the audit process. He noted that each JIB could exceed 300 pages, dependent on the size of the project.

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MR. FONDER addressed slide 12, "Impediments of ACES/PPT Audits, (continued)" declaring that there were exclusions and adjustments to the JIBs, as certain expenditures were not allowed as lease expenditures under state statute. Often, these adjustments to billed expenditures were made according to the taxpayer's interpretation of the statutes, and, as these did not always include detailed documentation for the exclusions, the reconciliation could be a very time consuming process.

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MR. FONDER presented slide 13, "Impediments of ACES/PPT Audits, (continued)," and discussed the Joint Account Data Exchange (JADE), which could contain millions of lines of data for one unit. He reported that this data was captured and sent electronically by the unit operator to each working interest owner, and it contained references to source documents, which were sometimes used by the taxpayer in support of claimed lease expenditures. He referred to the Authorization for Expenditure (AFE), sharing that there could be hundreds of these documents, also referred to as "Cost Center" projects, during an audit period. He explained that the AFE's provided project descriptions and helped the auditors determine where to focus audit resources.

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MR. FONDER indicated slide 14, "Impediments of ACES/PPT Audits, (continued)," and stated that invoices in support of claimed expenditures, often in excess of one million transactions, were examined to identify whether lease expenditures were allowable. He confirmed that data was received from other state agencies during the audit process, including plans of development and plans of operation, and that this data was also reviewed.

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MR. FONDER assessed slide 15, "Impediments of ACES/PPT Audits, (continued)," and stated that information from other state agencies was manually incorporated into the audit work papers and used by the auditors for cost and project analysis. He noted that volume data was reported by the Alaska Oil and Gas Conservation Commission (AOGCC) which would show swings in production that would assist auditors in identifying conditions to cause changes in expenditures.

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MR. FONDER declared that slide 16, "Impediments of ACES/PPT Audits, (continued)" listed the complexity of this new tax in 2007, and had required training of the auditors, as there was not any institutional knowledge. He pointed to the changes in the tax laws since the implementation of ACES, and pointed out that the audit staff also had additional projects, which included: desk reviews, credit reports, due diligence reviews, updates to processes, and support for annual legislative audits.

MR. FONDER introduced slide 17, "Audit Staff Qualifications and Experience," which offered a snapshot of the production tax audit group: 19 employees, with 3 supervisors, 8 auditors dedicated to production tax audits, 6 auditors dedicated to credit audits, and 2 tax technicians. He reported that the average oil and gas production tax audit experience for this group was 5.5 years for the production group, and 4.25 years for the credit group, although many of the auditors had experience outside of oil and gas production taxes.

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MR. FONDER indicated slide 18, "Audit Staff Qualifications and Experience (continued)," which listed the minimum qualifications for an oil and gas revenue auditor (OGRA) 1, and included a bachelor's degree in accounting or finance, or a certified public accountant certificate.

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MR. FONDER moved on to slide 19, "Audit Staff Qualifications and Experience (continued)" which listed the minimum qualifications for an oil and gas revenue auditor (OGRA) 4, and he stated that there was no substitute for the required experience of at least two years professional experience auditing and examining data specific to the oil and gas industry.

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MR. FONDER offered a comparison to the audit group when ELF was the tax program, slide 20, "Audit Staff Qualifications and Experience (continued)." He noted that under ELF there were 9 full time employees, with 1 supervisor and 6 production tax auditors, no credit auditors, and 2 tax technicians. He said that the experience had been for more than 18 years of oil and gas production tax audit experience. He reported that, in 2006, the production tax audit group had nearly 100 percent turnover due to attrition, retirement, and transfers.

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MR. FONDER said that production tax audit methodology under ACES was unique, although it did bear similarities to the audit methodologies that were utilized in other tax types, slide 21, "Audit Methodology." He explained the process: first, the auditors determined if producers and explorers had complied with the monthly and annual reporting requirements for the tax year; second, they would ensure that all the necessary monthly installment payments were timely; third, they would verify that each taxpayer liability was properly calculated; fourth, they would confirm that documentation existed to support claims made on the tax return; and, finally, they would issue audit assessments well within the statute of limitations and in accordance with the statutes and regulations.

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MR. FONDER introduced slide 22, "Status of Audits," and stated that the Tax Division was finalizing the audits for the 2007 oil and gas production tax returns. He pointed out that these returns had initially been filed on March 31, 2008, and that there had been numerous amended returns. He assessed the complexity as only half of that tax year had been under ACES. He expressed anticipation for the completion of the 2007 audits by late summer or early fall, 2013, which was well within the statute of limitations, and he reported that the staff had begun work on the 2008 and 2009 tax years for those taxpayers whose 2007 audits were complete. He conveyed that, going forward, the Tax Division would combine two tax years in one audit for certain taxpayers.

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MR. FONDER concluded the PowerPoint with slide 23, "Summary," and declared that, as ACES was a unique and complex tax type that consisted of both taxes and credits, the auditors were split into groups to audit the tax and the credits. He reported that the Tax Division was in the process of implementing an integrated system, as everything was currently reviewed manually. He disclosed that the Tax Division routinely conducted in-house training and workshops to keep up-to-date on the changes to the tax code. He informed the committee that the Tax Division continued to refine its audit policies and procedures.

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REPRESENTATIVE HERRON asked if the March 31 true up was on time, as referenced on slide 3.

[5:50:02 PM](#)

MR. FONDER replied that it was on time.

REPRESENTATIVE HERRON asked if the six years currently allowed for an audit to a tax return, slide 4, should be reconsidered or renewed.

[5:50:31 PM](#)

MR. TANGEMAN replied that, although the six year time frame was comfortable, a new revenue management system and more staff experience would speed up the process.

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REPRESENTATIVE HERRON asked if the statutory requirement should be reconsidered and possibly lowered.

MR. TANGEMAN suggested that it be reviewed sometime in the future.

[5:51:12 PM](#)

REPRESENTATIVE JOSEPHSON, referencing slides 21 and 22, opined that, currently, the entire six years for an audit assessment were being used.

MR. FONDER replied that the 2007 tax audits would be finished more than six months prior to the six year deadline, in contrast

to completion of the audit assessments during the ELF tax system, which often took longer than the statute of limitations.

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MR. TANGEMAN explained that the state move from a gross tax to a net tax was "a huge change in the way you do business." He offered his belief that it was impressive to have completed the audits within the six year deadline, as the processes had all been manual; he stated that the new revenue management system would make the process much quicker. He said the process would always take at least a year.

[5:54:00 PM](#)

REPRESENTATIVE JOSEPHSON, reflecting on the litigation, dispute, and complicated hearings during ELF, opined that the ELF returns were not necessarily the easy route.

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MR. FONDER deferred to Mr. Lennie Dees.

[5:55:04 PM](#)

REPRESENTATIVE JOSEPHSON asked about the litigation and administrative hearings for ELF during the time period from 1987 through the mid-1990s, offering his belief that it was not a "perfect streamlined auditing process."

LENNIE DEES, Audit Master, Production Audit Group, Tax Division, Department of Revenue (DOR), offered his belief that there was disagreement surrounding specific issues for tariff rates and the calculation of ELF. He said that ACES was much more complex than ELF. He compared that ACES stacked a net tax component on the ELF system and, with its many moving parts, added to the complexity for the issues which could be contested during an audit.

[5:57:09 PM](#)

REPRESENTATIVE JOSEPHSON asked if Mr. Fonder was comfortable with the number of staff necessary to do the job.

MR. FONDNER offered his belief that more staff positions were proposed in the governor's budget for FY14.

MR. TANGEMAN elaborated that an additional audit master, an oil and gas auditor, and five part-time positions for revenue and capital budget were in the budget request.

MR. TANGEMAN, in response to Chair Fairclough, said that they were not yet funded equally on both sides, so that it could be an issue for the conference committee to discuss.

[5:59:17 PM](#)

SENATOR BISHOP, expressing his understanding for the difficulty of maintaining staff, pointed out that funding for auditors had been increased and asked if this would work to keep the staff longer.

MR. FONDER expressed his hope for staff longevity, noting that staff did leave for different reasons. He noted that "state government is often the training grounds for private industry."

MR. TANGEMAN added that the division was now fully staffed for the first time in quite a while.

[6:01:27 PM](#)

REPRESENTATIVE HAWKER declared that the state auditor, while conducting the Statewide Single Audit, had identified that, since FY08, the internal accounting and audit controls over production taxes in DOR had been identified for significant deficiencies. He allowed that turnover "is usually a huge indicator of larger systemic problems." He directed attention to recommendation #5 of the Statewide Single Audit for 2013, which reflected DOR agreement with the legislative audit report of a need for implementation of controls to improve auditing oil and gas severance tax revenues.

MR. TANGEMAN replied that he did concur with that assessment.

REPRESENTATIVE HAWKER, noting that his interest in auditing procedures and the DOR were "probably 180 degrees from Senator French's," declared that he had "personal, serious concerns with both what it appears to be technical areas of, perhaps, less than appropriate audit procedures." He cited that the assessment of related audit files had revealed that supervisory reviews by the audit tax master were not documented, and the supervisor review check list was consistently incomplete. He declared this to be a fundamental process and procedure for the foundation of an audit process, and he expressed, "I have great

concerns." He asked if the audit team was peer reviewed by other than the state auditor during the statewide single audit.

MR. FONDER offered his belief that there was not a peer review by anyone outside of the Legislative Audit Division; however, this review was conducted annually.

REPRESENTATIVE HAWKER recalled hearing absolute assurance in 2007, from the director of the Tax Division and the commissioner of DOR at that time, that there was not a problem to meet the obligations for writing regulations and completing audits on schedule for ACES. He allowed that, although Mr. Fonder had "inherited the job," the deficiencies had been identified as ongoing for years and there was still not a peer review. He expressed his concern for the inaccurate responses from DOR auditors during a recent meeting of the House Resources Standing Committee, and for the interpretation, implementation, and utilization of JIBs in the audit process. He shared his concern for the implementation of DOR regulations regarding transportation costs in determining "wellhead net back." He pointed to a lack of peer review, beyond that of the state auditor, and the consistent problems in the agency. He questioned whether a peer review should, indeed, be conducted.

MR. TANGEMAN directed attention "to the massive changes that this state and this department undertook starting in 2006 and 2007 when we went from a gross tax to a net tax." He noted that this had been a complete change for the process, and there were not any regulations in place and the staff had never worked in this system. He chronicled that, since that time, more than 70 regulations had been implemented, reports had been submitted within the statutory window, and improvements had been made. He questioned the expectation for corrections within a year, pointing to the "huge strides" performed during that time frame. He noted that this had all been accomplished while using manual systems. He stated his acceptance of the recent analysis of issues listed by the Legislative Audit Division, but he pointed to the "light at the end of the tunnel" generated by the automated revenue management system, which would alleviate "a lot of these issues" with the millions of lines of data.

REPRESENTATIVE HAWKER offered his belief that the issue was with audit procedures, resulting from high turnover and a lack of staff experience. He stated "any business that is afraid of an audit, quite frankly, probably needs to be audited."

[6:09:01 PM](#)

CHAIR FAIRCLOUGH summarized that DOR was in the process of moving forward with the implementation of new automated technology, although there were still concerns.

### Audit Request

[6:09:32 PM](#)

CHAIR FAIRCLOUGH announced that the final order of business would be consideration of an audit request by Senator French. She referenced the February 13, 2013 letter [Included in members' packets] in which Senator French asked for approval of an audit to the effectiveness for timeliness, levels of assessment, and coverage from the audit function of DOR when compared to the audit function under the ELF tax structure. She pointed out that Senator French had also asked to identify the impediments to the audit process of returns from ACES and the petroleum production tax (PPT), with recommendations for improvement. Senator French requested an examination of the professional qualifications and experience levels of DOR's audit staff, while determining if the resources were sufficient to fulfill the audit requirements. Lastly, Senator French requested an examination of the Tax Division's methodology for conducting audits, and a determination whether the agency was following "industry best practices." She asked that the committee members identify any of these requests which remain a concern.

[6:10:49 PM](#)

SENATOR HOLLIS FRENCH, Alaska State Legislature, opined that the Tax Division "looks forward to an audit with the same degree of enthusiasm that anyone of us would if we were being audited." He declared that he did not have any suspicion or animosity for the Tax Division, as the employees in the division were "literally worth their weight in gold. They perform a hugely important function, they serve as the nerve center of the state's resources and revenues... ." He expressed his agreement with the assessment by Representative Hawker that there had been significant deficiencies in the division for quite some time. He offered his belief that improvement could be accomplished with peer reviews and recommendations by the Division of Legislative Audit. He pointed to an \$82 million assessment adjustment as an example. He reminded the committee that he was assisted by Kris Curtis, Legislative Auditor, in writing this

request, in order to target the report for the accuracy of the process.

[6:13:24 PM](#)

SENATOR FRENCH, in response to Representative Hawker, confirmed that he had worked with Ms. Curtis to develop the objectives for the proposed audit. He shared that the idea to consult with Ms. Curtis had resulted from an earlier Legislative Budget and Audit Committee meeting he had attended in which it was revealed that she had helped with another audit request.

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REPRESENTATIVE HERRON commented that it was a good point for the auditor to review joint interest billings (JIB), as other legislators were also concerned.

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CHAIR FAIRCLOUGH asked if the Legislative Audit Division was currently able to accept this project, and how long it would take to complete.

KRISTIN CURTIS, Legislative Auditor, Legislative Audit Division, Alaska State Legislature, explained that, as the Statewide Single Audit would be assigned to staff in the upcoming week, it would be most efficient to conduct this proposed special performance audit simultaneously. She was not sure if she had the staff available, but would be able to report within a week.

CHAIR FAIRCLOUGH asked if the proposed audit could be completed by February, 2014.

MS. CURTIS, in response, stated that it would be possible to present the proposed performance audit at the beginning of the next session, if it could be performed simultaneously with the Statewide Single Audit.

CHAIR FAIRCLOUGH asked if the committee wanted to approve the proposed audit request.

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REPRESENTATIVE HAWKER made a motion to approve the request by Senator French for the performance audit on the effectiveness of the Department of Revenue's oil and gas production tax audit

process in accordance with the accompanying letter outlining the audit objectives.

CHAIR FAIRCLOUGH objected.

MS. CURTIS asked for more direction from the committee to officially add the request to review joint interest billings (JIB).

6:17:43 PM

REPRESENTATIVE HAWKER shared that this would be included under a review of "best audit practices." He asked that there be a review of the DOR policies and procedures for the utilization of joint interest billings in accordance with statute. He questioned whether the agency was "overstepping its bounds in its interpretation of their responsibilities under statute."

6:18:45 PM

SENATOR FRENCH, in response to Chair Fairclough, expressed his agreement that this request by Representative Hawker would be in addition to his proposed audit request.

6:19:02 PM

CHAIR FAIRCLOUGH declared that the amendment by Representative Hawker would be included with the original proposal. She removed her objection, and there being no further objection, the motion, as amended, was adopted.

6:19:31 PM

#### **ADJOURNMENT**

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 6:19 p.m.