

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

February 25, 2014

6:11 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

MEMBERS ABSENT

Senator Mike Dunleavy (alternate)

Representative Scott Kawasaki (alternate)
Representative Bill Stoltze (alternate)

COMMITTEE CALENDAR

APPROVAL OF MINUTES
AUDITS
EXECUTIVE SESSION
AUDIT REQUESTS
OTHER COMMITTEE BUSINESS

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

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

POSITION STATEMENT: Provided information and answered questions regarding the Statewide Single audit report, the audit requests, and the requests for contract funding.

LAURA PIERRE, Staff
Senator Anna Fairclough
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Answered questions during discussion of the upcoming public hearing.

ACTION NARRATIVE

[6:11:48 PM](#)

CHAIR ANNA FAIRCLOUGH called the Legislative Budget and Audit Committee meeting to order at 6:11 p.m. Senators Fairclough, Olson, Giessel, Bishop, and Meyer, and Representatives Hawker, Josephson, Herron, and Austerman were present at the call to order. Representative Olson arrived as the meeting was in progress.

Approval of Minutes

[6:12:33 PM](#)

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 13, 2014. There being no objection, the minutes from the meeting of January 13, 2014 were approved.

REPRESENTATIVE HAWKER made a motion to approve the minutes of January 28, 2014. There being no objection, the minutes from the meeting of January 28, 2014 were approved.

Audits

[6:13:38 PM](#)

CHAIR FAIRCLOUGH announced that the next order of business would be the Alaska State Legislature financial statements and audit report for the fiscal year ending June 30, 2013.

KRISTIN CURTIS, Legislative Auditor, Division of Legislative Audit, Alaska State Legislature, presented the independent audit of the Alaska State Legislature schedule of appropriations, expenditures, and encumbrances, as well as the schedule of the revenues for the fiscal year ended June 30, 2013. She relayed that this was an independent audit, conducted each year. She reported that the independent auditor provided an unmodified opinion, which indicated a belief that the schedules were free from material misstatement. She directed attention to the letter to those charged with governance, which was the standard audit letter required to be issued along with the financial statements. [Included in members' packets] She noted that, as this included information on the Legislative Budget and Audit Committee expenses and revenues, it was included for the committee information.

Executive Session

[6:14:46 PM](#)

CHAIR FAIRCLOUGH announced that the committee would move into Executive Session to discuss confidential audit reports.

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 6:15 p.m.

[6:37:17 PM](#)

CHAIR FAIRCLOUGH brought the committee back to order at 6:37 p.m. Senators Fairclough, Olson, Giessel, Bishop, and Meyer, and Representatives Hawker, Josephson, Herron, Olson, and Austerman were present at the call to order.

[6:37:45 PM](#)

REPRESENTATIVE HAWKER made a motion for the preliminary audit for the Statewide Single Audit for the Fiscal Year ended June 30, 2013 to be released to the appropriate agency for response. There being no objection, it was so ordered.

Audit Requests

[6:38:07 PM](#)

CHAIR FAIRCLOUGH announced that the next order of business would be audit requests from both Representative Austerman and Representative Olson. She directed attention to a letter submitted to the committee by Representative Austerman dated February 12, 2014. [Included in members' packets].

[6:38:35 PM](#)

REPRESENTATIVE AUSTERMAN explained his request for an audit of Department of Transportation & Public Facilities (DOT&PF) for its contracting for ship repairs. He stated that the Alaska ferry, M/V Tustumena, went into dry dock for its normal repairs, a project which usually took six to eight weeks, but subsequently took more than a year. He reported that his office had requested information but had not received clear responses for the reasons to the delay. He offered his belief that there was a "breakdown in the procedures that the DOT[&PF] uses to get to where they need to be." He directed attention to the three areas of concern listed in the aforementioned letter. He requested an audit of DOT&PF for its methods of contracting for ship repairs.

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SENATOR MEYER expressed his understanding that the ferry maintenance was performed in Ketchikan.

REPRESENTATIVE AUSTERMAN clarified that the statute established that the work needed to be performed in-state, and that the option was for either Ketchikan or Seward, as the two shipyards.

SENATOR MEYER asked how the choice was determined.

REPRESENTATIVE AUSTERMAN replied that he did not know.

CHAIR FAIRCLOUGH read the three items of the audit request from Representative Austerman:

Determine whether the contract award to the Seward Shipyard complied with federal and state procurement laws and was in the State's best interest.

Determine if technical specifications that supported the bid documents were adequate to allow for the procurement of the expertise necessary to fully address the refurbishment/overhaul.

Evaluate management of the M/V Tustumena refurbishment/overhaul by DOTPF from start to finish. Determine if the project was efficiently managed in order to achieve the project in the most cost effective and time sensitive manner.

CHAIR FAIRCLOUGH asked Ms. Curtis if this audit request was possible, and, if so, when the finished report would be available.

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MS. CURTIS, in response, said that it could be done and there were staff available. She pointed out that it would be necessary to do some preliminary work to determine any pending litigation. She suggested that the usual recourse would be to wait until the litigation was complete before commencing with an audit.

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REPRESENTATIVE HERRON asked if the audit would be limited to the points listed by Representative Austerman.

MS. CURTIS explained that her division tried "to stick with the objectives," although the committee could add a request to expand on anything that came to its attention during the audit.

REPRESENTATIVE AUSTERMAN shared that he and Ms. Curtis had discussed the proposed audit and the breadth of its requests. He declared that lawsuits were expected. He stated that the larger question was to determine whether this was the best system for contracting.

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REPRESENTATIVE HAWKER suggested adding another request for the auditor to report to the Legislative Budget and Audit Committee and the Alaska State Legislature on any other matters deemed to be important.

CHAIR FAIRCLOUGH expressed agreement with incorporating this into the audit request. She offered her belief that a preliminary review could place the auditor in the way of the law.

REPRESENTATIVE AUSTERMAN expressed his agreement and suggested that an audit should be initiated, as a lawsuit would stop the audit.

CHAIR FAIRCLOUGH asked why the actual DOT&PF processes for putting ships into dry-dock was not being examined.

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MS. CURTIS explained that, as there had been an audit on the overall process three years previously, there was a good understanding for the procurement process for overhauls and refurbishments. She shared that her division would build on this knowledge.

CHAIR FAIRCLOUGH asked if there were any objections to moving forward with an audit, with the understanding that litigation would delay completion of the project.

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REPRESENTATIVE JOSEPHSON asked if any complaint had been filed, and whether the audit request by Representative Austerman would pre-date any formal complaint.

MS. CURTIS replied that she had contacted the DOT&PF and asked for an update on the status of any litigation. She reported that an administrative process was currently in play, although no formal litigation had been filed as yet.

REPRESENTATIVE JOSEPHSON declared that it was best to avoid "the perception of piling on." He shared that very often documents in litigation became public when filed. He pointed out that litigation could take years with trial and appeal.

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MS. CURTIS, in response, said that in the event of litigation the audit could be tabled, and subsequently tracked and re-visited for updates to its status. She opined that the questions generating the audit would remain valid regardless of any time period.

REPRESENTATIVE HERRON offered his belief that any litigation could take time, and he encouraged moving forward with preliminary work on the audit request.

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REPRESENTATIVE HAWKER made a motion for approval to the audit request, as amended, of the Department of Transportation & Public Facilities management of the M/V Tustumena refurbishment and overhaul. There being no objection, it was so ordered.

[6:51:08 PM](#)

CHAIR FAIRCLOUGH announced that the next order of business would be a request for an audit as described by a letter submitted by Representative Olson, dated September 27, 2013. [Included in members' packets]

REPRESENTATIVE OLSON offered to distribute additional supplemental information for clarification to the audit request dated February 25, 2014.

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The committee took a brief at-ease.

[6:52:45 PM](#)

CHAIR FAIRCLOUGH brought the committee back to order.

REPRESENTATIVE OLSON explained that there were new proposed regulations for the reimbursement rate to private care facilities by the Department of Health and Social Services which substantially lowered these rates from \$155 each day to \$124 each day. He declared that, however, the proposed reimbursement rate to the Pioneer Homes was increased from \$155 each day to \$355 each day. He stated that implementation of this rate change had been postponed until 2015. He reported that there had not been an audit [of the Pioneer's Home of Alaska] since 1999.

MS. CURTIS expressed her agreement that the field work for the previous audit had been conducted in 1999, with completion of the audit in 2000.

REPRESENTATIVE OLSON listed his requests for the audit to include the types of cost containment, a follow up on the recommendations from the prior audit, and a review for the current proposed rate setting to the Pioneer's Homes. He stated that a reduction to the reimbursement rates by \$31 each day to private care facilities with a substantial increase to the

reimbursement rates of \$200 each day to the Pioneer's Home "appears to me to be a bit of a disparity, at best, and might be something else." He asked for clarification regarding this disparity, as it would have a severe impact on the smaller, private care facilities and could lead to some of them going out of business.

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CHAIR FAIRCLOUGH asked if the audit request was clear, if there was the capacity for completion, and, if so, in what time frame could completion of the audit be expected.

MS. CURTIS replied that the request was sufficiently clear to move forward with an audit. She asked for clarification regarding the time frame for reviewing cost containment and suggested a review of the previous two or three years.

REPRESENTATIVE OLSON deferred to Ms. Curtis's judgment, "as she has far more expertise than I do."

CHAIR FAIRCLOUGH asked the committee for any suggestions to a time frame for the audit regarding cost containment.

REPRESENTATIVE HAWKER expressed his agreement for Ms. Curtis's assessment for two to three years; however, he suggested there should be the latitude to review further than two or three years if it was deemed necessary for a more in depth review.

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CHAIR FAIRCLOUGH clarified that the review would be for two to three years although there would be the flexibility to look further if necessary.

SENATOR GIESSEL reported that the Administrative Regulatory Review Committee held a hearing during the previous fall, which revealed that the private care facilities had much higher acuity, much sicker patients than the Pioneer's Homes. She asked for the audit to consider this during its assessment of the discrepancy for reimbursement rates.

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MS. CURTIS asked for clarification that, as it was more costly to care for the sickest patients, the review should be for the

disparity to the lower rate for reimbursement to the private care facilities.

SENATOR GIESSEL explained that Department of Health and Social Services had plans to raise the reimbursement rate for the Pioneer Home and reduce the reimbursement rate for private home care. She reported that it had become evident during a hearing on this [Administrative Regulatory Review Committee] that the private care homes were caring for patients "of much higher acuity, sicker folks, than the Pioneer Home and so that made the disparity even greater in terms of the reimbursement rates."

MS. CURTIS, in response to Chair Fairclough, said that she would draft an amendment adding this point and then post the audit request with the approved amendment on record.

[7:00:04 PM](#)

REPRESENTATIVE JOSEPHSON asked if the institutions were required to keep summaries of costs and income to use for comparison.

MS. CURTIS expressed her awareness of the rate setting process through earlier work on federal compliance, which had provided a good basis for review and "who to talk to and if necessary, we will expand the time frame." She stated that this audit could be assigned immediately, although it would be difficult to determine a completion date.

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REPRESENTATIVE HAWKER made a motion for approval to the audit request, as revised, of the Alaska Pioneers Homes operating costs and cost containment. There being no objection, it was so ordered.

Other Committee Business

[7:01:56 PM](#)

CHAIR FAIRCLOUGH announced that the final order of business would be a request for contract funding by the Division of Legislative Audit.

MS. CURTIS requested consideration and approval for two contractual items, as legislative procurement rules required that any contract entered into by the division which exceeded

\$35,000 be first approved by the Legislative Budget and Audit Committee.

MS. CURTIS requested approval to solicit and award a contract for not more than \$100,000 for general audit services in support of the Statewide Single Audit. She reminded the committee that her division had asked for this approval in previous years, in order to hire contract auditors to work under supervision by the division to help finish the Statewide Single Audit. She pointed out that, as the division had vacancies, this contract would help control the work load.

MS. CURTIS asked that the Legislative Budget and Audit Committee approve a second request, to solicit and award a contract not to exceed \$150,000 for an informational technology (IT) audit of the Department of Health and Social Services' Medicaid information system. She reported that this system interfaced more than \$1 billion into the State of Alaska accounting system annually. She pointed out that, as this Medicaid system was new, it was necessary for a comprehensive audit of its controls to ensure its availability, confidentiality, and integrity. She stated that her division did not have the IT expertise on staff to conduct an audit of this magnitude in accordance with auditing standards. She explained that the contract would allow the necessary assurances to support the Comprehensive Annual Financial Report in the Statewide Single Audit. She indicated that there had been an increment of \$100,000 in the Fiscal Year 14 budget to conduct IT audits, and she asked for this same increment for FY 15, not to exceed \$150,000, for the audit of the Medicaid IT system.

CHAIR FAIRCLOUGH asked if there were any questions regarding the first request [audit services for assistance with the FY 14 Statewide Single Audit] for \$100,000.

[7:04:20 PM](#)

REPRESENTATIVE HAWKER asked for clarification that this recurring request for the \$100,000 for general audit services had been sufficient in past years.

MS. CURTIS replied that the request amount was generated on a per person basis, and would be for two or three people from a private tax firm after the tax season.

REPRESENTATIVE HAWKER asked if Ms. Curtis felt that this was an adequate amount to request.

MS. CURTIS replied that it was adequate.

REPRESENTATIVE JOSEPHSON asked how this contract was bid.

MS. CURTIS, in response, explained that the rules for small procurement, under Legislative procurement rules, required that at least three solicitations to firms in the state be submitted. She noted that "honestly, most of the time we don't get much response... maybe one or two will bid."

REPRESENTATIVE JOSEPHSON asked about the status for staff vacancies in the Division of Legislative Audit.

MS. CURTIS, in response, stated "we have a very big problem with vacancies right now. At our in-charge level, we have six budget positions, one filled. A serious problem, and we're doing a lot to fix it." She explained that these were lower level staff positions, and that there were other resolutions proposed to deal with the upper level vacancies. She stated that in-charges were mid to high level audit staff, and that this was an attempt to "fill the holes with what we know is out there." She pointed out that "it's a help, but it doesn't fix our problem with vacancies."

REPRESENTATIVE JOSEPHSON asked for clarification whether it would still be necessary to request additional staff if the current vacancies for five staff positions were filled.

MS. CURTIS acknowledged that she was unsure for the staffing schedule if all the staff positions were filled. She declared that the goal was to develop the current staff, and to promote from within. She said that there was not usually a problem filling the lower level staff positions; however, there was attrition for the mid-level staff, once there was movement toward attainment of the Certified Public Accountant (CPA) license.

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REPRESENTATIVE JOSEPHSON asked whether the state salaries were competitive with the private sector.

MS. CURTIS declared that there were many contributing factors, and she offered her belief that the lower salaries and the heavy workload in her division were not competitive with oil companies or other executive branch agencies.

REPRESENTATIVE HAWKER made a motion for approval to the contract solicitation request, not to exceed \$100,000, by the Division of Legislative Audit, for statewide single audit assistance. There being no objection, it was so ordered.

[7:09:06 PM](#)

CHAIR FAIRCLOUGH directed attention to the second request by the Division of Legislative Audit for an IT [information technology] audit of the Department of Health and Social Services new Medicaid system.

REPRESENTATIVE HAWKER asked for clarification that the request was for outside contractual services to review the new Medicaid Management Information Systems (MMIS) and whether this was a one-time request for this contractual spending. He asked if this was necessary for the background and detailed understanding to complete the Comprehensive Annual Financial Report for the coming year.

MS. CURTIS explained that this would yield baseline knowledge, similar to the knowledge and understanding gained by audits for earlier information service programs. She noted that there were new audit standards and requirements for work between the group auditor and the contract auditor. She offered her belief that this would be a one-time contract request, although there were expectations for large problems with the system, based on earlier testimony to other legislative committees. She expressed her belief that the initial understanding for the system would allow annual follow up, based on this knowledge.

REPRESENTATIVE HERRON stated his support, declaring that the MMIS "had a weak rollout" with a "huge potential for problems" and that, therefore, the request was prudent. He shared that Xerox was sending 400 people to reduce the backlog [with the MMIS system].

[7:11:45 PM](#)

REPRESENTATIVE HAWKER made a motion for approval to the contract solicitation request, not to exceed \$150,000, by the Division of Legislative Audit, for an audit of the new Medicaid Management Information System. There being no objection, it was so ordered.

[7:11:58 PM](#)

CHAIR FAIRCLOUGH appointed Senator Fairclough, Senator Olson, Representative Josephson, Representative Austerman, and Representative Hawker to the subcommittee in preparation for the next performance review of the Department of Health and Social Services (DHSS). She reminded the members of the subcommittee for the performance review of the Department of Corrections, Senator Fairclough, Senator Bishop, Representative Hawker, Representative Herron, and Representative Kawasaki, about its upcoming public hearing.

CHAIR FAIRCLOUGH, referencing an earlier request by Senator French to hire an additional consultant for the gas tax, stated that the consultant, Rick Harper, had been hired and his contract was currently being finalized.

REPRESENTATIVE HAWKER asked how long the upcoming public hearing for Department of Corrections would last.

[7:13:24 PM](#)

LAURA PIERRE, Staff, Senator Anna Fairclough, Alaska State Legislature, in response to Representative Hawker, stated that currently there had not been any requests to testify from the public.

[7:13:50 PM](#)

CHAIR FAIRCLOUGH noted that the committee had maintained its quorum in order to conduct business.

[7:14:13 PM](#)

ADJOURNMENT

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 7:14 p.m.