

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

January 21, 2015

9:01 a.m.

MEMBERS PRESENT

Representative Mike Hawker, Chair
Representative Kurt Olson
Representative Lance Pruitt
Representative Steve Thompson
Representative Sam Kito

Senator Anna MacKinnon, Vice Chair
Senator Lyman Hoffman
Senator Cathy Giessel
Senator Bert Stedman
Senator Click Bishop

MEMBERS ABSENT

Representative Mark Neuman (alternate)

Senator Pete Kelly (alternate)

OTHER LEGISLATORS PRESENT

Representative Lora Reinbold

COMMITTEE CALENDAR

ELECTION OF CHAIRMAN
ELECTION OF VICE CHAIRMAN
APPROVAL OF MINUTES
OUTGOING CHAIRMAN STATUS REPORT
REPORT FROM LEGISLATIVE FINANCE DIVISION
OVERVIEW OF THE LEGISLATIVE AUDIT PROCESS
CONSULTANT CONTRACTS

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

DAVID TEAL, Legislative Fiscal Analyst
Legislative Finance Division

Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Provided information to the Joint Committee on Legislative Budget and Audit.

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

POSITION STATEMENT: Provided information on the legislative audit process.

ROSS ALEXANDER, Performance Review Manager
Division of Legislative Audit
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Provided information on the performance review process.

ACTION NARRATIVE

[9:01:13 AM](#)

CHAIR ANNA MACKINNON called the Legislative Budget and Audit Committee meeting to order at 9:01 a.m. Representatives Kito, Thompson, and Hawker and Senators Stedman, Bishop, Giessel, Hoffman, and MacKinnon were present at the call to order. Representatives Olson and Pruitt arrived as the meeting was in progress. Also in attendance was Representative Reinbold.

ELECTION OF CHAIRMAN

[9:02:08 AM](#)

CHAIR MACKINNON announced that the first order of business would be the election of a new committee chair.

[9:02:23 AM](#)

SENATOR GIESSEL nominated Representative Mike Hawker as Chair of the Legislative Budget and Audit Committee for the 29th Alaska State Legislature and moved and asked unanimous consent that nominations be closed. There being no objection, it was so ordered.

ELECTION OF VICE CHAIRMAN

[9:02:39 AM](#)

CHAIR HAWKER announced that the next order of business would be the election of a new vice chair. He nominated Senator Anna MacKinnon as Vice Chair of the Legislative Budget and Audit Committee for the 29th Alaska State Legislature and moved and asked for unanimous consent that the nominations be closed. There being no objection, it was so ordered.

APPROVAL OF MINUTES

[9:03:59 AM](#)

CHAIR HAWKER announced that the next order of business would be the approval of the minutes from the Legislative Budget and Audit Committee meeting of December 16, 2014.

[9:04:35 AM](#)

VICE CHAIR MACKINNON directed attention to the aforementioned minutes and asked that these be amended to reflect the correct spelling of Mr. Janak Mayer. She made a motion to approve the minutes of December 16, 2014, as amended. There being no objection, the minutes from the meeting of December 16, 2014 were approved, as amended.

OUTGOING CHAIRMAN STATUS REPORT

[9:05:50 AM](#)

CHAIR HAWKER announced that the next order of business would be a status report from the outgoing chair regarding the subcommittee on Corporations, Business and Professional Licensing.

VICE CHAIR MACKINNON acknowledged the hard work of Laura Pierre and Erin Shine on this subcommittee. She also expressed her thanks to Kris Curtis and David Teal, "who have been exemplary in their performance for the State of Alaska, and truly a gem for all of us, and a resource that we should utilize even more than we do now."

CHAIR HAWKER expressed that it had been his privilege to work with Senator MacKinnon, her staff, and the aforementioned employees.

VICE CHAIR MACKINNON reported that the subcommittee had held nine meetings over the prior year for discussion of issues raised by constituents, professional licensees, and board members. These meetings focused on a variety of topics which had included indirect cost, investigation, board member travel, and the lack of financial information provided for boards to make decisions. She shared that the subcommittee had directed her staff to draft potential legislative changes to address these issues. She listed these changes to include the cleaning up of statutes of an inactive board, review of options to mitigate the indirect cost of licensees, and analysis of the travel issues presented to the board. She noted that this work was being transitioned to the office of the incoming Legislative Budget and Audit Committee chair, Representative Hawker and she offered assistance as the process moved forward.

CHAIR HAWKER asked whether there were any questions, noting that the committee was considering the presentation of legislation to address some of the subcommittee suggestions.

VICE CHAIR MACKINNON acknowledged the participation of Sara Chambers on this work, offering that Ms. Chambers [Director, Division of Corporations, Business, and Professional Licensing, Department of Commerce, Community & Economic Development] was available for questions.

SENATOR GIESSEL expressed the gratitude of her constituents for this work.

CHAIR HAWKER expressed his thanks to Ms. Shine for her work.

REPORT FROM LEGISLATIVE FINANCE DIVISION

[9:10:40 AM](#)

CHAIR HAWKER announced that the next order of business would be an update from the Legislative Finance Division regarding its relationship with the Legislative Budget and Audit Committee.

[9:11:12 AM](#)

DAVID TEAL, Legislative Fiscal Analyst, Legislative Finance Division, Alaska State Legislature, explained that most of the work from his division was related to the appropriation process, specifically toward bill preparation and the budget process. He explained that RPLs, Revised Programs Legislative, were requests for unanticipated expenses, and were submitted by departments to

be reviewed by the Legislative Budget and Audit Committee for authorization. He noted that the Legislative Finance Division was available "to do anything that the committee requests of us."

CHAIR HAWKER clarified that the Legislative Budget and Audit Committee did not have the statutory authority to make new appropriations and that RPLs were a request intended for additional, unanticipated funds in support of issues already appropriated.

MR. TEAL pointed out that RPLs were limited to certain types of funds, most often federal receipts.

OVERVIEW OF THE LEGISLATIVE AUDIT PROCESS

[9:13:23 AM](#)

CHAIR HAWKER announced that the next order of business would be an overview of the legislative audit process.

[9:13:35 AM](#)

KRISTIN CURTIS, Legislative Auditor, Division of Legislative Audit, Alaska State Legislature, reported that she was responsible for the Division of Legislative Audit and she introduced some of her key staff in attendance, Stacy Nysten, Richard Radford, and Ross Alexander, explaining their roles in the division.

MS. CURTIS presented the latest version of the Legislative Budget and Audit Committee handbook, and summarized that it included the authorizing statutes for the committee, as well as information and organization charts for the two permanent staff agencies, Divisions of Legislative Audit and Legislative Finance. The handbook described the committee's formal policies and procedures, and she pointed out that the committee was authorized to adopt rules to conduct its business and develop procedures for its functions. She directed attention to page 39 of the handbook which outlined the formal procedures, including the report release process for audits and performance reviews, the consideration and approval of audit requests, the contract process, and administrative issues, including travel. She emphasized the necessity for awareness to the confidential report distribution process, noting that statutes ensured that the audit and performance review process was confidential. She stressed the importance of measures by legislators and staff to

prevent any premature release of audits and performance review information until the committee had reviewed and approved its release. She detailed that these reports were released in a multi-phased process, with the first distribution considered preliminary. This first distribution would be at a Legislative Budget and Audit Committee meeting, and would only be discussed during executive session to protect its confidentiality. During this time, she would review the conclusions and recommendations, and field any questions. Once the committee returned to the public meeting, there was an opportunity to vote for the release of this preliminary report to the agency under review for its formal comments. She emphasized that, at this point, the report still maintained its confidential status. She explained that these formal comments were then combined with the preliminary report, which was then returned to the Legislative Budget and Audit Committee for the authorization of its final release. She noted that these final reports were provided to the committee members in advance of the committee meeting, two days in advance during legislative session, and four days in advance during the interim. She stated that the confidentiality procedures were strict, and that each committee member would receive a sealed envelope, marked confidential, and that a signature would be required to receive the report. She pointed out that these final reports were printed on blue paper, to ensure awareness that these were confidential documents. During the ensuing committee meeting, the process for consideration of the report would be similar to that of the preliminary report.

[9:18:28 AM](#)

MS. CURTIS, addressing the audit workload, directed attention to a memo to Chair Hawker [Included in members' packets]. She summarized that there were currently nine audit requests in this workload, which included four mandatory sunset audits, and one special audit. She explained that the three audits which were currently 65 - 95 percent complete, the Alaska Public Offices Commission audit, the Alaska Pioneer Homes audit, and the Statewide Single Audit, should be completed in the near future. She reported that the audit request for the Alaska Regional Development organization, requested in 2013, had been withheld, as these agencies had been terminated at the end of that year, but then re-authorized, so the audit would be held until there had been one year of completion by these agencies. She noted that the audit regarding the overhaul and refurbishment of the M/V Tustumena was currently on hold until completion of an administrative proceeding. She concluded with an update on the Matanuska Maid audit and the dispensation of its assets upon its

sale, noting that one building remained for sale. She reported that there were four sunset agencies with termination dates of June, 2016, and that these audits would begin shortly.

[9:20:55 AM](#)

MS. CURTIS directed attention to a memo describing the responsibilities of the Legislative Budget and Audit Committee [Included in members' packets]. She stated that the main function of the committee was to provide the Alaska State Legislature with fiscal analysis, budget analysis, and audits and performance reviews. She pointed out that the committee had broad powers which included reviews of revenue projections, state agency appropriation requests, expenditure of state funds, and the fiscal policies and procedures of state government. She shared that the committee could make recommendations concerning appropriations, expenditures, and fiscal policies to the governor and the state legislature. She listed the statutes to include AS 24.20.201 and AS 24.20.206. She stated that other sections of statutes presented the committee with oversight responsibilities, and often designated it as the primary representative of the legislative branch. She shared that the degree of power exercised had varied with the discretion of the committee chair.

CHAIR HAWKER noted that historic statute, as well as the current ongoing statutory responsibilities, lent itself to the various responsibilities listed in the aforementioned memo. He pointed out that these were guidelines for the direction of the committee over the next two years.

[9:24:13 AM](#)

CHAIR HAWKER explained that the performance reviews were a "significant, and increasing component of the work performed by the Legislative Auditors staff" and, as they were expensive, it was incumbent upon the committee to continue to evaluate, review, and determine that the cost benefit was appropriate.

[9:25:04 AM](#)

ROSS ALEXANDER, Performance Review Manager, Division of Legislative Audit, Alaska State Legislature, offered an overview of the process and the current status for these reviews. In 2013, House Bill 30 was passed which required that the Legislative Audit Division complete performance reviews of each state department at least once every ten years in a prescribed

order. He explained that the statutes governing the performance review provided a list of areas which the review team may evaluate, although each performance review had a unique scope which was developed by the division with input and final approval from the Legislative Budget and Audit Committee. Following approval of the scope, a competitive procurement to hire a contractor was conducted for each review. These contractors were selected based upon experience with the issues conducted by the agency under review, as well as knowledge regarding the performance review process. These reviews, although conducted by the contractor, were facilitated by the division with a systematic assessment for the appropriateness, effectiveness, and efficiency of the department, agency, or program. They were meant to provide information to improve performance, while assisting the Alaska State Legislature in the decision making process. He reported that the review team would seek to identify a list of programs supported by general funds that could be cut or reduced without affecting the ability of the department to fulfill its mission or reduce required services to the public. Once the contractors completed the field work, the finds and recommendations were compiled into a final report, which was presented to the committee for its ultimate release as a public document. He shared that the final report for the Department of Corrections had been released by the committee at the December 16, 2014, meeting. Currently, the review for Department of Health and Social Services was underway, and, given the size and scope of services, this review had been split into four parts, with contractors hired to review Behavioral Health Services, Long Term Care Services, and the departmental organization and administrative structure. He shared that the division would also analyze DHSS self-reported data. He estimated the final reports for DHSS to be completed in the fall of 2015, with the Department of Education and Early Development scheduled for the next performance review.

[9:27:58 AM](#)

CHAIR HAWKER, in response to Senator Hoffman, pointed to page 19 of the aforementioned committee handbook for a schedule of the remaining departmental reviews.

[9:28:21 AM](#)

VICE CHAIR MACKINNON reflected that, as the Department of Corrections had "been fairly non-responsive in actually cutting themselves" in response to its audit, there had been discussion

for a change to the language in the statute to allow expansion for the reception of vital information to the committee.

CHAIR HAWKER offered his belief that she had summarized one of the audit outcomes, the challenge for outside examiners in reviewing and securing the cooperation of the agency under review. He cited AS 44.66.020(C) which stated that the agency would provide the review team a list of programs, or elements of programs, which comprised at least 10 percent of the general funds in the agency's budget appropriated from the general fund which could be reduced or eliminated. He declared that the agencies were not cooperating, and he expressed agreement with Senator MacKinnon that this needed to be addressed by the committee in order to make the process work more effectively.

VICE CHAIR MACKINNON, in response, offered that it was "the language itself that actually hampered the contractor's ability to recommend other things to the legislature." She declared that this was a good bill, "especially with what Alaska's facing right now."

CHAIR HAWKER suggested a review to determine whether the language needed to be amended to accomplish the desired goals.

CONSULTANT CONTRACTS

[9:33:13 AM](#)

CHAIR HAWKER announced that the last order of business would be discussion for the ongoing and potential future consultant contracts, as the Legislative Budget and Audit Committee was generally delegated to procure these professional resources. He noted that the only oil and gas experts currently engaged were Janak Mayer and Nikolas Tsafos, and he offered his belief that, although they provided good advice to the State of Alaska, the committee needed to have the resources available, with "a full suite of professional skills," to address new issues. He suggested beginning a dialogue with the committee, and with public consideration, to assess what resources the legislature needs to anticipate upcoming gas pipeline development.

[9:35:29 AM](#)

SENATOR STEDMAN suggested that it would be beneficial to consider the history of consultants, as, in the past, there had been "quite a deep bench of consultants to draw from" which allowed the committee to better prepare itself for complex

upcoming issues and events. He pointed out that there had been a drift of consultants from the Legislative Budget and Audit Committee to the administration, and that, although "some would call it inadvertent, some would call it imbedded politics," this had created a tighter time frame for review of the issues. He suggested that earlier engagement of consultants would allow the committee to be better prepared for oil and gas subject matters, instead of wholly relying on the administration. He offered his belief that "clearly we need a broader bench" of almost overlapping consultants for discussions of oil and gas economics tied to the tax structure. He expressed his concern that the state legislature would not have sufficient consultants.

CHAIR HAWKER expressed his interest in working with Senator Stedman to bring recommendations to the committee, and he declared his agreement with the aforementioned concerns.

[9:39:24 AM](#)

REPRESENTATIVE KITO suggested the need for contract expertise.

CHAIR HAWKER clarified that he interpreted consultation to include legal expertise, and he expressed agreement that "it's a very different thing than economic analysis."

[9:39:57 AM](#)

CHAIR HAWKER directed attention to education consultants, stating that the passage of House Bill 278 in 2014 had charged the committee to conduct two procurements to obtain consultants for education issues. He explained that one consultant procurement would review the current funding formula in Alaska, and the other would review alternatives to the approach for funding. He reported that, as both of these procurements were underway, there was limited ability to further discuss this as there was a need for confidentiality. He shared that he would discuss the results as soon as allowed.

[9:40:56 AM](#)

CHAIR HAWKER, referencing the potential for Medicaid expansion, shared that he would work with leadership in both the house and the senate for agreement that the Legislative Budget and Audit Committee procure a consultant, available to leadership and the finance committee chairs, to explain the many complexities and consequences for this proposal. He said that this decision would be open to discussion.

9:42:37 AM

CHAIR HAWKER, referencing the protocols for accountable, responsible contract management, explained that the use of consultants by the legislature was done through the committee chair. He noted that a memo reiterating the process would be forthcoming.

9:44:22 AM

CHAIR HAWKER thanked the committee members for their dedication and commitment to the state, as there were serious challenges before the state and the committee would have an important role in guidance toward successful solutions.

9:44:48 AM

ADJOURNMENT

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 9:44 a.m.