

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

ANCHORAGE, ALASKA

December 7, 2015

1:32 p.m.

MEMBERS PRESENT

Representative Mike Hawker, Chair
Senator Anna MacKinnon, Vice Chair (via teleconference)
Representative Kurt Olson
Representative Lance Pruitt
Representative Steve Thompson (via teleconference)
Representative Sam Kito
Senator Lyman Hoffman (via teleconference)
Senator Click Bishop (via teleconference)

MEMBERS ABSENT

Senator Cathy Giessel
Senator Bert Stedman
Representative Mark Neuman (alternate)
Senator Pete Kelly (alternate)

COMMITTEE CALENDAR

REVISED PROGRAM - LEGISLATIVE (RPLs)
EXECUTIVE SESSION
IRIS AUDIT PROCUREMENT
RELEASE OF FINAL AUDIT REPORTS
RELEASE OF PERFORMANCE REVIEWS

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

HEIDI TESHNER, Director
Administrative Services
Department of Education and Early Development
Juneau, Alaska

POSITION STATEMENT: Presented RPL 05-6-0111, Child Nutrition Programs.

LACEY SANDERS, Fiscal Analyst
Legislative Finance Division

Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified regarding RPL 05-6-0111.

KRIS CURTIS, Legislative Auditor
Legislative Finance Division
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Explained the process after releasing the final performance review reports from the committee.

ROSS ALEXANDER
Legislative Audit Division
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Answered a question regarding the final performance review reports.

ACTION NARRATIVE

[1:32:59 PM](#)

CHAIR MIKE HAWKER called the Legislative Budget and Audit Committee meeting to order at 1:32 p.m. Representatives Kito Olson, Thompson, and Hawker, and Senators Bishop, Hoffman, and MacKinnon were present at the call to order. Representative Pruitt arrived as the meeting was in progress.

REVISED PROGRAM - LEGISLATIVE (RPLs)

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CHAIR HAWKER announced that the first order of business would be RPL 05-6-0111, Department of Education and Early Development, Child Nutrition Programs.

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HEIDI TESHNER, Director, Administrative Services, Department of Education and Early Development, advised that the Division of Teaching and Learning Support, Child Nutrition Programs (CNP) is requesting an increase of \$8.7 million in federal receipt authority in order to receive additional U.S. Department of Agriculture (USDA) grant funds. She noted that this request would bring the FY2016 Child Nutrition Program's total federal receipt authority to a little over \$61 million. She explained that these programs are fully federally funded and the spending

will provide support for the significant growth they have experienced, within its USDA Federal Nutrition Services Block Grant. The grant includes programs such as, the National School Lunch Program, Child and Adult Care Food Program (CACFP), Summer Food Service Program, and others. Without full authority, she further explained, the USDA Meals Program will be terminated or reduced which will impact school districts, child care centers, Head Start agencies, and the summer meal program. She said the major growth within school meals is directly attributed to a community eligibility program which provides free breakfast and lunch to all students of low-income schools. The schools in Alaska, as well as other states, have experienced an overall increased participation in meal programs when meals are free, and [find] that students are better prepared to receive their education "with food in their bellies." She expressed that this RPL requires no state funding as it is fully federally funded, and is requested because more students are eligible to participate. She noted that students do not have to participate.

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CHAIR HAWKER requested confirmation that this is additional federal money available to the State of Alaska without requiring any additional general fund investments or in-kind contributions.

MS. TESHNER answered, "That is correct."

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SENATOR BISHOP referred to page [3] of the RPL "Budgetary Issues," and asked for clarification that this is authorization for \$8.7 million for billable claims.

MS. TESHNER responded that the [amount] is based upon actual claims of actual meals served.

CHAIR HAWKER noted this is the second time the RPL has been before the committee because during the last meeting there was not sufficient votes to pass it. He said there was concern that this program would create a deepening of consideration of what would be a welfare class and would bring more people onto federally subsidized programs, thereby, creating increased reliance on them. He also noted constituents' concern that they do not want their children placed in increasing reliance upon federal government handouts. He asked for Ms. Teshner's

response and why the committee should create additional further reliance upon the federal government to run this program knowing that federal money is "always going to be challenged" and it may not be available in the future after creating the expectation that these programs provide.

MS. TESHNER replied that parents can determine whether or not their children participate in the program, and do not have to be singled into the low income category. She pointed out that students learn better when they've had a decent meal and not everyone has access to a decent meal. This allows all of those students to take advantage [of the program] that will assist them in learning, she pointed out.

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CHAIR HAWKER said he appreciates the clarity that parents are not required to participate, but from the state's perspective questioned whether it is a good thing for the committee to create increased reliance upon a federally subsidized program that likely will not be sustainable in the future. Thereby, he remarked, causing expectations by the families that these funds would be made up by the State of Alaska. He queried whether this is a good route to go.

MS. TESHNER answered "personally, yes," in that this is a fully federally funded program and if it is not approved, school districts would have to use state money to fulfill the backfill of not having the federal money to pay for the meals already served.

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CHAIR HAWKER surmised that the state is already obligated to pay general fund money for this program should the state not receive this money from the federal government.

MS. TESHNER responded, no. She offered that the programs would have to be seriously reduced or terminated because school districts could not afford to pay. In the event anything had already occurred, beyond the federal money they could receive, [school districts] would have to backfill with state funding.

CHAIR HAWKER surmised that this [funding] would curtail a proposed increase, which is a net zero, and noted that it does not make sense.

MS. TESHNER advised that if there is no federal funding authority to pay school districts for meals they have already disbursed to students, there is a chance they would either have to terminate the program during the school year, or would have to substantially reduce it to the federal authority they received, and "they would not have to subsidize that with state dollars." She related that it would affect the programs without the funding, but "we" will not come back for more state funding for the Child Nutrition Program itself.

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CHAIR HAWKER referred to Ms. Teshner's statement that "it is your opinion," and asked whether that is her opinion or the opinion of the agency and Governor Bill Walker's administration.

MS. TESHNER replied that it is the opinion of the agency and the administration.

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REPRESENTATIVE KITO commented that the state has federal funding opportunities available to help the state's disadvantaged students. He cautioned that the legislature should consider that the state is receiving \$300-\$400 million a year from the federal government for the state's federal highway transportation program, and is receiving approximately \$100 million from the Federal Aviation Administration for capital construction on the state's aviation program. He reminded the committee that the state receives a significant amount of federal money every year on the capital side as well as the operating side. The legislature, he pointed out, needs to be certain it has the ability to capitalize on the amount of federal funding the state can receive to help Alaska's residents. When discussing the possible loss of federal funds, it should not be forgotten that the state receives a significant amount of capital funds it could lose as well. He opined that legislators would not consider decreasing the state's federal fund receipts for aviation or highways and to keep that in mind when considering these other programs.

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REPRESENTATIVE OLSON asked whether they are giving the federal government artificially inflated numbers with regard to families that do not participate, and questioned whether the state has any liability for over-reporting.

MS. TESHNER advised that the state is not providing artificially inflated numbers to the USDA, as it bases its numbers on the average of the last two school years. While they will receive a set authorization from the federal government, they are only billed for what the state paid for actual claims, she explained.

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SENATOR BISHOP surmised that the increase is due to the population growth of school aged children in Anchorage, and noted it is reimbursable up to \$8.7, but there is nothing to say that the state will bill \$8.7 million.

MS. TESHNER responded that Senator Bishop is correct, in that they are asking up to \$8.7 million, but all of the authority may not be used as it is based upon actuals.

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LACEY SANDERS, Fiscal Analyst, Legislative Finance Division, Alaska State Legislature, stated that there are no general funds required and no additional staff is needed regarding RPL 05-6-0111. The Legislative Finance Division finds no technical issues, she advised.

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REPRESENTATIVE OLSON made a motion and asked unanimous consent that the committee approve RPL 05-6-0111, Department of Education and Early Development, Child Nutrition Programs for \$8,700,000 Federal Receipts, Fund Code 1002, as an operating budget item.

A roll call vote was taken. Representatives Kito, Olson, Thompson, Pruitt and Hawker, and Senators Bishop, Hoffman, and MacKinnon voted in favor of RPL 05-6-0111. Therefore, RPL 05-6-0111 was approved by the Legislative Budget & Audit Committee by a vote of 8 to 0.

EXECUTIVE SESSION

[1:50:55 PM](#)

CHAIR HAWKER announced the next order of business would be an executive session.

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REPRESENTATIVE OLSON moved and asked unanimous consent, that the Legislative Budget and Audit Committee enter executive session under Uniform Rule 22(b)(1) and (b)(3), as the meeting will involve a discussion of matters, that the immediate knowledge of, would adversely affect the finances of a government unit and under AS 24.20.301 for the discussion of confidential audit and performance review reports.

CHAIR HAWKER announced that seeing no objection, it was so ordered.

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The committee took an at-ease from 1:51 p.m. to 4:03 p.m.

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CHAIR HAWKER brought the committee back to order at 4:03 p.m. Representatives Kito, Olson, Thompson, and Hawker, and Senators Bishop, Hoffman and MacKinnon were present at the call to order.

IRIS AUDIT PROCUREMENT

[4:05:32 PM](#)

REPRESENTATIVE OLSON made a motion that the Legislative Budget and Audit Committee authorize the Legislative Auditor to award and enter into a contract for specialized information technology expertise to review the State's Integrated Resource Information System (IRIS) in an amount not to exceed \$400,000. There being no objection, it was so ordered.

FINAL AUDIT REPORTS

[4:06:18 PM](#)

REPRESENTATIVE OLSON made a motion that the following final audits be released to the public: Division of Alaska Pioneer Homes, and Big Game Commercial Services Board, Sunset. There being no objection, it was so ordered.

PERFORMANCE REVIEW REPORTS

[4:06:45 PM](#)

REPRESENTATIVE OLSON made a motion that the committee release the following final Department of Health and Social Services performance review reports to the public: Behavioral Health, Long-Term Care, and Administrative Structure.

CHAIR HAWKER emphasized, for clarity, that there are three separate physical reports.

CHAIR HAWKER objected and commented that these are significant performance reviews of a significant agency that are of a great deal of interest to many people. He noted there are some controversial findings in the report, and "a lot of meat to digest." He asked Kris Curtis, Legislative Auditor, to explain the process as the reports are released to be certain the information is available to legislators, the House and Senate Finance Committees, and the public at-large.

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KRIS CURTIS, Legislative Auditor, Legislative Finance Division, Alaska State Legislature, stated that subsequent to the committee's release, the full reports and summaries will be posted on the web site. However, she noted, the reports are full of findings and recommendations in that each report is over 200 pages. She encouraged all legislators to have their budget knowledgeable staff review these reports because there can certainly be other information in them of particular interest to specific legislators that may not be included within the summaries. She explained that the summaries will be posted on the web site to help guide people in reviewing the reports, and [the division] will prepare a summary of potential legislation that legislators may be interested in sponsoring that are suggested within the reports. These reports, she emphasized, are the opinion and product of the contractors hired by "us" and are independent, objective reviews by experts in the field. She said her expectation is that within the next day or two, emails with the above information will be directed to every legislator and co-chairs of the House and Senate Finance Committees.

MS. CURTIS, in response to Chair Hawker, advised that her office will send out a public press release regarding the availability of the audit. She offered that hard copies will be sent to the chairs of the House and Senate Finance Committees, chairs of the House and Senate Health and Social Services Committees, and chairs of the House and Senate Finance Committees' subcommittees for health and social services.

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CHAIR HAWKER asked that the very voluminous reports be posted on the web site with a reduced .pdf size.

MS. CURTIS advised they would also attempt to include links within the summaries allowing people to drill down into the voluminous reports more efficiently.

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SENATOR MACKINNON asked Ms. Curtis how in depth documentation was performed with regard to Medicaid waivers for 1915(i) and (k), and whether the reports highlight the state's options or potential risks on the waivers.

CHAIR HAWKER advised Senator MacKinnon that Ms. Curtis is not qualified to respond.

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MS. CURTIS advised that the reports are not public at this point and she must wait until they are released before addressing their content.

CHAIR HAWKER asked Senator MacKinnon to withdraw her question until the vote was concluded.

SENATOR MACKINNON agreed.

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CHAIR HAWKER advised that the question before committee is the release of the Department of Health and Social Services performance review reports selectively identified for the Behavioral Health Division, Long-Term Care Activities, and Administrative Structure of the agency. There being no objection, it was so ordered.

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SENATOR MACKINNON pointed to Ross Alexander, Legislative Audit Division, and the Medicaid waivers 1915(i) and (k), and advised she has knowledge as to what 1915(i) and (k) obligates the state to do. She asked Mr. Alexander whether the report currently released contains any of the negative consequences or accurately

reflects a comparison of the state's potential risks for those two waiver programs.

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ROSS ALEXANDER, Legislative Audit Division, Alaska State Legislature, advised that the reports themselves do not go in depth into risk. They do include a disclaimer; however, that the reports themselves are providing a recommendation on how the state can shift costs to the federal government and collaborate with the federal government on ways to lower state expenditures. He offered that the reports recognize that in order to move forward on any of the recommendations, the state will need to seriously consider the risks. Although, he remarked, they do not go in depth into the risks themselves, they do not make a blanket "this is a good idea" on moving forward on any of the options or waivers without further study.

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SENATOR MACKINNON inquired whether it is true the Department of Health and Social Services did not comply with the request to show the committee a ten percent reduction anywhere.

MR. ALEXANDER responded that she is correct, in that the proposed list of reductions put forth by the department is a list of totally and approximately 4.5 percent of its general fund budget. He explained that it is part of Governor Bill Walker's amended budget put out last year. Therefore, he responded, it is not in full compliance with the requirements of the statute.

SENATOR MACKINNON commented to the committee that the committee has gone through two audit cycles, with two different departments, and it has not received the results the committee had hoped for under passage of the bill. She said she wondered whether the committee should have a discussion on the efforts, as it moves forward, and investing "this much money" to understand what the department is doing, and having departments refuse to comply with Alaska State Statute.

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CHAIR HAWKER noted that Senator MacKinnon echoed his sentiments exactly. He asked whether there were any other committee concerns for the good of the order. Hearing and seeing none he thanked the committee members for their attendance.

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ADJOURNMENT

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 4:17 p.m.