

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

May 15, 2019

7:00 a.m.

MEMBERS PRESENT

Representative Chris Tuck, Chair
Representative Andy Josephson
Representative Ivy Spohnholz

Senator Click Bishop, Vice Chair
Senator Bert Stedman
Senator Natasha von Imhof
Senator Cathy Giessel

MEMBERS ABSENT

Representative Neal Foster
Representative Mark Neuman
Representative Jennifer Johnston (alternate)

Senator Lyman Hoffman
Senator Peter Micciche (alternate)

OTHER LEGISLATORS PRESENT

Senator Tom Begich

COMMITTEE CALENDAR

APPROVAL OF MINUTES

AGENDA UPDATE

LEGISLATIVE AUDIT STORAGE AREA PROCUREMENT

FY18 STATEWIDE SINGLE AUDIT

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

KRIS CURTIS, Legislative Auditor
Legislative Audit Division
Legislative Agencies and Offices
Juneau, Alaska

POSITION STATEMENT: Provided information and answered questions on the procurement request and the FY18 Statewide Single Audit.

ACTION NARRATIVE

[7:00:42 AM](#)

CHAIR CHRIS TUCK called the Legislative Budget and Audit Committee meeting to order at 7:00 a.m. Representatives Tuck and Josephson and Senators Bishop, von Imhof, Stedman, and Giessel were present at the call to order. Representative Spohnholz arrived as the meeting was in progress. Also in attendance was Senator Begich.

Approval of minutes

[7:01:11 AM](#)

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

[7:01:22 AM](#)

SENATOR BISHOP made a motion to approve the minutes of May 10, 2019. There being no objection, the minutes from the meeting of May 10, 2019 were approved.

Agenda Update

[7:01:48 AM](#)

CHAIR TUCK announced that the next order of business would be an update to changes on the agenda. He explained that the committee would first take up the Legislative Audit Storage Area Procurement and then release the Statewide Single Audit for FY 18 with any discussion afterward.

Legislative Audit Storage Area Procurement

[7:02:04 AM](#)

KRIS CURTIS, Legislative Auditor, Legislative Audit Division, Legislative Agencies and Offices, referenced the memo [Included in members' packets] which explained the need for a storage area network (SAN). She relayed that, although a SAN had already been purchased in April within her procurement authority for \$34,000, it did not work. She noted that her division was

working with the company to fix this, but, in the event it could not be fixed, it would be necessary to return the SAN and receive a refund. In that case, the next lowest bid for a SAN was for about \$40,000, which was more than her procurement authority. She requested authority for the purchase of this next lowest bid, adding that she had received a bid yesterday for \$41,000.

[7:03:22 AM](#)

SENATOR BISHOP moved and asked unanimous consent that the Legislative Budget and Audit Committee authorize the Legislative Auditor to procure a storage area network at a cost not to exceed \$41,000. There being no objection, it was so ordered.

FY18 Statewide Single Audit

[7:03:39 AM](#)

CHAIR TUCK announced that the next order of business would be a review of the FY18 Statewide Single Audit.

[7:03:51 AM](#)

MS. CURTIS, in response to Chair Tuck, explained that the Statewide Single Audit was an annual project required to receive federal financial assistance. She noted that there were two main objectives to the report: first, to determine whether the State's financial statements were fairly presented; and second, to determine whether state agencies were complying with the various federal laws and regulations in the administration of various federal programs. She pointed out that the audit was a very large document, with four main sections, each identified by roman numerals at the bottom of the page.

MS. CURTIS directed attention to the first section, Roman Numeral One, which contained the state's financial statements, the notes to those statements, and the Division of Legislative Audit opinion on the financial statements. She pointed out that the state had received unmodified opinion on all the opinion units, meaning these were free from material misstatement, except for the general fund, which received a qualified opinion.

[7:05:36 AM](#)

SENATOR BISHOP moved and asked unanimous consent that the State of Alaska Single Audit for the Fiscal Year ended June 30, 2018

be released as the final public report. There being no objection, it was so ordered.

7:05:58 AM

MS. CURTIS moved on to the second section, identified as Roman Numeral II on the bottom of the page. This section contained the findings and recommendations to the individual state departments. The third section, Roman Numeral III, included the auditors report on federal compliance and internal controls over financial reporting and federal compliance. She added that this section also included the state schedule of federal awards. She directed attention to III-11, the Schedule of Federal Awards, which included all the federal financial assistance received during Fiscal Year (FY) 18, approximately \$4.3 billion. She noted that this information was an appendix at the back of the audit.

MS. CURTIS directed attention to Section IV, the corrective action plans by each department in response to the findings. She added that the members each had a hard copy matrix of the findings which allowed members to "drill down to all the details, you can sort it by department, by type of finding, to help you really dig down into those findings."

MS. CURTIS moved on to Roman Numeral II-3, which was a summary of the findings at the beginning of Section II, and included a summary of the findings between financial, federal compliance, and state compliance. She noted that it also showed the internal control findings between material weaknesses and significant deficiencies. She stated that there were 74 findings in FY 18. As perspective, in FY 15, there had been 44 findings which was considered a high year. She explained that most of the increase was from the area for federal financial reporting, as there were 27 financial recommendations in FY 18. She explained that, as the audit was done in accordance with federal rules for what had to be reported, the federal findings were less informative for the Legislative Budget and Audit Committee so the focus would be for the financial findings. She directed attention to page II-3 of the matrix, and shared that there were 4 material weaknesses and 23 significant deficiencies in internal controls related to financial reporting. She noted that most of these were in the Department of Administration and the Department of Transportation & Public Facilities. She said that she would focus on the financial findings that significantly impacted the audit process as they were time

consuming or resulted in a qualified opinion on the financial statements.

MS. CURTIS directed attention to the Department of Administration, which had 11 financial findings, on page II-10. She stated that she would highlight four of them. The first, Finding #1 on page II-10, discussed errors in reporting the financial activity of the Constitutional Budget Reserve (CBR), and she noted that there had been a similar finding in FY 16 and FY 17. She explained that the Division of Finance had made numerous errors in the calculation for the draw from the CBR to the general fund, which misstated the draw by over \$300 million. She stated that these errors were caused by inadequate procedures. She shared Finding #6 on page II-14 addressing revenue classification errors, which, in accordance with generally accepted accounting principles, required they be reported by classification. She noted that, since the new accounting system, the Division of Finance had struggled to report revenues in accordance with the generally accepted accounting principles. She stated that it was very time consuming to fix these problems, with the errors totaling more than \$110 million. She clarified that these errors had all been corrected.

MS. CURTIS discussed Finding #7 on page II-15, identifying and correcting capital assets errors. She said that this was very time consuming and noted that there had been similar errors in FY 16 and FY 17. The errors had been compounded in FY 18 when state agencies began inputting the capital asset information into the state accounting system. Prior to FY 18, capital assets and depreciation were tracked via manual spreadsheets. She explained that the problem happened when the information was input into the state accounting system with no reconciliation done to ensure that all the information on the legacy spreadsheet was input into the state accounting system accurately. She stated that not all the information had been input accurately. She added that there had also been problems with the footnote disclosures. She declared that this was very time consuming to correct and directed attention to the total amount of the errors listed on page II-16.

MS. CURTIS discussed the late OPEB (Other Post Employment Employee Benefits) schedules and directed attention to Finding #11 on page II-20. She reported that this discussed the failure of the Division of Retirements and Benefits to issue audited schedules of employer and non-employer OPEB allocations for the Public Employees Retirement System and the Teachers Retirement

System. During FY 18, the State implemented Governmental Accounting Standards Board statement number 75 that required specific OPEB information be reported in the pension plans and the plan participants' financial statements. The OPEB information had to be first compiled into allocation schedules and then audited by the plan auditors. Once the audited OPEB schedules were available, the information could be disseminated to all the plan participants. She stated that this did not happen timely, and that delayed issuance of the OPEB allocation schedules resulted in a delayed issuance of audited financial statements for the pension plans, as well as the school districts, local governments, state entities and the State itself.

[7:12:52 AM](#)

MS. CURTIS moved on to page II-28 and Finding #15 for the Department of Revenue, the first of three financial findings. This was a material weakness in internal controls which led to a qualified opinion on the general fund. Revenues eligible for transfer to the Constitutional Budget Reserve Fund (CBRF) were not transferred during FY 18, and revenues which should have remained in the CBRF were moved to the general fund. This finding had to do with a disagreement regarding whether Federal Energy Regulatory Commission (FERC) related tax revenues should be deposited into the CBRF. The attorney general argued that the monies belonged in the general fund while her legal analysis concluded that the monies belonged in the CBRF. She directed attention to the Effect paragraph on page II-29, which listed the amounts specific to the Department of Revenue which she had determined to be misstatements to the FY 18 financial statement. She reported that the total understatement in the CBRF balance was \$1.04 billion. She noted that \$34.9 million of FERC related revenues were offset to tax credits during FY 18.

[7:14:05 AM](#)

MS. CURTIS stated that most of the Department of Health and Social Services findings were federal compliance related, which she would address later. She directed attention to page II-62, Finding #37, a shortfall finding which meant that an agency did not collect all the revenue budgeted resulting in overspent general funds. She reported that the department had seven potential shortfalls in FY 18, with the largest being the Medicaid Management information system for just over \$3.5 million for budget year 2002, and more than \$200,000 for budget year 2007. These shortfalls were due to the federal oversight

agency disallowing the expenditures that were claimed beyond the period of performance. She noted that Department of Health and Social Services management had asserted that claims were delayed due to litigation with the contractor.

[7:15:03 AM](#)

MS. CURTIS directed attention to the three potential shortfall findings on page II-86 for the Department of Military & Veterans' Affairs, the largest being about \$126,000. According to management, the shortfall was caused by problems recording revenues during the conversion to the new accounting system.

[7:15:21 AM](#)

MS. CURTIS moved on to the four financial findings for the Department of Natural Resources (DNR), two of which led to qualifications to the opinion. She directed attention to page II-90, Finding #53, which stated that DNR did not transfer to the Alaska Permanent Fund all dedicated mineral lease revenues received during FY 18. She reminded the committee that, as she had gone into detail during the last meeting, she would just direct their attention to the effect paragraph on the next page, II-91, which showed that the error for FY 18 was \$99.8 million.

MS. CURTIS reported that Finding #54, page II-92, was DNR's finding related to the FERC related receipts and the deposit into the CBRF. She reported that the effect paragraph on page II-93 showed that the DNR related impact for this issue was \$287.9 million. She stated that the financial opinion was qualified due to Findings #53 and #54. She directed attention to the DNR shortfall on page II-105, Finding #63. The department had four appropriations in shortfall, the largest being \$459,000. The management had stated that the shortfall had been caused by the incorrect recording of cash related to reimbursable service agreements and not monitoring shortfalls due to staff turnover.

[7:16:56 AM](#)

MS. CURTIS pointed to page II-120, Finding #67, which explained that the Department of Transportation & Public Facilities had continued to struggle to record expenditures during the re-appropriation period to the correct fiscal year. She noted that there was a similar finding in FY 15, FY 16, and FY 17. She added that the department had implemented training and monitoring procedures during FY 18, but, although strides had

been made to correct this error, the training and monitoring did not address capital project invoices. She moved on to Finding #69, page II-122, which identified numerous errors related to capital assets which were listed on page 122. She listed a lack of training, oversight, and effective procedures as the cause for errors. She pointed out that the effect of the errors was shown at the bottom of pages II-123 and 124, reporting that the auditors had spent months testing the capital assets and helping correct the errors. She shared Finding #73, page II-127, which reported on the department's shortfall finding. There were three shortfalls for FY 18, the largest for approximately \$1.5 million, a result of incorrectly calculating the unexpended and unobligated balance of the appropriations which were carried forward to FY 19. The Department of Transportation & Public Facilities management had stated that staff turnover and a lack of monitoring procedures had contributed to the shortfall.

7:18:56 AM

MS. CURTIS reported that the final financial finding, Finding #74, page II-132, was related to the Alaska Permanent Fund Corporation not collecting all the statutorily dedicated revenues during FY 18 related to the permanent fund. She said this was the same issue as discussed with the Department of Natural Resources findings, an impact of \$99.8 million.

7:19:17 AM

MS. CURTIS directed attention to page II-3, a summary of the findings for the Federal Compliance Regulations. She explained that federal programs were audited as directed by the federal OMB, with specific requirements to report any questionable costs over \$25,000. She reported that there was material non-compliance, resulting in the need to audit again next year, with four major federal programs. She added that material non-compliance also impacted required coverage for an audit, as the state was no longer considered a low risk auditee.

MS. CURTIS directed attention to Page III-5 for the opinion on federal compliance, and Page III-6 for a description on the basis of a qualified opinion. The first program of material noncompliance was with the United States Forest Service fire suppression program, as timesheet testing found a high degree of noncompliance, resulting in \$163,000 of questioned costs. She explained that these were federal agency reimbursements for costs that did not meet the federal requirements and may have to

be repaid. She added that her division had identified incorrect coding of costs for \$45,000.

7:21:11 AM

MS. CURTIS shared that the Bureau of Land Management Fire Suppression program was the second program with material noncompliance, as well as errors with timesheet testing, resulting in questioned costs of \$111,000.

MS. CURTIS reported that the third program with material noncompliance was with the 1332 State Innovation Waivers program. This referred to Section 1332 of the Patient Protection and Affordable Care Act which permitted the state to apply for a State Innovation Waiver to pursue innovative strategies for providing residents with access to health insurance. She stated that Alaska had applied for and received a waiver to implement a high-risk pool reinsurance program, the Alaska Reinsurance Program, and that material noncompliance with this program had been found in federal procurement, suspension and debarment requirements, and subrecipient monitoring requirements. She opined that the Division of Insurance was not used to dealing with these federal requirements, and that this could be more easily addressed in the future.

7:22:22 AM

MS. CURTIS described the fourth program of material noncompliance, the Temporary Assistance for Needy Families (TANF) program. She reported that there was material noncompliance with the federal eligibility and special income verification requirements. She noted that 10 percent of the 40 applications tested had not been processed within the 30-day requirement, and 53 percent of the applications tested lacked documentation that the agency had verified eligibility using the electronic verification system. She added that eight eligibility determination errors had also been found. She reiterated that material noncompliance meant that the program must be audited in the next year. She stated that this concluded "the very fast overview of this very large document." She noted that there could be a lot more discussion on these findings. She reported that this audit was late, as it was due by March 31. She listed three main reasons for being late: the State's financial audit opinion was issued late; there were 74 findings which had to be first put into a management letter sent to an agency, with a 10-day response period; and finally, as the outside auditor for the Department of Health and Social Services

had found material noncompliance that impacted six major federal programs, all of those programs had to be audited again this year.

7:24:31 AM

SENATOR VON IMHOF asked if there were any repeat patterns. She stated that, although it was "one thing to be able to identify audit issues in your audit," the more important step was to plan for improvement. She asked for suggestions to reduce the noncompliance when the committee meets with the departments.

7:25:56 AM

MS. CURTIS explained that, with implementation of the new accounting system, all the historical ideas for how things progressed, "were just thrown out the window cause we're just entering a new age with the new accounting system." She reported that her first 20 years with auditing had been using the legacy system and there had been stability in personnel. She declared "that has totally changed." She reported a 50 percent turnover in the Division of Finance, noting that this division was responsible for creating the financial statements. She declared that this was "extremely detrimental." She reported a high level of turnover in the agencies, especially with the program people, resulting in constant recruitment and training. She pointed out that this was evident on the audits with the high levels of findings. She offered her belief that this was due to the turnover at the agencies and the new accounting system. She opined that the new accounting system was starting "to settle out, they're starting to get those new processes documented, they're starting to be able to handle the change." She directed attention to the Summary of Prior Audit Findings and explained that this was a mechanism to review whether things had been corrected. She added that the new administration was giving more attention to the audit findings and attention to correction of problems, while reflecting on whether this would continue. She expressed her agreement that there could be efficient discussion with each department for the current status during the House and Senate Finance Committee sub-committee process. She noted that timing was an issue, as her division was conducting its work during the finance sub-committee process and there could not be discussion within the audit until it was a public document. She allowed that status of findings could be addressed during the interim.

7:29:16 AM

SENATOR BISHOP expressed his concern for "leaving cash on the table." He stated, "we're fighting over pennies in the capital budget and I'm looking here at several million dollars that it appears we've left on the table that we didn't have to leave."

7:30:00 AM

CHAIR TUCK offered his belief that the budget sub-committee chairs needed to be aware of the deficiencies in each department so to hold the departments accountable.

7:30:58 AM

ADJOURNMENT

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 7:31 a.m.