

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

Anchorage, Alaska

November 8, 2023

9:05 a.m.

MEMBERS PRESENT

Representative Ben Carpenter, Chair
Senator Bert Stedman, Vice Chair
Representative DeLena Johnson
Representative Sarah Vance
Representative Frank Tomaszewski
Representative Andy Josephson
Senator Bill Wielechowski
Senator James Kaufman
Senator Scott Kawasaki
Senator Click Bishop (alternate)

MEMBERS ABSENT

Senator Lyman Hoffman
Representative Mike Cronk (alternate)

OTHER LEGISLATORS PRESENT

Senator Jesse Kiehl

COMMITTEE CALENDAR

APPROVAL OF MINUTES
TOP AUDIT ISSUES PRESENTATION
EXECUTIVE SESSION
ALASKA BROADBAND OFFICE UPDATE

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

KRIS CURTIS, Legislative Auditor
Division of Legislative Audit
Legislative Agencies and Offices
Anchorage, Alaska

POSITION STATEMENT: Presented a PowerPoint, titled "LB&A Oversight Top Audit Issues."

THOMAS LOCHNER, Director
Alaska Broadband Office
Department of Commerce, Community & Economic Development
Anchorage, Alaska

POSITION STATEMENT: Presented a PowerPoint, titled "Broadband Equity, Access, & Development."

ACTION NARRATIVE

[9:05:25 AM](#)

CHAIR BEN CARPENTER called the Legislative Budget and Audit Committee meeting to order at 9:05 a.m. Representatives D. Johnson (via teleconference), Vance, Tomaszewski, Josephson, and Carpenter and Senators Wielechowski (via teleconference), Kaufman, Kawasaki (via teleconference), and Stedman (via teleconference) were present at the call to order. Senator Bishop (alternate, via teleconference) arrived as the meeting was in progress. Also present was Senator Kiehl (via teleconference).

Approval of Minutes

[9:07:11 AM](#)

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

[9:07:17 AM](#)

REPRESENTATIVE VANCE moved that the Legislative Budget and Audit Committee approve the minutes for the August 30, 2023, meeting, as presented. There being no objection, the minutes were approved.

Top Audit Issues Presentation

[9:07:46 AM](#)

CHAIR CARPENTER announced that the next order of business would be a presentation on the top audit issues from the prior fiscal year.

[9:08:02 AM](#)

KRIS CURTIS, Legislative Auditor, Division of Legislative Audit, Legislative Agencies and Offices, presented a PowerPoint, titled "LB&A Oversight Top Audit Issues," dated 11/8/23 [hard copy included in the committee packet]. She explained that a few years ago, the committee adopted a new oversight process to encourage the resolution of audit findings. She summarized the oversight process on slide 2, which read as follows [original punctuation provided]:

Focus

Identify top audit findings in terms of fiscal or societal impact and degree of difficulty in addressing findings

Communicate

Work with Auditees to identify corrective action for top audit findings

Evaluate

Determine whether legislative action is necessary. Refer to legislative committee for consideration.

Measure

Examine progress through legislative finance committees or other legislative committees as relevant

Repeat

Once the Single Audit is released - repeat. Process covers all reports issued over a fiscal year.

MS. CURTIS provided an overview of the top audit issues for the previous fiscal year, beginning with the disclaimer of opinion on international airports on slide 3, which read as follows [original punctuation provided]:

1. Disclaimer of Opinion International Airports
Issues That Led to Disclaimed Audit Opinion

During FY 22, Alaska International Airport System's (AIAS) controller retired and other key staff resigned. Department of Transportation and Public Facilities management decided to contract out AIAS's accounting function. A controller was hired to oversee the contractor; however, the controller was not a CPA.

AIAS was unable to produce financial statements for audit in a timely manner. As of the date of the

State's financial statement opinion, AIAS's audit had not begun. Consequently, Legislative Audit was unable to obtain sufficient appropriate evidence regarding the financial information included in the State's financial statements.

[9:10:18 AM](#)

MS. CURTIS outlined the second audit issue on slide 4 related to various errors found in draft statements, which read as follows [original punctuation provided]:

2. Financial Statement Errors
Significant Errors in Draft Statements

There continued to be significant errors and repeat findings related to the draft financial statements. The Division of Finance is understaffed in terms of resources and training. Department accounting staff suffer from routine turnover and lack of experience.

[9:11:16 AM](#)

MS. CURTIS discussed the third audit issue on slide 5, covering the findings related to federal programs administered by the Division of Public Assistance within the Department of Health (DOH), which read as follows [original punctuation provided]:

3. Division of Public Assistance Federal Program Findings

Division struggling with staffing shortages, lack of staff experience, poor training, and lack of adequate internal controls.

Material noncompliance with federal laws and material weaknesses in internal controls over the following federal programs:

- Medicaid/CHIP
- Low Income Heating Assistance Program
- SNAP (Food Stamps)
- Temporary Assistance for Needy Families

[9:12:47 AM](#)

MS. CURTIS advanced to the fourth audit issue on slide 6, related to the new Medicaid behavioral health system, which read as follows [original punctuation provided]:

4. Medicaid Behavioral Health

Significant Errors with New Behavioral Health System and With Provider Screening

Provider-related system edits and checks were not in place during FY 22 and the new system had system logic flaws. These deficiencies resulted in incorrect and ineligible providers being paid, as well as providers being paid for ineligible services and at incorrect amounts.

Due to an unknown cause, Medicaid eligibility information was not interfacing correctly into the new behavioral health claim processing system. This led to expenditures being claimed at wrong rates. There is also a risk that ineligible people received benefits and eligible people did not receive benefits.

Certain behavioral health providers were not screened and enrolled in accordance with federal eligibility requirements.

[9:13:47 AM](#)

MS. CURTIS reviewed the fifth audit issue on slide 7, concerning appropriation shortfalls, which she defined as the overspending of a department's general fund authorization. Slide 7 read as follows [original punctuation provided]:

5. Shortfalls Increasing

Potential shortfalls identified in 9 departments

Staff shortages, turnover, and competing priorities resulted in a high number of potential shortfall recommendations.

Agency staff did not address the potential shortfalls in a timely manner.

[9:14:58 AM](#)

MS. CURTIS discussed the sixth audit issue on slide 8, related to a performance audit on Department of Commerce, Community & Economic Development's (DCCED's) COVID Small Business Relief Program, which read as follows [original punctuation provided]:

6. COVID Small Business Relief Program
2022 Audit Made Two Recommendations

1. Department of Commerce, Community, and Economic Development's commissioner should work toward recovering the unallowable grant payments identified in this audit.
2. Alaska Industrial Development and Export Authority's executive director should ensure the chief procurement officer follows procurement procedures and adequate documentation is maintained.

[9:15:30 AM](#)

MS. CURTIS summarized the final top audit issue on slide 9, which read as follows [original punctuation provided]:

7. Alaska State Commission for Human Rights
2022 Audit Made One Recommendation

1. Alaska State Commission for Human Rights' executive director should adopt written policies and procedures to guide the complaint resolution process, establish timelines to encourage timely resolution, and continue efforts to fill vacancies.

MS. CURTIS detailed next steps in the process on slide 10, which read as follows [original punctuation provided]:

Legislative Auditor sends letters on behalf of the LB&A Committee to the auditees asking for the status of corrective action. A summary of the responses will be presented at the December LB&A meeting. For those audit findings that warrant consideration by other legislative committees, the findings may be forwarded to the appropriate committees for consideration during the 2024 legislative session.

[9:16:29 AM](#)

CHAIR CARPENTER sought questions from committee members.

[9:16:40 AM](#)

SENATOR STEDMAN recalled that there was quite a bit of COVID money received by people who didn't qualify for it. He asked

whether the division had showed interest in dealing with that situation; further, he asked how the legislature should address it.

MS. CURTIS said the Department of Law (DOL) contacted the division to request additional details; however, she was unsure what happened after that point. She said [the oversight process] would help discern the status of that corrective action.

SENATOR STEDMAN shared his belief that it would be better to address it in the Legislative Budget and Audit Committee rather than through the legislative process.

[9:17:48 AM](#)

CHAIR CARPENTER questioned whether there was any indication from federal agencies that state COVID monies would be audited.

MS. CURTIS said state auditors participated in the [Pandemic Response Accountability Committee (PRAC)] with a compilation of 15 Office of the Inspector Generals (OIGs) from federal oversight agencies. She explained that monthly meetings were held to discuss oversight of the monies and the federal agencies' audit processes. She noted that at the beginning of the process, there was a desk review that included Alaska; however, a report had not been published since.

[9:19:23 AM](#)

REPRESENTATIVE VANCE referenced staffing and recruitment issues within state agencies and asked whether state auditors were getting a measure of the effort made by each department to fill those positions.

MS. CURTIS answered no. She said it was up to the agencies to determine the cause of those findings; however, as long as the causes seemed reasonable, no additional audit effort was put forth to take it a step further. She cited a lack of experience and inadequate procedures as contributing factors.

CHAIR CARPENTER asked whether agencies typically followed up with legislative auditors when they acted on the findings.

MS. CURTIS answered yes, by default. She explained that state auditors were required to audit an agency's status, as provided in the schedule of prior audit findings. If the auditors

inquired about corrective action, the agency was required to disclose whether they planned to take corrective action and provide a contact person. The auditors would then determine whether that corrective action was reasonable.

[9:22:18 AM](#)

CHAIR CARPENTER asked whether outside the schedule of audit findings, there was a formal process for the administration to follow up with the state auditor.

MS. CURTIS answered no. She explained that the reason for the new oversight process was to encourage agencies to follow up. She noted that there was a mechanism in place for statewide audits, but not for performance audits.

CHAIR CARPENTER sought to clarify who had the responsibility of following up.

MS. CURTIS said the audit team had the responsibility of following up and resolving findings.

CHAIR CARPENTER asked whether the legislature, through the committee process, had the responsibility of following up on audit findings.

MS. CURTIS shared her belief that the question posed by Chair Carpenter was policy based. She said she was unsure whether there was a legal responsibility [for the legislature to follow up on audit findings].

CHAIR CARPENTER highlighted the distinction between something that is required, versus something that is good practice.

MS. CURTIS agreed.

[9:24:34 AM](#)

SENATOR KAUFMAN shared his understanding that in discussions around funding each budget cycle, the intent was to have a deeper conversation about performance improvements on key issues. He posited that there was a legislative responsibility to ensure that "good money" was being put forward after good effort.

Executive Session

[9:25:26 AM](#)

CHAIR CARPENTER announced that the next order of business would be executive session.

[9:25:58 AM](#)

The committee took an at-ease from 9:25 a.m. to 9:32 p.m.

[9:32:47 AM](#)

REPRESENTATIVE VANCE moved that the Legislative Budget and Audit Committee go into executive session under Uniform Rule 22(b)(3) for the discussion of matters that may, by law, be required to be confidential. She asked that the following persons remain in the room or online: The legislative auditor and, if necessary, staff for the auditor; Megan Wallace, legislative legal counsel, and necessary staff; Kevin Cuddy, attorney for Stoel Rives; any legislators not on the committee; and staff of legislators on the committee. There being no objection, it was so ordered.

[9:35:56 AM](#)

The committee took an at-ease from 9:35 a.m. to 10:45 a.m. for the purpose of executive session.

[10:45:46 AM](#)

CHAIR CARPENTER called the Legislative Budget and Audit Committee back to order at 10:45 p.m. Present at the call back to order were Representatives D. Johnson (via teleconference), Vance, Tomaszewski, Josephson, and Carpenter and Senators Wielechowski (via teleconference), Kaufman, Kawasaki (via teleconference), and Bishop (alternate, via teleconference).

[10:47:32 AM](#)

REPRESENTATIVE VANCE moved that the Legislative Budget and Audit Committee approve an amendment to the existing contract with Stoel Rives, dated June 6, 2023, to increase the contract amount by \$100,000 for a total amount not to exceed \$300,000, for legal services, litigation and appeal costs in the ongoing matter Legislative Budget and Audit Committee v. Dunleavy, et. al, Case Nos. S-18904 and 3AN-22-09637 CI, relating to the deposit of certain state taxes and royalties resulting from Federal Energy Regulatory Commission (FERC) decisions into the general fund. There being no objection, it was so ordered.

[10:48:33 AM](#)

REPRESENTATIVE VANCE moved that the Legislative Budget and Audit Committee release the audit on spending on contracts related to Janus, Department of Law, as a final public audit report. There being no objection, it was so ordered.

Alaska Broadband Office Update

[10:49:10 AM](#)

CHAIR CARPENTER announced that the final order of business would be a presentation from the Alaska Broadband Office.

[10:49:34 AM](#)

The committee took an at-ease from 10:49 a.m. to 10:51 a.m.

[10:51:06 AM](#)

THOMAS LOCHNER, Director, Alaska Broadband Office (ABO), Department of Commerce, Community & Economic Development (DCCED), presented a PowerPoint, titled "Broadband Equity, Access, & Development," dated 11/8/23 [hard copy included in the committee packet]. He discussed Alaska's allocation on slide 2, totaling \$1 billion to build broadband across the state. He reported that in terms of the disbursement of that allocation, the priority of the ABO was to ensure that unserved communities received 100Mbps/20Mbps by the end of the program. He added that the charter would be achieved through grants. He described various Federal Communications Commission (FCC) broadband maps in the communities of Nenana and Mountain Village on slides 3-10.

[10:57:25 AM](#)

MR. LOCHNER continued to describe FCC broadband maps of "Patsy's Cabin," Anchorage, Fairbanks, and the Upper Kenai Peninsula on slides 11-17. He discussed the Broadband Equity, Access, and Development (BEAD) milestone dates and ABO timeline on slide 18, noting that the initial proposal would be reviewed by leadership and public comment [by 12/27/23]. The initial proposal would then be filed with the National Telecommunications and Information Administration (NTIA) for approval, followed by a "final proposal" period of 365 days, during which time the grant

opportunities would be put to the public for bid and money would be distributed.

CHAIR CARPENTER sought questions from committee members.

[11:01:59 AM](#)

REPRESENTATIVE TOMASZEWSKI inquired about the second priority outlined on slide 2.

MR. LOCHNER reiterated that that goal was to get the unserved and underserved to 100Mbps/20Mbps.

REPRESENTATIVE TOMASZEWSKI asked where the 25 percent funding match was coming from.

MR. LOCHNER clarified that matches would come from the subgrantees.

[11:03:20 AM](#)

CHAIR CARPENTER asked whether Congress had already appropriated the funding.

MR. LOCHNER answered yes.

CHAIR CARPENTER recalled that Mr. Lochner had stated that Tribes may be the recipients of state grants. He asked under what circumstances Tribes would receive money from both the state and federal government.

MR. LOCHNER said a robust set of conversations was happening between the ABO and federal entities, such as the NTIA and the U.S. Department of Agriculture (USDA), to avoid the double funding of projects.

[11:05:53 AM](#)

CHAIR CARPENTER asked whether the state had an obligation to fund broadband services in unserved communities wherein Tribes were appropriating their own money.

MR. LOCHNER responded that the ABO may not have visibility into scenarios where funding from the federal government was not specific to broadband; consequently, if the community was still shown as unserved, the ABO would still fund that area to bring the location to a "served" status.

[11:07:53 AM](#)

REPRESENTATIVE VANCE asked whether any of the \$1 billion allocation was being used for satellite services.

MR. LOCHNER explained that the ABO had a charter through the notice of funding opportunity that had preference and priority for fiber. In the extremely high-cost location of Patsy's Cabin, he said, there were 25,000. He characterized the broadband office as "technology agnostic," explaining that the focus was getting broadband serviceable locations to 100Mbps/20Mbps for the next 10-20 years through whatever technology could sustain it. He added "Satellite is in," but it must follow through the grant program like all the other technologies.

[11:09:52 AM](#)

ADJOURNMENT

There being no further business before the committee, the Legislative Budget and Audit Committee was adjourned at 11:09 p.m.