

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

October 24, 2024
Anchorage, Alaska
9:05 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Senator Bert Stedman, Vice Chair
Senator Bill Wielechowski
Senator Lyman Hoffman
Representative Mike Cronk (alternate)

OTHER LEGISLATORS PRESENT

Senator David Wilson

COMMITTEE CALENDAR

APPROVAL OF MINUTES
TOP AUDIT ISSUES PRESENTATION
EXECUTIVE SESSION

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: Gave a PowerPoint presentation, entitled
LB&A Oversight Top Audit Issues."

ACTION NARRATIVE

[9:04:59 AM](#)

CHAIR BEN CARPENTER called the Legislative Budget and Audit Committee meeting to order at [9:04] a.m. Representatives Vance (via teleconference), Tomaszewski (via teleconference), Josephson, and Carpenter and Senators Kaufman, Kawasaki (via teleconference), and Bishop (via teleconference) were present at the call to order. Representative D. Johnson arrived as the meeting was in progress. Also present was Senator Wilson.

APPROVAL OF MINUTES

[9:07:09 AM](#)

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

SENATOR KAUFMAN moved that the Legislative Budget and Audit Committee approve the minutes for the June 24, 2024, meeting, as presented. There being no objection, the minutes were approved.

TOP AUDIT ISSUES PRESENTATION

[9:07:42 AM](#)

CHAIR CARPENTER announced that the next order of business would be a presentation of the prior fiscal year's top audit issues from the legislative auditor, Kris Curtis.

[9:08:05 AM](#)

KRIS CURTIS, Legislative Auditor, Legislative Audit Division, Legislative Agencies and Offices, gave a PowerPoint presentation, entitled "LB&A Oversight Top Audit Issues," dated 10/24/24. She began on slide 2, explaining that three years ago, the Legislative Budget and Audit Committee adopted a new oversight process to encourage a new corrective action for audit findings. The process was outlined on slide 2, "Audit Finding Oversight Process," 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 action requires legislative action. 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.

CHAIR CARPENTER sought to clarify that departments are already familiar with the findings presented in today's hearing because they are from previous audits.

MS. CURTIS answered in the affirmative.

[9:09:07 AM](#)

MS. CURTIS stated that there are seven top audit issues for FY 24, some of which are a collection of multiple findings. She addressed the first finding on slide 3, "Disclaimer of Opinion International Airports Repeat Finding," which read as follows [original punctuation provided]:

Issues That Led to Disclaimed Audit Opinion

- During FY 22, Alaska International Airport System's (AIAS) controller retired and other key accounting staff resigned. Department of Transportation and Public Facilities management decided to contract out AIAS' accounting function. A controller was hired to oversee the contractor; however, the controller was not a CPA
- Since FY22, AIAS has been unable to produce financial statements for audit in a timely manner. The FY 23 audit was not available for inclusion in the State's financial statements. Consequently, Legislative Audit was unable to obtain sufficient appropriate evidence regarding

AIAS' financial information included in the State's financial statements.

MS. CURTIS detailed the second finding on slide 4, "No FY 23 Financial Info for Alaska Aerospace Corporation," which read as follows [original punctuation provided]:

For the first time, a component unit's financial information was not included in the State's financial statements.

- Turnover of accounting staff, change in financial systems, and complexities in accounting and reporting a failed rocket launch led to delays in producing AAC's financial statements. The State's financial statements listed "0" for all AAC accounts. This did not impact the [sic] our FY 23 audit opinion because AAC is an insignificant part of the financial statements.

[9:10:40 AM](#)

MS. CURTIS explained the third finding on slide 5, "Late Audit and Disclaimed Opinion AK National Guard & Naval Militia Retirement System," which read as follows [original punctuation provided]:

KPMG was unable to complete the audit timely and disclaimed an opinion.

- Data needed for the audit was not maintained by DMVA. Specifically, auditors needed information regarding individuals who had terminated employment with the system in order to test actuarial information. The audit was delayed while Division of Retirement and Benefits accountants attempted to work with DMVA management to obtain the data. Ultimately, the information was not available and KPMG was unable to obtain sufficient appropriate evidence and disclaimed an opinion. This will likely be an ongoing challenge and may prevent an audit opinion in the future.

MS. CURTIS reviewed the fourth finding on slide 6, "Financial Statement Errors & Late Draft Statements Repeat Findings," which read as follows [original punctuation provided]:

Significant Errors in Draft Statements

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

Late Draft Statements

- Turnover, vacancies and a lack of training and knowledge contributed to delays in creating the FY 23 draft financial statements. Statements were provided for audit on December 13, 2023 around 6 weeks late.

[9:11:56 AM](#)

MS. CURTIS discussed the fifth finding on slide 7, "Division of Public Assistance Federal Program Findings Repeat Finding," which read as follows [original punctuation provided]:

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.
 - Low Income Heating Assistance
 - Pandemic EBT Food Benefits
 - Supplemental Nutrition Assistance (Food Stamps)
 - Temporary Assistance for Needy Families

MS. CURTIS explained the sixth finding on slide 8, "Shortfalls Repeat Finding," which read as follows [original punctuation provided]:

Certain departments not addressing shortfalls in a timely manner

- Five departments with shortfalls in FY 23 compared to nine in FY 22 (improvement).
- Department of Law, Department of Health, and Department of Natural Resources have not addressed shortfalls in a timely manner.

CHAIR CARPENTER asked whether "shortfall" is an audit description.

MS. CURTIS answered yes in addition to a budget description. She said many appropriations are funded by general funds and another funding source, such as federal assistance. If the federal funds are not coming in as expected, agencies are required to restrict that portion of the authorization to avoid overspending the general fund portion. Sometimes agencies do not do this appropriately, which is what auditors test for.

[9:15:02 AM](#)

REPRESENTATIVE JOSEPHSON asked why theoretically, the attorney general (AG) could not ask his administrative director about the shortfall.

MS. CURTIS said sometimes the shortfall is due to a lack of staff and not prioritization. Other times its more complicated or related to a reimbursable service agreement (RSA) with another agency. She added that sometimes, the federal government disallows expenditures, which results in shortfalls.

REPRESENTATIVE JOSEPHSON understood the words "have not addressed" to mean that the agency did not tell the auditors anything.

MS. CURTIS clarified that explanations were provided. Often times, the shortfalls were due to competing priorities or lack of staff.

CHAIR CARPENTER shared his understanding that the purpose of bringing these audit findings forward is for a recommendation from the Legislative Budget and Audit Committee and to follow up on these specific items next session. He asked whether that is correct.

MS. CURTIS answered yes, especially during the budget subcommittee process.

[9:17:41 AM](#)

MS. CURTIS resumed the presentation by addressing the seventh finding on slide 9, "Marijuana Control Board," which read as follows [original punctuation provided]:

- 2024 Audit Made two Recommendations to the board/AMCO
1. Alcohol and Marijuana Control Office (AMCO) director should establish procedures to ensure handler permit documentation is properly maintained.

2. The board and AMCO director should continue to implement a new license and enforcement information system.

CHAIR CARPENTER asked whether Ms. Curtis had received an update from any of these agencies since the audit was released.

MS. CURTIS said only the chief financial officer (CFO) of the Division of Retirement and Benefits (DRB).

[9:19:41 AM](#)

SENATOR KAUFMAN shared his understanding that the new process includes a set of criteria to determine importance and urgency. He asked for an overview of the evaluation process.

MS. CURTIS said the following factors are considered: the impact on public safety and social assistance programs; the amount of time the agency has been struggling; and findings that continue to fester. She explained that she starts by looking through each page of the single audit and reviews the recommendations from the performance audit.

[9:22:14 AM](#)

MS. CURTIS concluded the presentation on slide 10, "Next Steps LB&A Oversight," 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 2025 legislative session.

EXECUTIVE SESSION

[9:23:13 AM](#)

CHAIR CARPENTER announced that the next order of business would be executive session to receive and discuss the case of Legislative Budget and Audit Committee v. Dunleavy, et. al, Case No. S-18904, and discuss the preliminary audit releases.

SENATOR KAUFMAN 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. He asked that the following persons remain in the room or online: Emily Nauman, legislative services director, and necessary staff; Emily Nauman, legal services director and necessary staff; Kris Curtis, legislative auditor, and necessary staff; any legislators not on the committee; staff of legislators on the committee. There being no objection, it was so ordered.

SENATOR KAWASAKI asked whether the presentation listed on the agenda would be heard during executive session.

CHAIR CARPENTER stated that the presentation by the Office of Children's Services (OCS) would not be discussed in executive session.

[9:25:22 AM](#)

The committee took an at-ease from 9:25 a.m. to 9:29 a.m.

[9:29:02 AM](#)

CHAIR CARPENTER clarified that the presentation referenced by Senator Kawasaki was a printing error and would not be discussed during today's meeting.

[9:30:06 AM](#)

The committee took an at-ease from 9:30 a.m. to 10:07 a.m. for the purpose of executive session.

[10:07:49 AM](#)

CHAIR CARPENTER called the Legislative Budget and Audit Committee meeting to order at 10:07 a.m. Representatives Vance (via teleconference), D. Johnson, Tomaszewski (via teleconference), Josephson, and Carpenter and Senators Kaufman, Kawasaki (via teleconference), were present at the call to order.

[10:09:12 AM](#)

CHAIR CARPENTER stated that during executive session, the committee discussed legal advice pertaining to Legislative Budget and Audit Committee v Dunleavy, et. al, Case No. S-18904.

At this time, he said the committee needs to decide whether to increase the existing contract amount by \$35,000 to see the case through the Supreme Court deliberations.

[10:10:02 AM](#)

SEANTOR KAUFMAN moved that the Legislative Budget & Audit Committee approve an amendment to the existing contract with Stoel Rives, dated January 12, 2023, to increase the contract amount by \$35,000 for a total amount not to exceed \$335,000, for legal services, litigation and appeal costs in the ongoing matter, Legislative Budget and Audit Committee v. Dunleavy, et. al, Case No. S-18904, relating to the deposit of certain state taxes and royalties resulting from Federal Energy Regulatory Commission (FERC) decisions into the general fund (GF). There being no objection, it was so ordered.

[10:10:54 AM](#)

CHAIR CARPENTER said during executive session, the committee also discussed the preliminary audit release of the Board of Certified Direct Entry Midwives; the State Board of Registration for Architects, Engineers, and Land Surveyors; The Board of Veterinary Examiners; the Board of Nursing; and the State Board of Parole.

[10:11:36 AM](#)

SENATOR KAUFMAN moved that the Legislative Budget and Audit Committee move and release to the department the preliminary audits on the Board of Certified Direct Entry Midwives; the State Board of Registration for Architects, Engineers, and Land Surveyors; The Board of Veterinary Examiners; the Board of Nursing; and the State Board of Parole. There being no objection, it was so ordered.

REPRESENTATIVE CARPENTER sought questions or comments from committee members.

[10:12:18 AM](#)

SENATOR KAUFMAN thanked the team of auditors for their continuous work on these issues.

REPRESENTATIVE D. JOHNSON expressed her appreciation to Chair Carpenter for following through on the Constitutional Budget Reserve (CBR) lawsuit.

10:13:28 AM

ADJOURNMENT

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 10:13 a.m.