

HB

511

HFIN

FILE

(11)

HOUSE COMMITTEE REPORT

Date Referred to Committee: March 13, 1996

FURTHER REFERRALS:

Date of Committee Action: _____

The FINANCE Committee considered:

HB 511

HOUSE BILL NO. 511

DEPOSITS INTO FISH AND GAME FUND

"An Act relating to deposits into the fish and game fund."

recommends it be replaced with the following committee substitute _____ [] the same title
[] a new title

[] additional referral to _____ Committee
[] attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(s): (Dept) _____ APPROVES PREVIOUS: (Dep/Date) _____
[] fiscal note(s) _____ [] fiscal note(s) _____

[] zero fiscal note(s) _____ [] zero fiscal note(s) _____

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
Died				
in				
committee				

CHAIR'S SIGNATURE _____

HB 551 Lapse of Appropriations

The Division of Legislative Audit conducted a review to determine the reasonableness of operating encumbrances established by state agencies at the end of FY95. The review focused on encumbrances for the purchase of equipment and contractual services, with special emphasis on reimbursable services agreements (RSAs) and other contractual services. The audit tested 79 year-end encumbrances in all state departments for validity according to the Alaska Administrative Manual (AAM). Of those 79 year-end encumbrances tested, only 45 (or 57 percent) were found to be valid. The 34 encumbrances tested which proved to be invalid amounted to \$11,847,575.

According to Division of Legislative Audit, "there has been substantial noncompliance with the Alaska Administrative Manual ostensibly from misapplication by agency staff of the exception criteria for contractual services and RSAs." The audit states that much of the confusion about when to encumber funds resulted from the interpretation of AAM 25.16 and the criteria for charging a fiscal year's appropriation. The interpretations used to validate year-end encumbrances focused on the exception criteria for contractual services and RSAs, which state "(a) funds have been appropriated for services to conduct a specific project; and (b) the purpose should be identifiable in the department's budget, approved program, and financial plan required by AS 37.07.050.

Although these criteria are somewhat vague and subject to interpretation, they are meant to be exceptions, and not the rule by which funds are encumbered at year end. The situations resulting in year-end encumbrances "should be more than merely conformance with the general purpose of the appropriations being charged."

Consequent to the audit, the Division of Legislative Audit recommended that either the Alaska Administrative Manual or the Alaska Statutes be changed to reduce the chance of misinterpretation

of criteria used for year-end encumbrances. This change in AS 37.25.010(a) gives clear and unequivocal direction about year-end encumbrances. Misinterpretation and abuse of this statute are unlikely.

Currently, the definition of "prior year actual expenditures" includes encumbered balances. In reality, those balances are not expended in the prior fiscal year, but carried over into the next fiscal year. Thus, they unduly inflate the expenditures in a fiscal year. These expenditures are used as a basis for future years' budget requests, and the inflation continues. This bill will stop the inappropriate encumbrances of year-end balances, and help get control of actual state spending.