

**HB**

**243**

**HFIN**

**FILE**



# FISCAL NOTE

**STATE OF ALASKA**  
**2003 LEGISLATIVE SESSION**

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: HB 243  
 ( ) Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): 4/16/03 1:20 PM Dept. Affected: Governor  
 Title An Act establishing audit powers in the BRU OMB  
Office of the Governor Component OMB  
 Sponsor Rules Committee  
 Requester Governor Component No. 2144

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2003) cost: 0.0  
 Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

This bill would re-establish an audit function in the Office of the Governor. Funding will be provided by reallocation of existing Office of the Governor funds in the Governor's FY 04 budget; no new money will be required.

The Governor's budget request for the Office of Management and Budget, and as approved by the House, totals \$1,899,500 from the general fund. Of that amount, \$1,767,500 is in personal service costs for 23 full time positions. To help restore the internal performance audit function, the following transfers were accomplished:

Prepared by: Jay Hogan, Deputy Director Phone 465-3559  
 Division OMB Date/Time 4/16/03 1:20 PM  
 Approved by: Jay Hogan, Deputy Director Date 4/28/2003  
 Agency OMB

**FISCAL NOTE**

**STATE OF ALASKA  
2003 LEGISLATIVE SESSION**

**BILL NO. HB 243**

**ANALYSIS CONTINUATION**

Three positions were transferred from the Division of Governmental Coordination [DGC was reduced in size and transferred via Executive Order 106 to the Department of Natural Resources] to support the audit and performance evaluation function. Two were classified as Management Analysts and the third as an Internal Auditor.

Funding for the three positions transferred came from reallocations within the Division of Elections [\$196,800] and the Human Rights Commission [\$128,800].

The three "new" positions, plus two existing OMB Internal Audit positions would give the audit and performance evaluation function a staff of five full time positions. It is also envisioned that as circumstances may require, OMB Budget and Policy Analysts would assist in various audit and performance evaluations.

*adopted (E) / R/O*

**CS FOR HOUSE BILL NO. 243(STA)  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
TWENTY-THIRD LEGISLATURE - FIRST SESSION**

**BY THE HOUSE STATE AFFAIRS COMMITTEE**

**Offered:  
Referred:**

**Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR**

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act establishing state agency program performance management and audit powers  
2 in the Office of the Governor for the evaluation of agency programs; and providing for  
3 an effective date."

4 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 \* **Section 1.** AS 37.07.040 is amended by adding a new paragraph to read:

6 (10) establish and administer a state agency program performance  
7 management system involving planning, performance budgeting, performance  
8 measurement, and program evaluation; the office shall ensure that information  
9 generated under this system is useful for managing and improving the efficiency and  
10 effectiveness of agency operations.

11 \* **Sec. 2.** AS 44.19.145(a) is amended by adding a new paragraph to read:

12 (12) conduct internal audits of agencies and programs within the  
13 executive branch of state government.

14 \* **Sec. 3.** AS 44.19 is amended by adding a new section to read:

1           **Sec. 44.19.147. Internal audit records.** The office shall keep a complete file  
2 of internal audit reports resulting from audits conducted under AS 44.19.145(a), and a  
3 complete file of the internal audit work papers and other related supportive material.  
4 Internal audit work papers and other related supportive material are confidential, and  
5 internal audit reports are confidential until released by the governor. However,  
6 internal audit work papers and other related supportive material containing  
7 information, data, estimates, and statistics obtained during the course of an audit  
8 conducted under AS 44.19.145(a) may be kept confidential only to the extent required  
9 by law applicable to the agency from which the material is or was obtained.

10 \* **Sec. 4.** This Act takes effect immediately under AS 01.10.070(c).

not offered

AMENDMENT

OFFERED IN THE HOUSE  
TO: CSHB 243(STA)

1 Page 1, line 2, following "programs;"

2 Insert "relating to expenditure of federal or other program receipts not  
3 specifically appropriated by the full legislature;"

4  
5 Page 1, following line 10:

6 Insert a new bill section to read:

7 "\* Sec. 2. AS 37.07.080(h) is amended to read:

8 (h) Additional [THE INCREASE OF AN APPROPRIATION ITEM BASED  
9 ON ADDITIONAL] federal or other program receipts not specifically appropriated by  
10 the full legislature may be expended in accordance with the following procedures:

11 (1) the governor shall submit a revised program to the Legislative  
12 Budget and Audit Committee for review;

13 (2) 45 days shall elapse before commencement of expenditures under  
14 the revised program unless the Legislative Budget and Audit Committee earlier  
15 recommends that the state take part in the federally or otherwise funded activity;

16 (3) should the Legislative Budget and Audit Committee recommend  
17 within the 45-day period that the state not initiate the additional activity, the governor  
18 shall again review the revised program and if the governor determines to authorize the  
19 expenditure, the governor shall provide the Legislative Budget and Audit Committee  
20 with a statement of the governor's reasons before commencement of expenditures  
21 under the revised program."

22

23 Renumber the following bill sections accordingly.

HB 243



FRANK H. MURKOWSKI  
GOVERNOR

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STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

April 3, 2003

The Honorable Pete Kott  
Speaker of the House  
Alaska State Legislature  
State Capitol, Room 208  
Juneau, AK 99801-1182

Dear Speaker Kott:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill that would establish state agency program performance management and audit powers in the Office of the Governor. This bill would establish powers in the office of management and budget necessary to evaluate program performance by executive branch agencies. These powers would include express authorization for the exercise of internal audit powers. It is my intent that this authority permit the centralization of the internal audit function, which had been a declining effort under previous Administrations. I intend to use internal audits as a management tool in my Administration's continuing effort to streamline and make efficient the operations of state agencies.

The bill also would make certain audit records confidential. This provision mirrors the powers given to legislative auditors and is considered necessary to make the auditors effective in the performance of their duties.

I urge your favorable consideration of this bill.

Sincerely,

A handwritten signature in cursive script that reads "Frank H. Murkowski".

Frank H. Murkowski  
Governor

OFFICE OF MANAGEMENT AND BUDGET  
STATEMENT AND SECTIONAL ANALYSIS FOR HOUSE BILL 243

The Office of Management and Budget was established in 1983. To staff OMB, existing budget components from other departments were transferred to the Office of the Governor and reorganized into four divisions. One of those transfers moved the Internal Audit function from the Department of Administration to OMB as part of the Management Division, then staffed with 19 full time positions. Management staff had declined to 12 full time positions by 1995, when the function was abolished.

The day Governor Murkowski took office, he signed Administrative Order No. 202 [attached] and directed "all principal departments of the executive branch to perform internal performance audits". OMB was directed to coordinate those departmental audits as part of the January/February budget review process. Much of the Governor's amended budget - now before the Legislature - is the product of this process.

In reestablishing the audit function, the Governor will shift focus from traditional internal auditing to:

**Performance Measurement** - Systematic collection and reporting of information that tracks resources used, work produced, and intended results achieved;

**Performance Evaluation** - Systematic collection and analysis of information to determine a program's performance and the reasons for achieving the level of performance; and both performance measurement and performance evaluation are vital parts of

**Performance Budgeting**, the central mission of OMB.

Borrowing from the Governor's transmittal letter for HB 243, the sectional analysis is:

- Section 1.** The bill would establish powers in the Office of Management and Budget necessary to evaluate program performance by executive branch agencies;
- Section 2.** Provide express authorization for the exercise of internal audit powers; and
- Section 3.** Would make "internal audit work papers and other related supportive material" confidential. And, as stated in the transmittal, "This provision mirrors the powers given to legislative auditors and is considered necessary to make the auditors effective in the performance of their duties."

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STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU  
ADMINISTRATIVE ORDER NO. 202

Under the authority of art. III, secs. 1 and 24, of the Alaska Constitution and AS 44.17.060, 44.17.070, AS 44.19.010, and 44.19.144 and in the interests of efficient administration, I, Frank H. Murkowski, Governor of the State of Alaska, order all principal departments of the executive branch to perform internal performance audits.

The performance audits are to be coordinated by the Office of Management and Budget, Office of the Governor (OMB) and are to be conducted according to the schedule and format determined by the OMB. The scope of these audits shall include

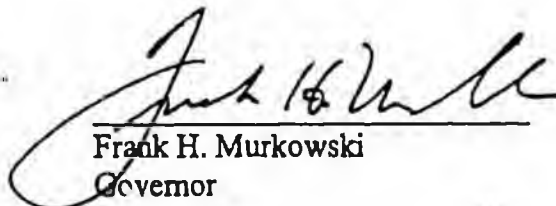
1. a review of department compliance with established objectives and goals and whether department operations and programs are being carried out as planned;
2. a review of the economy and efficiency with which a department's resources are employed;
3. an evaluation of the accuracy, timeliness, and effectiveness of department accounting systems, reporting systems, and procedures;
4. a review of the reliability and integrity of department financial and operating information;
5. a review of department compliance with existing statutes, regulations, policies, and procedures; and
6. recommendations for consolidation and reorganization of departments, divisions, and duties and any other recommendation to promote sound and efficient administration.

The OMB, together with principal departments of the executive branch, and in compliance with state personnel laws, may determine a program to reward executive branch employees for suggestions and recommendations that lead to significant improvements in the efficient administration of state government.

Working papers generated during the performance of the internal performance audits are confidential to the extent allowed by law until the related final report is released as provided under state law. Working papers containing material that is designated by law as confidential remain classified as confidential.

This Order takes effect immediately.

Dated this 2<sup>nd</sup> day of December, 2002.

  
Frank H. Murkowski  
Governor