

STATE OF ALASKA  
LEGISLATIVE BUDGET AND AUDIT COMMITTEE  
ANNUAL REPORT  
2016

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Chair	Representative Mike Hawker	District 28
Vice Chair	Senator Anna MacKinnon	District G
Member	Senator Click Bishop	District C
Member	Senator Cathy Giessel	District N
Member	Senator Lyman Hoffman	District S
Member	Senator Bert Stedman	District R
Alternate	Senator Pete Kelly	District A
Member	Representative Sam Kito III	District 33
Member	Representative Kurt Olson	District 30
Member	Representative Lance Pruitt	District 27
Member	Representative Steve Thompson	District 2
Alternate	Representative Mark Neuman	District 8

LEGISLATIVE AUDITOR  
Kris Curtis, CPA, CISA

LEGISLATIVE FISCAL ANALYST  
David Teal

(Intentionally left blank)



## 29<sup>th</sup> Alaska State Legislature

### Legislative Budget & Audit Committee

January 17, 2017

Members of the Legislature

Fellow Members:

In accordance with AS 24.20.311, the following is the 2016 report of the Legislative Budget and Audit Committee. This report outlines the responsibility of the Legislative Budget and Audit Committee and its two professional divisions, the Division of Legislative Audit and the Division of Legislative Finance.

Copies of each audit report released during 2016 are on file in the senate and house chambers, the two finance committees, the Division of Legislative Audit, various libraries throughout the State, and at <http://legaudit.akleg.gov>. We encourage all legislators to utilize this valuable information.

The Legislative Budget and Audit Committee wishes to thank the legislature for its support in 2016.

Respectfully submitted,

Legislative Budget and Audit Committee

Representative Mike Hawker, Chair

A handwritten signature in blue ink that reads "Mike Hawker".

Senator Anna MacKinnon, Vice Chair

A handwritten signature in blue ink that reads "Anna MacKinnon".

(Intentionally left blank)

---

# CONTENTS

---

## Audit Control Number

Organization and Function 1

### Department of Administration

02-30082-16 A Special Review of the State Travel Office, May 5, 2016 5

02-40016-16 State of Alaska, Single Audit for the Fiscal Year Ended June 30, 2015 7

### Department of Education and Early Development

Performance Review Performance Review of the Department of Education and Early Development, August 8, 2016 9

Performance Review Performance Review of the Alaska Commission on Postsecondary Education and the Alaska Student Loan Corporation, October 17, 2016 25

### Department of Commerce, Community, and Economic Development

08-20094-16 A Performance Audit of the Board of Veterinary Examiners, March 18, 2016 31

08-20095-16 A Performance Audit of the State Board of Certified Direct-Entry Midwives, April 30, 2016 33

08-20096-16 A Sunset Review of the State Board of Registration for Architects, Engineers, and Land Surveyors, April 27, 2016 35

08-30087-16 A Performance Audit of the Regulatory Commission of Alaska FY 15 Annual Report, March 25, 2016 37

### University of Alaska

45-30086-16 A Performance Audit of the University of Alaska Travel, March 11, 2016 39

---

# CONTENTS

## (Continued)

---

**Legislative Finance  
Assessment of Performance  
Review Savings**

Legislative Finance Assessment of the Reductions in State  
Expenditures Associated with the Department of Health and  
Social Services' Performance Reviews

41

---

# ORGANIZATION AND FUNCTION

---

The Legislative Budget and Audit Committee is a permanent interim committee of the Legislature. It was established in 1955 as the Legislative Audit Committee. The committee is composed of 10 members and two alternates: the chairpersons of the senate and house finance committees; one member selected from each of the senate and house finance committees and appointed by the President of the Senate and the Speaker of the House, respectively; and three members and an alternate appointed from each house by the respective presiding officer. If the chairperson of a finance committee chooses not to serve, the presiding officer appoints a replacement from the finance committee. Alternate members are also appointed from the finance committees.

The committee has the responsibility for providing the legislature with fiscal analysis, budget reviews, audits and performance reviews of state government agencies, and for approving requests from the governor to revise the Appropriations Act. As a result of the passage of Ch. 18, SLA 1980, the committee has authority to monitor lending and investment activities of the State.

To provide the necessary technical assistance to accomplish the purposes, two permanent staff agencies have been created: the Division of Legislative Finance and the Division of Legislative Audit. These divisions report directly to the Legislative Budget and Audit Committee and are independent of executive and judicial agencies. The committee also has several authorized positions to assist with committee activities.

## Division of Legislative Finance

One of the primary responsibilities of a state legislative body is to research, draft, and enact revenue and appropriation measures. The Legislative Finance Division has the following statutorily assigned responsibilities to support the legislative budget process:

1. Analyze the budget and appropriation requests of each department, institution, bureau, board, commission, or other agency of state government.

- 
2. Analyze the revenue requirements of the State.
  3. Provide the legislative finance committees with comprehensive budget review and fiscal analysis services.
  4. Cooperate with the Office of Management and Budget in establishing a comprehensive system for state program budgeting and financial management as set out in the Executive Budget Act (AS 37.07).
  5. Complete studies and prepare reports, memoranda, or other materials as directed by the Legislative Budget and Audit Committee.
  6. With the governor's permission, designate the legislative fiscal analyst to serve ex officio on the governor's budget review committee.
  7. Identify the actual reduction in state expenditures in the first fiscal year following a review under AS 44.66.040 resulting from that review and inform the Legislative Budget and Audit Committee of the amount of the reduction.
  8. Not later than the first legislative day of each first regular session of each legislature, conduct a review in accordance with AS 24.20.235 of the report provided to the division under AS 43.05.095.

The Legislative Finance Division reviews proposed changes to the operating budget and provides the Budget and Audit Committee with an analysis of proposed "revised programs" for committee decisions.

The Legislative Finance Division is staffed by the legislative fiscal analyst (director), six fiscal analysts, information technology staff, and an administrative officer. Division staff also includes the finance committee secretaries and, for budgetary purposes, the finance aides assigned to committee members.



---

## **Division of Legislative Audit**

In accordance with the Constitution of the State of Alaska and Title 24 of the Alaska Statutes, the legislative auditor and staff conduct the post-audit function in the budget cycle. The Division of Legislative Audit was created in 1955.

All audits performed by the division are external audits; that is, they are performed by an auditor who is independent of the executive head of the government unit or agency being audited. The three major types of audits performed by the division are financial-compliance, performance, and special reports.

### **1. Financial-Compliance Audit**

A financial-compliance audit determines (a) whether financial operations are properly conducted; (b) whether the financial reports of an agency are presented fairly; and (c) whether the entity has complied with applicable laws, regulations, administrative policies, and legislative intent.

### **2. Performance Audit**

A performance audit is conducted to provide the legislature with an evaluation on the manner in which administrators of an agency have faithfully, efficiently, and effectively administered a program. Faithfulness refers to whether or not programs have been administered in accordance with promises made to the legislature and the expression of legislative intent. Effectiveness refers to whether or not planned program objectives have been achieved. Efficiency refers to whether or not program accomplishment has been achieved by using the least-cost combination of resources with a minimum of waste.

The 1971 legislature gave the Division of Legislative Audit the authority to conduct performance audits of any agency of state government at the direction of the Legislative Budget and Audit Committee. The committee has instructed the legislative auditor to review all audit assignments and conduct performance audits whenever considered practical and beneficial to the State.

---

The 1977 legislature passed a “sunset law” which requires the division to conduct performance audits of boards, commissions, and agency programs subject to termination under AS 44.66. The audit report, along with other reports and testimony, is considered when determining if there is a public need for a board, commission, or program.

### **3. Special Audit Report**

All special audits are conducted at the request of the committee. Any member of the legislature may request a special audit through the committee. A special audit can cover many things. It can be an audit that is restricted to one part of an agency’s operations or it can be an audit reviewing financial transactions for a period of time shorter or longer than a fiscal year. The special audit often results in an information type report.

The Division of Legislative Audit also facilitates performance reviews as required by HB 30, enacted by the Alaska State Legislature in 2013. Performance reviews are systematic assessments of the appropriateness, effectiveness, and efficiency of a department; and are meant to provide information for policy makers, executive branch management, and the public.

# Report Highlights

## Why DLA Performed This Audit

This audit of the State Travel Office was requested to determine whether centralizing travel procurement for the executive branch has resulted in efficiencies and lower travel costs, to evaluate the relevance and reliability of reported travel information, and to make recommendations to reduce travel costs. This audit also evaluates whether the State has appropriately received their contractual discounts in airfare rates, and reports the status of prior STO audit recommendations.

## What DLA Recommends

1. DOA's Division of Finance (DOF) director should revise the savings rate calculation methodology for airfare to ensure expenditures and revenues are appropriately included in the savings rate.
2. DHSS' commissioner should revise procurement practices to reduce Medicaid travel costs.
3. DOA's DOF director should collect the \$3 million due from its travel contractor.
4. DOA's DOF director should revise State travel policies to encourage advance purchase of airfares.
5. DOA's DOF director should improve the reporting of travel activities.
6. DOA's DOF director should reconsider agency STO exemptions.

# A Special Review of the Department of Administration (DOA), State Travel Office (STO)

May 5, 2016

Audit Control Number 02-30082-16

## REPORT CONCLUSIONS

The audit concludes centralizing travel procurement has reduced non-Medicaid travel costs and increased the efficiency of the procurement process. Non-Medicaid air travel costs were reduced in FY 15 by almost \$700,000 through purchasing travel through the STO. Additionally, with minor exceptions, airfares tested as part of the audit reflected the correct contractual discount rates.

Improving travel practices can further reduce State travel costs. The audit recommends revising travel policies to clearly communicate the expectation for advance purchase, enhancing the reporting of travel information to help reduce the expiration of air tickets, and limiting the number of agencies exempt from using the STO.

The audit found discounted airfare rates reduced Medicaid airfare costs in FY 15, however the \$1.9 million in booking fees charged by the State's travel vendor significantly exceeded the savings of \$990,000.

It is the Department of Health and Social Services' (DHSS) standard practice to purchase one of the most expensive types of airfare, the fully refundable class of airfare, for its Medicaid recipients in need of travel. Furthermore, the audit found 75 percent of the FY 15 Medicaid airfares were purchased less than seven days in advance of travel. Both of these actions increased DHSS travel costs.

When evaluating Medicaid travel, the audit identified that \$3 million in Medicaid airfare refunds were due the State; however, because of problems with the Medicaid system, DHSS has not been able to process those refunds.

(Intentionally left blank)

# ALASKA STATE LEGISLATURE

## LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



P.O. Box 113300  
Juneau, AK 99811-3300  
(907) 465-3830  
FAX (907) 465-2347  
legaudit@akleg.gov

SUMMARY OF: State of Alaska, Single Audit for the Fiscal Year Ended June 30, 2015

### PURPOSE AND SCOPE OF THE REPORT

This report summarizes our review of the State of Alaska's basic financial statements and the State's compliance with federal laws and regulations in the administration of approximately \$3.1 billion of federal financial assistance programs. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. It also complies with the federal *Single Audit Act Amendments of 1996* and the related *United States Office of Management and Budget Circular A-133*.

The report contains an opinion on the basic financial statements of the State of Alaska for FY 15, recommendations on financial and compliance matters, auditor's reports on internal controls and compliance, the Schedule of Expenditures of Federal Awards, and the Summary of Prior Audit Findings.

### REPORT CONCLUSIONS

The basic financial statements for the State of Alaska are fairly presented in accordance with accounting principles generally accepted in the United States of America without qualification.

The State of Alaska did not comply with the Activities Allowed or Unallowed, and the Procurement, Suspension and Debarment requirements applicable to the Distribution of Receipts to State and Local Governments program (DRSLG; CFDA 15.227) administered by the Department of Commerce, Community, and Economic Development. Failure to comply with these requirements resulted in material noncompliance for the DRSLG program. The State has substantially complied with the applicable laws and regulations in the administration of its other major federal financial assistance programs. The report does contain recommendations regarding material weaknesses and significant deficiencies in the State's internal control over financial reporting and internal control over compliance.



## FINDINGS AND RECOMMENDATIONS

This report contains 44 recommendations, of which 12 are unresolved issues from last year. Of the 44 recommendations included in this report, one is made to Alaska Housing Finance Corporation and one to the University of Alaska whose audits were performed by other auditors. Also included in this year's recommendations are eight recommendations made to the Department of Health and Social Services whose major federal programs were audited by other auditors. Some of the recommendations made in this report require significant changes in procedures or a shifting of priorities and, therefore, may take more than one year to implement. The Summary Schedule of Prior Audit Findings in Section III identifies the current status of federal program related prior audit recommendations not resolved as of June 30, 2015.



## EXECUTIVE SUMMARY

In accordance with House Bill 30 (Chapter 19, SLA 2013), a performance review was conducted on the Alaska Department of Education and Early Development (DEED). The review began in June 2015 and concluded in May 2016. Through a competitive bidding process, the Alaska Division of Legislative Audit (DLA) selected Public Works, LLC to conduct the DEED performance review, with subcontractor JJC and Associates, LLC managing the project.

## Methodology

Public Works provided an objective and thorough examination of the department's performance in fulfilling its statutory obligations and stated mission across all core services. The process included identification of areas where departmental operations could be streamlined to increase efficiency and reduce costs, while continuously improving the quality of the standards-based education provided to the youth of Alaska.

The Public Works review analyzed hundreds of documents in support of the review, including those concerning DEED's strategic plan, State Board structure, State Board policies and procedures, staff responsibilities, operations, personnel, management systems, and other divisions and functions under review. The review team analyzed data including, but not limited to, strategic plans, State Board documents, data on performance measures, performance metrics, and workload/productivity measures, operational policies, procedures, and processes and relevant statutes or regulations, organizational structure, and staffing of key DEED divisions.

The Public Works review team conducted:

- Site visits to eight school districts, these included a minimum of one district in each of the five regions of Alaska, in both rural and urban areas. The school district site visits included central office interviews, focus groups of administrators and staff, and tours of a number of schools within each district.
- Over 250 individual interviews. These included interviews with DEED management and staff; a majority of State Board members; selected state senators and representatives; and leaders of numerous statewide educational leadership organizations.



- Numerous focus groups, held both at DEED and within the school districts.
- Surveys of DEED professional staff and all 54 school district superintendents

Additionally, members of the review team attended the Alaska Association of School Business Officials (ALASBO) Conference in December 2015 to interview numerous school district business officials. The review team also listened to the October 2015 State Board Meeting by teleconference.

Best practices research was conducted on a wide variety of topics including the organization of education departments in other states, state board policies and procedures, strategic planning, performance measures, teacher certification, teacher evaluation, technology strategies, and professional teaching practices.

The full report provides a total of 77 recommendations. Each recommendation is labeled as a Tier 1, Tier 2, or Tier 3 recommendation. This refers to the suggested level of importance or urgency of the implementation of the recommendation.

### **DEED Efforts and Unique Challenges**

The Public Works team recognizes that Alaska faces unique challenges in providing efficient and effective services to its member school districts. Those challenges include, but are not limited to the following:

- Of Alaska's 54 school districts, the largest five enroll 71.3 percent of Alaska's students, and the largest seven enroll 78.2 percent, while 39 school districts each enroll less than one percent of the student population.
- Alaska has a large number of very small schools, each with only a handful of teachers. Of 507 schools, 123 schools have fewer than 50 students and 78 enroll 25 or fewer students. More than half of the total schools (298, or 58.7 percent) are Title IA schools. Three or fewer teachers are employed in 87 (17 percent) of the total schools (38 schools employ one teacher; 25 schools employ two teachers; and 37 schools employ three teachers).
- Alaska faces a key challenge in ensuring that its educational leaders have an understanding of the culture of Alaska Native students, and that teachers are well equipped with the necessary cross-cultural knowledge and skills (including linguistic skills) to effectively teach Alaska Native



students in a way that is relevant and appropriate to their communities. Alaska has 29,450 Alaska Native students out of a total K-12 enrollment of more than 131,882 (or 22.3 percent). With the inclusion of 1,693 American Indian students, the total Alaska Native/American Indian enrollment is 31,143 (or 23.6 percent of the total student population). In many villages, English is not the primary language. Alaska is home to at least 20 distinct indigenous languages. The challenge for DEED is to ensure that educational leaders acknowledge the state's tremendous diversity, and that teachers are well prepared to teach to in a cross-cultural context.

- Alaska further faces the challenge of retaining qualified educators and educational leaders who are prepared to teach in villages and areas that are geographically remote from the state's population centers and from urban infrastructure. Between 2013 and 2015, 30 (55.5 percent) of Alaska districts had a new superintendent, while of all schools, 88 (17 percent) had a turnover rate of 30 percent or higher.
- Alaska faces higher costs and more complicated logistics than those faced by other states for delivering education and professional development, and for transporting students, staff, and technical support professionals. This is because most of Alaska's schools are located in remote regions, many with no roads or other nearby education opportunities for children. For example:
  - The North Slope Borough School District, with an enrollment of fewer than 2,050 students attending 11 schools, is the nation's largest geographic school district, covering 88,000 square miles. The schools are not connected by roads. If the North Slope were an individual state, it would be our nation's 11th largest.
  - The Lower Kuskokwim School District, with an enrollment of 4,285 Yup'ik Eskimo students attending 28 schools, covers 23,792 square miles, an area roughly the size of Maryland, Vermont, and Connecticut combined. The schools are not connected by roads.
  - Kenai Peninsula Borough School District is one of the major "urban" organized school districts in Alaska. It enrolls 9,150 students in 43 schools in 17 communities in a geographic area covering 25,600 square miles, larger than Rhode Island, Connecticut,



Massachusetts, and New Hampshire combined. Four villages in the district do not have road access.

- o Yukon-Koyukuk School District, with 10 schools and a student body of 283, and an additional 1,212 students enrolled in its statewide correspondence school program, encompasses nearly 62,000 square miles in Interior Alaska. Two communities have road access. If this district were a state, it would be the 21<sup>st</sup> largest in the nation.<sup>1</sup>

## Introduction and Overview

Defined in Alaska Constitution Article 7, Sec. 1; AS 14.17, the mission of DEED is to ensure high-quality standards-based instruction to improve academic achievement for all students. DEED provides four core services:

1. Public School Funding
2. Fiscal Accountability, Compliance and Oversight
3. School Effectiveness Programs
4. Active Partnerships

Six distinct themes emerged from the performance review and were identified by the Public Works review team. Each presents an area of challenge for the department:

1. Lack of clarity with regard to mission, vision, and strategic plan;
2. Local control balanced with the need for state leadership and technical assistance;
3. High staff turnover;
4. Insufficient use of data to drive decision-making;
5. Technology challenges; and
6. Lack of proactive engagement with the legislature to provide the data and information needed to garner appropriate funding and support for various education initiatives

The review team found that DEED has done an adequate job of ensuring that funding is appropriately distributed to districts based on legislative appropriation, by statute, and in accordance with the foundation formula, other formula programs, or legislative intent for funding outside the primary funding formulas.

---

<sup>1</sup> Unique Challenges Facing Alaska, Division of Teaching and Learning document provided by DEED, 2016.



We did not find any major issues with the department's management of state, federal, and other funding by providing comprehensive fiscal and administrative services.

However, the review team recommends that the State Board of Education and DEED finalize the new strategic plan to ensure there is clarity and focus to DEED's core mission and goals. This is particularly important to ensure the effective implementation of School Effectiveness Programs. Additionally, the state is lacking a clear vision in its strategic plan for innovative use of technology to enhance the effectiveness and efficiency of educational opportunities and operational functions.

Three significant areas in which the review team found DEED to be deficient in accomplishing its mission are: 1) communicating a clear and coherent mission, vision, and strategic plan; 2) maximizing opportunities for collaboration and active partnerships with government entities, and other public and private organizations in pursuit of state educational goals; and 3) assisting school districts by providing programs, technical on-site and distance-delivery support, and early intervention services in efforts to increase the statewide graduation rate.

- While many of the units within DEED provide high-quality services, there is a "cry" from many districts (particularly rural districts) for more technical assistance, professional development, and training. Districts appreciate the flexibility of local control, but are requesting more support from DEED, not only in improving student achievement, but also in addressing technical and operational challenges.
- Alaska has higher than average total revenue, per pupil spending, and teacher salaries in comparison with selected peer states, but disappointingly, has lower test scores and graduation rates. This discrepancy underlines the need for state support in struggling schools.
- Significant gaps in achievement exist among subgroups of Alaskan students, evidenced in state assessment scores and the National Assessment of Educational Progress (NAEP).
- DEED is more heavily focused on compliance and monitoring than its peer state education agencies due to its large number of federally funded positions (relative to the size of the agency). Additionally, DEED is heavily



focused on state-mandated programs initiated by the Alaska State Legislature. As a result, DEED's role has become primarily one of administering state and federal funds.

In summary, the review team finds DEED to be only partially successful in achieving its mission through effectively and efficiently delivering its core services, goals, programs, and objectives. Much remains to be accomplished, including the completion of a focused strategic plan for DEED and a re-thinking of DEED's methods of delivering services to school districts. DEED's success, however, is also dependent upon the legislature's support for a data-driven approach to improving the educational opportunities for all Alaska public school students. The recommendations of the Public Works review team are intended to assist the state in carrying out its constitutional mission to ensure quality standards-based instruction to improve academic achievement for all students.

### **Summary of Findings by Objective**

This performance review report is organized by the 14 objectives established in the RFP. Detailed information regarding the findings and recommendations for each objective are included in the full report. A brief overview of the conclusions from each of the 14 objectives is presented below. Because some of the objectives are closely related – and their findings interconnected – the review team has combined some of the objectives under one section for the purpose of the report.

### **Summary of Findings for Objective 1**

**For Objective 1, Public Works evaluated DEED's success in achieving its mission through effectively and efficiently delivering its core services, goals, programs, and objectives.**

The Public Works review team found a lack of clarity and agreement within DEED as to what DEED's mission and strategic plan consist of and, therefore, the team found DEED to be only partially successful in the full accomplishment of its mission.

Two significant areas in which the review team found DEED to be deficient in accomplishing its mission are: 1) assisting school districts by providing programs, on-site and distance-delivery technical support, and early intervention services to increase the statewide graduation rate; and 2) maximizing opportunities for collaboration and active partnerships with government entities and other public



and private organizations in pursuit of state educational goals. The review team provides several recommendations to remedy these deficiencies.

The review team identified ambiguity in the current governance structure of the Alaska State Board of Education (State Board), which does not explicitly define the roles of the State Board, the governor, the commissioner of education, and the legislature with respect to leadership, oversight, and authority over the state's K-12 education policies and activities. As a result, the review team recommends that the current governance structure of DEED be altered in such a way as to ensure role clarity and to establish a clear reporting structure for the commissioner of education position.

## **Summary of Findings for Objective 2**

**For Objective 2, Public Works determined whether the department's results-based measures demonstrate effectiveness and efficiency of the department's core services, goals, programs, and objectives.**

The performance measures in place in Alaska represent a traditional set of initiatives that lack clarity and a logical sequence to effectively measure success.

DEED is caught between two policy and philosophical views. On the one hand, the United States Department of Education (USDOE) imposes absolute requirements that must be met in order to receive millions of dollars in federal aid. Alaska must create a performance measurement system that meets certain guidelines for approval by USDOE. At the other end of the spectrum are state leaders who represent the view that Alaska should determine its own policies without interference from the federal government, and believe the USDOE requirements are overreaching in nature. DEED is challenged by the need to be responsive to both of these two different policy and philosophical views.

Given the changes in state educational leadership, DEED has a unique opportunity at this time to address the weaknesses of its performance measures and assessment programs, and to build on the strengths of what works to positively impact student performance. These opportunities include:

- A new State Board of Education appointed by the governor with a mandate fostered in part by the governor's priorities and expectations.

- The retirement of the previous commissioner and the opportunity to hire a new commissioner who is likely to be philosophically aligned with the governor and State Board of Education.
- The enactment of a new federal approach through reauthorization of the Elementary and Secondary Act, giving states much wider latitude for state and local control of the use of federal funds.
- The opportunity to create a new assessment system that meets federal guidelines and replaces the recently-eliminated federally required standardized testing program.
- The development of a new strategic plan by the State Board of Education that has the potential to bring coordination and alignment and a focus on student performance as a priority to Alaska.

### **Summary of Findings for Objectives 3, 4, and 10**

**For Objective 3, Public Works identified DEED’s authority to collect fees, conduct inspections, enforce state law, or impose penalties.**

**For Objective 4, Public Works recommended improvements to agency practices and procedures, including the means to decrease regulatory burdens or restrictions without decreasing public service.**

**For Objective 10, Public Works identified the extent to which DEED performs all of its statutorily defined duties and the extent to which statutory, regulatory, budgetary or other changes are necessary to enable the agency better to serve the public’s interest, and to correct problems identified during the review.**

Due to the interconnectedness of findings related to Objectives 3, 4, and 10, for the purposes of this report, the review team has combined findings and recommendations for these objectives.

DEED places a high priority on statutory compliance and meeting all of the duties prescribed for state education agencies in state and federal law. In austere budget times, Department leaders often reference statutory mandates to ensure that legal requirements are met while making cuts to discretionary programs and services. During this review, the review team did not identify any areas of statutory non-compliance by DEED.



Several DEED offices – including the Child Nutrition Program; Alaska State Council on the Arts; Division of Libraries, Archives and Museums; and Mt. Edgecombe High School – currently charge fees to support programs and services. Current fee amounts, structures, policies, procedures, and statutes were reviewed for this report.

The project team reviewed current inspection policies, procedures, regulations, and statutes in preparation of this report. No deficiencies were noted in DEED’s inspection and penalty operations and oversight.

The need for statutory and regulatory modifications was discussed in virtually every interview and meeting conducted for this review. The legislature and the Department have made, and should continue to make incremental changes to statutes and regulations as needed to reflect changes in policy and emerging practices in the field. This report has identified several areas where statutory modifications could lead to greater departmental effectiveness or efficiency.

### **Summary of Findings for Objectives 5 and 6**

**For Objective 5, Public Works identified areas in which agency programs and jurisdictions overlap, and to assess the quality of interagency cooperation in those areas.**

**For Objective 6, Public Works identified services provided by programs and functions duplicated by another government agency or private entity, and recommended the most effective and efficient way to perform those services.**

Due to the interconnectedness of findings related to Objectives 5 and 6, for the purposes of this report, the review team has combined findings and recommendations these objectives. Objective 9 is also closely related to these findings; specific examples of program overlap and functional duplication are addressed under Objective 9 in the context of program and functional consolidation.

Analysis of DEED’s partnerships finds the agency has been partially successful in furthering its mission through effective interagency cooperation and high-quality partnerships. The level of partnership development is strong in some instances, and weak in others.



The findings and recommendations provided in this report reflect the opportunity to improve partnerships that are apparently either poorly managed or are non-substantive (i.e. exist on paper only). At the same time, DEED is to be commended for a number of highly effective partnerships. Building on what works and making improvements in challenging areas will be critical to the future success of DEED and its many partners.

The need for stronger communication processes with DEED partners – and especially with school personnel and organizations – is noteworthy. The need for stronger communication lines between DEED personnel and the State Board of Education is also addressed under Objective 1. Communications processes generally should be prioritized for significant improvement as the organization transitions under a new commissioner.

An important limitation in evaluating many of DEED’s partnerships is the lack of quantifiable data to assess their effectiveness; several so-called partnerships are in effect simply funding streams, and it is left to the beneficiary partner to document success, or lack thereof.

Public Works identified one key area of overlap/duplication of effort in the management of educator licensing responsibilities between the Professional Teaching Practices Commission (PTPC) and DEED’s Teacher Certification Office. The PTPC also duplicates some services of the University of Alaska’s teacher education programs, such as providing professional ethics training to candidates for graduation from these programs. These duplications of effort generate unnecessary costs to DEED in personnel time, travel, and facilities expenses. The review team finds that Alaska addresses educator misconduct through a system that is unnecessarily expensive and elaborate given the relatively small population of educators, and the significant fiscal challenges faced by the state.

Since the review team recommends consolidation of duplicative or overlapping functions, this finding is addressed in further detail under Objective 9 (see **Chapter 7 Consolidation or Reductions**).

### **Summary of Findings for Objective 7**

For Objective 7, Public Works evaluated whether DEED promptly and effectively addresses complaints.



Few concerns are registered against the Department of Education and Early Development via the formal mechanism of complaint to the Office of the State Ombudsman. These issues are consistently addressed in a timely and effective fashion by DEED.

Personnel in the Office of the State Ombudsman compiled complaints about DEED that were received from 2006 to the present. During this ten-year period, 35 contacts about DEED were initiated. Seventeen of these contacts were actual complaints. Other contacts were resolved as informational referrals; e.g., individuals who needed information about where to address a concern, individuals who were frustrated with local districts, etc.

There were no discernible thematic patterns in the 17 contacts that were actual complaints. Further, there were very few complaints that would rise to a matter of significant concern. Once assisted or referred to a resource to address their issues, no complainants further redress from the Office of the State Ombudsman.

### Summary of Findings for Objective 8

**For Objective 8, Public Works evaluated DEED's process for implementing technology and recommended new types or uses of technology to improve agency efficiency and effectiveness.**

Within its internal operations, DEED uses technology in a manner consistent with most state education agencies. These uses lie primarily in the area of improving internal agency efficiency and communications and collecting district and school data for the purposes of federal and state reporting as well as calculating funding allocations. For these purposes, DEED's use of technology is adequate. At the same time, there are areas where improvements should be made. These are spelled out in the body of the report.

Lastly, while the use of technology *within* DEED is consistent with most state education agencies, some states are offering services to school districts that go far beyond what is in currently in place, or planned by DEED. Even in strong local control states, education agencies offer such services to districts as:

- Statewide internet and broadband services;
- Instructional management systems;
- Digital content libraries;
- Longitudinal data systems and dashboards for teachers and administrators; and



- Opt-in student information systems and IEP systems.

### **Summary of Findings for Objective 9**

**For Objective 9, Public Works identified agencies that could be terminated or consolidated, cost reductions, and potential program- or cost- reductions based on policy changes.**

Public Works found one key area where DEED could consolidate offices for cost reductions: The review team recommends that DEED eliminate duplication of work processes between the PTPC, university teacher preparation programs, and DEED, and that the legislature amend AS Title 14, Chapter 20, Article 5. Professional Teaching Practices Act to consolidate the PTPC's work into the Teacher Certification Office's work.

### **Summary of Findings for Objective 11**

**For Objective 11. Public Works evaluated DEED's process for developing capital projects.**

The process DEED uses to review capital projects is systematic and effective at incorporating a variety of criteria provided by the legislature into its project evaluation and priority ranking system. Additionally, the application requirements DEED imposes on districts encourage districts to follow best practices for the capital programs.

Overall, the review team found that DEED has a robust process for reviewing capital projects. However, there is a perception among some superintendents that the process is cumbersome and expensive. Although DEED's Grant Committee Review worked to improve the grant review process in 2012, additional revisions could be made to make the application process less cumbersome and scoring more straightforward.

### **Summary of Findings for Objectives 12 and 13**

**For Objective 12, Public Works evaluated the appropriateness of the budget reductions proposed by DEED in response to AS 44.66.020(c)(2).**

**For Objective 13, Public Works evaluated whether DEED's priorities reported to the legislature under AS 37.07.050(a)(13) and the list of programs or elements of programs provided under AS 44.66.020(c)(2) are consistent with the results of the review.**

Due to the interconnectedness of findings related to Objectives 12 and 13, for the purposes of this report the review team has combined findings and recommendations for these objectives.

For Objective 12, the review team evaluated whether:

- The agency prioritized in accordance with AS 44.66.020(c)(2) when it developed the recommended cuts provided to the review team; and
- The department acted in good faith when recommending activities that can effectively be reduced without threatening the department's ability to meet its mission.

For Objective 13, the review team was asked to:

- Determine whether the findings of the review indicated that DEED focuses upon the mission statement, goals and results-based measures that are reported to the legislature and profiled in the state's Office of Management and Budget key performance indicators; and
- Offer a conclusion as to whether the budget reductions addressed under Objective 12 comport with DEED's mission statement, goals and results-based measures.

The review team evaluated how the proposed funding reductions would affect DEED's ability to meet its legislated priorities, and whether alternate funding reductions might be more aligned with the department's strategic priorities.

Overall, the review team found that DEED acted in good faith when recommending funding reductions that totaled ten percent of its available General Fund. The majority of the activities the department selected for funding reduction can effectively be reduced without significantly threatening the department's ability to complete its mission, although that does not mean that the cuts will not have an impact on quality or effectiveness. However, four of the selected reductions address a current need, and one of those may be considered critical for the department to meet its mission.

The four proposed budget reductions that may affect the department's ability to meet its mission are:

- Removing college and career readiness assessment funding;
- Eliminating Parents as Teachers and Best Beginnings grants;
- Eliminating Pre-K funding for a pilot project; and
- Reducing broadband funding for school districts.

As alternatives to these proposed reductions, the review team identified other potential long-term cost reductions during the course of the review. These proposed changes are identified at the end of Chapter 9 in **Exhibit 9-3**. Given the timing of this report's release, DEED and the legislature have already made the proposed cuts that the review team was asked to evaluate; however, the review team recommends that DEED seek to restore funding for Parents as Teachers, Best Beginnings, and Pre-K services, that was eliminated in the 2016 legislative session.

DEED appears, in large part, to organize its work in a manner consistent with the mission, goals, and performance-based measures that are reported to the legislature and profiled in the state's Office of Management and Budget key performance indicators. Such goals and measures constitute an important dimension of public accountability.

### **Summary of Findings for Objective 14**

**For Objective 14, Public Works identified other elements appropriate to the performance review that were not specifically related to Objectives 1 through 13; however, the review team's findings demonstrate that the following topics are important for DEED to consider and/or address to enhance its efficiency and effectiveness.**

The performance review found that DEED is not capitalizing on potential statewide savings found in school district transportation. For example, DEED does *not*:

- Reimburse districts for the cost of adult crossing guards if they can be provided more economically than school bus service;
- Develop age and mileage standards for bus replacement;
- Require districts to track the cost of field trips and activity buses;
- Monitor whether districts are enforcing 1.5 mile walk zones for schools; or



- Encourage or require school districts to include a fuel cap clause in school transportation contracts.

The review team recommends that DEED implement policies and procedures to assist districts in reducing transportation costs.

This section of the report also addresses DEED's Uniform Chart of Accounts for Alaska School Districts. The current process does not adequately address 21<sup>st</sup> Century technology and services. Public Works' recommendations are intended to assist DEED in making its Chart of Accounts more clear, consistent and informative for parents and policymakers regarding Alaska's school finance efforts.

Additionally, this section also includes findings and recommendations related to the Library, Archives, and Museum (LAM) unit, Mt. Edgecumbe High School (MEHS), and a recommendation to assist DEED in more actively evaluating programs to make sound data-driven program decisions.

## Commendations

In addition to providing recommendations, the Public Works report also identifies 22 areas where DEED is performing well, implementing best practices, and addressing inefficiencies. Those areas include, but are not limited to:

- The State Board of Education's work on initiating a more robust and visible strategic plan;
- DEED's successful implementation of the requirements of the Alaska Safe Children's Act (HB44);
- DEED's strong partnerships with other state entities to improve its Career and Technical Education initiatives;
- Formal complaints are processed in a timely and appropriate manner;
- Significant improvement in DEED's Teacher Certification section;
- DEED's use of software tools for improving data collections from districts; and
- DEED's efforts to improve food and nutrition services to districts.

(Intentionally left blank)

## **1 EXECUTIVE SUMMARY**

A performance review of the Alaska Commission on Postsecondary Education (ACPE) and the Alaska Student Loan Corporation (ASLC) was initiated in January 2016 and conducted according to the requirements of House Bill 30 (Chapter 19, SLA 2013). After a competitive procurement process, the Division of Legislative Audit (DLA) selected Public Works LLC to conduct the ACPE and ASLC performance review, with subcontractor Morningside Research and Consulting, Inc., managing the project.

ASLC and ACPE are two distinct and separate legal entities—a public corporation and a general government agency, respectively. ASLC is a student loan organization with the authority to issue debt to finance loan originations. ASLC retains ownership of the student loans it finances. ASLC contracts with ACPE for loan servicing and administrative support and holds ACPE responsible for complying with federal statutes and regulations governing student loans. ASLC retains the risk associated with non-compliance. In addition to providing loan servicing and administrative support to ASLC, ACPE has basic governmental responsibilities such as regulating postsecondary institutions in Alaska and administering state-financed student financial aid.

### **1.1 METHODOLOGY**

Over the course of the performance review, the review team conducted interviews and group meetings with 26 ACPE staff members, 5 ACPE board members, 4 ASLC board members, and 8 external stakeholders. These interviews, an extensive review of ACPE and ASLC data and documents, and best practices and benchmarking research provided the review team with a full understanding of the procedural, operational, and administrative processes within ACPE to identify areas of improved efficiency and effectiveness. This review would not have been possible without the engagement of ACPE staff or their willingness to be forthcoming with information and feedback.

### **1.2 ACHIEVEMENT OF REVIEW OBJECTIVES**

The ACPE and ASLC performance review was conducted in accordance with HB 30, and guided by the five objectives in the scope of work established by DLA. The review found that ACPE and ASLC are functioning well overall, however, the review identified several areas for potential improvement. Each of the review objectives was met, with specific findings and recommendations outlined in individual chapters of the report.

### 1.3 SUMMARY OF FINDINGS AND RECOMMENDATIONS

This performance review report is organized by the issues identified during the review process. Detailed information about the findings and recommendations related to each issue are included in the full report. Below is a summary of the issues discussed in each chapter in the report.

**Strategic planning.** ACPE and ASLC do not currently have strategic plans. Although the organization developed a “clarity map” during a process improvement exercise, this is not a substitute for a long-term strategic plan. Strategic planning is considered a best practice for government organizations. Other state of Alaska corporations and other student loan corporations across the U.S. have strategic plans. A comprehensive strategic plan should be created for both ACPE and ASLC.

**Performance measure compliance.** To be in compliance with AS 37.07.050, Alaska state agencies must provide budget and performance information to the governor in annual budget requests as outlined in the statute. Alaska Statute 37.07.050 outlines 40 individual requirements for performance measures. For this review, the statutory requirements were compared against the ACPE sections of the state of Alaska operating budgets, Office of Management and Budget (OMB) performance details, Results Delivery Unit reports, ACPE Annual Report 2014, and 2014 ACPE Winter and Spring Updates. Based on this review, ACPE met 23 of the statutory requirements, partially met seven requirements, and did not meet 10 requirements. In addition, some of the performance measures that are currently used may not effectively measure whether the agency is meeting mission and goals. ACPE should provide complete information as required by statute, ensure that all of the information is compiled and submitted as required, and consider revising or adding performance measures.

**Institutional authorization.** The federal government through the U.S. Department of Education requires each state to have an approval process for postsecondary institutional operations and to monitor the financial responsibility of institutions. The federal government also requires review of institutions from outside Alaska that deliver programs of study in an online or other distance delivery mode. This performance review found that the ACPE application for approval to operate is a comprehensive form that could be a model for other states. However, the fees that ACPE charges for authorization cover less than one-fourth of total direct and indirect costs of conducting the authorizations. ACPE charges lower fees for authorization and grants more exemptions to authorization than other state student loan corporations. ACPE should increase fees for authorization and exemption, establish a fee for renewal of exemptions from authorization, charge a site visit



fee sufficient to cover all costs of a site visit, and review the exemptions from authorization to ensure that sufficient consumer protection is afforded to prospective Alaska students.

**Call center challenges.** The Customer Service unit of ACPE provides assistance to customers seeking details on their student loans and grant and scholarship awards. The performance review found that the call center experiences high staff turnover and operates during more limited hours than other student loan corporation call centers. Call center staff reported that the Topic-Based Index (TBI) that they use to access information during customer calls can be confusing and cumbersome. ACPE should explore whether more flexible staffing arrangements could support extended hours, seek guidance from a professional librarian on the organization of the TBI, implement additional metrics to measure efficiency more accurately, and utilize social media as a means of customer service communication.

**Stakeholder input.** Although ACPE has commissioned two surveys (in 2013 and 2015) that provided useful feedback to ACPE about current and potential Alaska student loan borrowers and scholarship recipients, ACPE does not currently have a mechanism for regularly obtaining feedback from borrowers of the 35,000 loan accounts that the organization services or from other customers of ACPE. Surveys that use consistent metrics and are administered at regular intervals could allow ACPE to draw conclusions about trends in experiences and satisfaction. ACPE should conduct regular customer service surveys to determine areas of satisfaction and areas needing attention.

**Regulatory burdens.** ASLC, like other state alternative student loan organizations, operates in a highly-regulated environment. ASLC is governed by federal statutes relating to the sale of taxable and tax-exempt bonds and the regulation of student loans, as well as many state statutes. Major changes to federal student loan rules in 2010 dramatically decreased the loan volume originated by ASLC. Although the corporation weathered the changes well, continues to operate on the proceeds of its existing student loans, and continues to have a good credit rating for issuing new bonds for student loans, several pieces of new legislation could have an impact on operations.

- Senate Joint Resolution 2 (SJR2), which is currently awaiting transmittal to the governor, would allow the state to place on a statewide general election ballot the question of whether ASLC may use general obligation (GO) bond authority for the purpose of funding student loans. Issuing GO bonds to finance student loans would allow ASLC to offer lower interest rates to borrowers and increase loan volume, assuming market conditions are favorable.

- House Bill 305 (Recreational/Avocational Training Exemption) was introduced early in the 2016 legislative session to allow yoga instruction programs and yoga teacher training to be exempted from the oversight of the ACPE institutional authorization program. The bill was signed on June 18, 2016.
- House Bill 256, the FY 2017 appropriations bill, proposed reductions to ACPE outreach activities and the ACPE travel budget. The bill was signed on July 11, 2016.
- In addition to state legislation, ACPE is currently awaiting clarification from the U.S. Department of the Treasury on rules that would allow the corporation to offer a student loan refinancing program. ACPE is proceeding with plans to launch a pilot refinancing program in the summer of 2016 to assess demand for refinancing.

ACPE should continue to explore loan refinancing as the federal rules are clarified and ASLC should continue to pursue the use of GO bonds to fund student loans if SJR2 is signed by the governor.

**Information technology (IT) systems and functionality.** ACPE staff noted that the recent conversion to Higher Education Loan Management System (HELMS.net), a new loan-servicing platform, and the Alaska Student Aid Portal (ASAP) for managing grants and scholarships has addressed many of the IT issues that ACPE experienced in the past. During this review, three remaining IT challenges were identified: cosigners lack access to loan information online, borrowers do not have the ability to direct payments for multiple loans online, and the process used for testing updates to HELMS.net reportedly delays the implementation of needed updates. ACPE should update HELMS.net to allow cosigner access to the extent allowed by law and to allow borrowers to direct payments for multiple loans online. ACPE should consider whether the testing system used for updating HELMS.net is the most efficient way of implementing updates.

**Future of ASLC.** Over the last two years, ASLC has come under increased scrutiny as the Alaska legislature has had to make difficult decisions to balance the state budget. In the last two sessions, the legislature has reduced or proposed to reduce budget authority for ACPE and investigated the consequences of transferring or even eliminating ASLC and its existing assets. In light of these questions and concerns, the operations and administration of ASLC were reviewed to identify the various factors related to the costs and benefits to the state of Alaska.

All of the information analyzed for this performance review indicates that ASLC is functioning well. ACPE and ASLC have made a number of adjustments in response to external forces and improvements to internal operations over the last several years. Although students have the option to obtain student loans on the private market, these loans do not compare favorably to ASLC. Generally, private student loans carry more risk and have higher interest rates.

One of the most significant benefits of ASLC is that the proceeds from the loans can be used to fund economic development activities designed to strengthen the future Alaska workforce. Every dollar awarded in an ASLC loan or in a grant or scholarship administered by ACPE to a student at the University of Alaska generates an economic benefit of \$3.25. ASLC loan proceeds also can be used to fund economic development activities, such as outreach activities designed to raise awareness of postsecondary education opportunities. The loans, scholarships, and grants administered by ACPE encourage Alaska students to stay in Alaska for postsecondary education and to enter the Alaska workforce after graduation.

While a more detailed cost-benefit analysis is beyond the scope of this performance review, the benefits of ASLC to the state of Alaska are significant in terms of the positive economic development impacts of the corporation. The corporation funds its own operations as well as much-needed outreach activities to encourage Alaskans to obtain postsecondary education. There are no costs to the Alaska general fund for maintaining ASLC.

There are, of course, philosophical arguments about the proper role of government that can be made about any government activity. Those are beyond the scope of a review such as this. Based solely on the factors properly considered in this performance review, however, it is recommended that ASLC be maintained and allowed to 1) engage in activities to increase student loan volume and reduce loan interest rates and 2) fund outreach activities to encourage Alaska students to pursue postsecondary education in Alaska, as these produce net quantifiable benefits for the state and its citizens.

(Intentionally left blank)

# Report Highlights

## Why DLA Performed This Audit

The purpose of the audit was to determine if there is a need for the board's continued existence and whether its termination date should be extended. The board is set to sunset June 30, 2017, and will have one year from the date to conclude its administrative operations.

## What DLA Recommends

1. The board chair should review the annual report for accuracy and completeness before final submission to the Department of Commerce, Community, and Economic Development.

# A Performance Audit of the Department of Commerce, Community, and Economic Development, Board of Veterinary Examiners (board)

March 18, 2016

Audit Control Number 08-20094-16

## REPORT CONCLUSIONS

The board is serving in the public's interest by effectively licensing and regulating veterinarians and veterinary technicians. The board monitors licensees and works to ensure only qualified individuals practice. Furthermore, the board develops and adopts regulations to improve the veterinarian and veterinary technician occupations in Alaska.

In accordance with AS 08.03.010(c)(22), the board is scheduled to terminate on June 30, 2017. We recommend that the legislature extend the board's termination date to June 30, 2025.

(Intentionally left blank)

# Report Highlights

## Why DLA Performed This Audit

The purpose of the audit was to determine if there is a need for the board's continued existence and whether its termination date should be extended. The board is set to sunset June 30, 2017, and will have one year from the date to conclude its administrative operations.

## What DLA Recommends

1. Division of Corporations, Business and Professional Licensing (DCBPL) management, in conjunction with the board, should increase licensing fees to eliminate the board's operating deficit.
2. The DCBPL director should take steps to ensure license records are accurately recorded.
3. The legislature should consider alternate forms of regulating the midwifery profession.

# A Performance Audit of the Department of Commerce, Community, and Economic Development, State Board of Certified Direct-Entry Midwives (board)

April 30, 2016

Audit Control Number 08-20095-16

## REPORT CONCLUSIONS

The board is serving the public's interest by effectively licensing and regulating certified direct-entry midwives and apprentice midwives. The board monitors licensees and works to ensure only qualified individuals practice. Furthermore, the board adopts regulations to improve the practice of midwifery.

In accordance with AS 08.03.010(c)(8), the board is scheduled to terminate on June 30, 2017. We recommend that the legislature extend the board's termination date to June 30, 2021.

(Intentionally left blank)



# Report Highlights

## Why DLA Performed This Audit

The purpose of the audit was to determine if there is a need for the board's continued existence and whether its termination date should be extended. The board is set to sunset June 30, 2017, and will have one year from that date to conclude its administrative operations.

## What DLA Recommends

All prior year recommendations were resolved and there were no new recommendations as part of the current sunset audit.

# A Sunset Review of the Department of Commerce, Community, and Economic Development, State Board of Registration for Architects, Engineers, and Land Surveyors (board)

April 27, 2016

Audit Control Number 08-20096-16

## REPORT CONCLUSIONS

The board is serving the public's interest by effectively registering and regulating architects, engineers, land surveyors, and landscape architects. The board monitors registrants and works to ensure only qualified individuals practice in Alaska. Furthermore, the board develops and adopts regulations to improve the architect, engineer, land surveyor, and landscape architect occupations.

In accordance with AS 08.03.010(c)(3), the board is scheduled to terminate on June 30, 2017. We recommend that the legislature extend the board's termination date to June 30, 2025.

(Intentionally left blank)

# Report Highlights

## Why DLA Performed This Audit

In accordance with AS 24.20.271(11), the audit evaluates the accuracy of RCA's FY 15 annual report concerning statutory timelines, timeline extensions, and performance measures. This audit does not conclude on the effectiveness of RCA's decisions.

## What DLA Recommends

The audit does not make new recommendations and considers the prior audit recommendation resolved.

# A Performance Audit of the Department of Commerce, Community, and Economic Development, Regulatory Commission of Alaska FY 15 Annual Report

March 25, 2016

Audit Control Number: 08-30087-16

## REPORT CONCLUSIONS

The Regulatory Commission of Alaska's (RCA) FY 15 annual report data for dockets, tariff filings, and statutory extensions was materially accurate. An analysis of case management system data and hard copy files concluded that the commission accurately reported its compliance with timeline requirements for utility, pipeline, and regulatory dockets; tariff filings; and statutory extensions. The auditors confirmed the performance measures relating to docket and tariff filing timelines, informal complaints, and consumer outreach were materially accurate.

(Intentionally left blank)

# Report Highlights

## Why DLA Performed This Audit

The audit of the university's travel was requested to identify potential savings and efficiencies. This audit reports travel expenditures, identifies opportunities for reducing costs and gaining efficiencies, provides recommendations to reduce the university's travel expenditures, and provides a status of prior travel audit recommendations.

## What DLA Recommends

1. UA's chief financial officer (CFO) should implement a consistent system-wide accounting structure to record travel.
2. UA's CFO should take full advantage of State of Alaska travel-related contracts to reduce travel costs.
3. UA's president should consider acquiring a booking tool to obtain discounts and improve management of travel.
4. UA's president should establish regulations to improve internal controls over EasyBiz accounts and mileage.
5. UA's president should require the travel and expense management system be implemented by all UAF departments.
6. UA's president should consolidate the three UA-issued credit cards into a single corporate account and limit use of personal credit cards for travel.
7. UA's president should improve travel regulations to reduce travel costs.
8. UA's CFO should work with each campus' management to improve the review of travel transactions.

# A Performance Audit of the University of Alaska (UA) Travel

March 11, 2016

**Audit Control Number 45-30086-16**

## REPORT CONCLUSIONS

The university's travel expenditures fluctuated between \$22.1 million in FY 12 and \$21.9 million in FY 14 with a significant decrease to \$18.6 million in FY 15. According to management, the number of trips was intentionally decreased in FY 15 to contain costs. Further savings could be realized if UA implements changes recommended in this audit.

A review of UA's procurement practices found UA did not leverage its buying power and did not take advantage of the State's contracts to achieve the best possible price for travel. Numerous State of Alaska contracts are available to the university that would help reduce travel costs. The audit estimates that the university could have reduced travel costs in FY 15 by \$257,000 in airfares and \$132,000 in car rentals if the State's contracts had been utilized.

Although the State's airfare contracts were not utilized, the university did take advantage of savings offered through the Alaska Airlines EasyBiz program. In FY 15, the university redeemed 3.6 million EasyBiz miles for 234 tickets. Using the EasyBiz program reduced UA airfare costs; however, internal controls over EasyBiz mileage need improvement to ensure the efficient and authorized use of miles.

The audit found UA's travel scheduling and purchasing processes are decentralized with no single system used by all departments. The system-wide use of a travel booking tool and a single university credit card account would improve efficiency, transparency, and reduce costs.

In FY 15, UA implemented a new electronic travel and expense management system. Despite its benefits, several University of Alaska Fairbanks (UAF) departments opted out of using the new system and did not realize the improved efficiency and transparency provided by the system.

(Intentionally left blank)

# ALASKA STATE LEGISLATURE

## LEGISLATIVE BUDGET AND AUDIT COMMITTEE

### Division of Legislative Finance



P.O. Box 113200  
Juneau, AK 99811-3200  
(907) 465-3795  
FAX (907) 465-1327  
[www.legfin.akleg.gov](http://www.legfin.akleg.gov)

### MEMORANDUM

DATE : January 11, 2017

TO: The Honorable Gary Stevens, Chairman  
Legislative Budget and Audit Committee

Kris Curtis  
Legislative Auditor

FROM: David Teal, Director

SUBJECT: Reductions in State Expenditures Associated with the Department of Health and Social Services' Performance Reviews

Per AS 24.20.231(7), the Legislative Finance Division is required to "identify the actual reduction in state expenditures in the first fiscal year following a review under AS 44.66.040 resulting from that review and inform the Legislative Budget and Audit Committee of the amount of the reduction."

The Legislative Finance Division has identified the following reductions in state expenditures attributable to this report in the current year (FY17) but does not expect to report savings in future years.

Discussions with the Department of Health and Social Services brought out the following major points:

1. the review was useful to the Department in terms of examining internal policies and procedures, but
2. the review provided very few suggestions for budget reductions that were not already under consideration by the Department, so that
3. savings achieved by the Department (other than those listed below) should not be attributed to the review.

### **The following savings occurred as a result of the DHSS Performance Review:**

**Office of Children's Services/Foster Care Base Rate – Department Performance Review Recommendation 3.2.I.2.** Separate foster care licensing statutes and regulations from other residential care facilities. This will make it easier for foster care homes to become fully licensed and easier for relatives, in particular, to become licensed. Streamline and clarify what constitutes a fully licensed foster care home for the purpose of Title IV-E eligibility.

- **FY17 Savings: \$2,326.5 UGF** was replaced with Federal Receipts. Although the Performance review report estimated that if Alaska reaches the national average eligibility for Title IV funding, it would allow for \$4.6 million in annual general fund savings, because the department only partially concurred with the report's recommendation, the legislature removed about half of the report's projected savings in FY17.
- **FY18 Savings: \$600.0 UGF** was replaced with Federal Receipts in the Governor's FY18 request.

**The following recommendations *may have resulted in reductions* as a result of the DHSS Performance Reviews.**

**Medicaid Recommendations.** Many of the recommendations involving Medicaid were changes the department was already considering and/or were included in SB74.

- **FY17 Savings: Unclear.** It is unclear whether recommended savings were a direct result of the Performance Review or were policies the department was already planning to implement. Because SB74 requires that DHSS submit an annual report to the legislature on the status and results of Medical Assistance reforms (and include savings), Legislative Finance will not submit a separate report showing savings in future years. The first annual report can be found on the following web site:  
[http://dhss.alaska.gov/HealthyAlaska/Documents/2\\_FY2016\\_Annual\\_Medicaid\\_Reform\\_Report\\_11152016.pdf](http://dhss.alaska.gov/HealthyAlaska/Documents/2_FY2016_Annual_Medicaid_Reform_Report_11152016.pdf)

**Division of Public Health Recommendations under Organizational and Administrative Structure Performance Review Recommendations 8.1.C.1, 3.1.C.2, AND 8.1.G.3 – Increase Billing Capacity to Reduce the Demand on General Funds.** According to DHSS, although most of the potential reimbursement that would come from third party billing is currently collected, because there is always room for improvement, the division will periodically revisit the feasibility of third party billing. The bullets below summarize budgeted savings and the department's response to legislative intent that Public Health increase third party collections.

**Public Health Laboratories.** Public Health Laboratories does not believe that collections can increase significantly for the following reasons.

- The bulk of its work is conducted for other departments (primarily the Department of Corrections and PH Nursing).
  - All available Medicaid receipts are currently collected.
  - Several healthcare providers are already billed directly for testing that is not available through private sector laboratories.
  - A number of services provided are not considered billable (such as testing for communicable diseases).
- **FY17 Savings: Unclear.** Although the legislature reduced the FY17 budget by \$600.0, an equivalent amount was transferred to PH Laboratories in the FY17 Management Plan to fund infectious disease testing.
  - **FY18 Savings:** No reductions are included in the FY18 budget.

**Public Health (PH) Nursing.** PH Nursing does not believe that collections can increase significantly for the following reasons.

- It collects all available Medicaid receipts where applicable.
- Direct clinical services (which are billable services) are only 25% of all services provided and PH Nursing collects approximately 83% of what is charged.



In addition, in order to conduct third party billings with health plans, Nursing must first:

- Become “credentialed” and establish a contract with each health plan,
- Determine the appropriate billing solution such that Nursing can conduct code management, billing, collections, and denial management,
- Add resources to expand billing capabilities, electronic health records, conduct collections and denial management, and conduct on-going training for clerical and intake staff.
- Additional legal authority would be needed to establish and collect reasonable fees for all public health services such as for public health administrative functions (e.g., enforcement activities, certifications, and data extracts) and professional services (e.g., data analysis, expert testimony, consultations, training, and technical assistance).

- **FY17 Savings in Public Health Nursing: Unclear.** Although \$500.0 UGF was replaced with \$1 million of GF/Program Receipts with the intention of having PH Nursing increase collections from third-party payers, Public Health Nursing does not expect to significantly increase revenue for the reasons above.

However, PH Nursing is working to increase collections through a variety of means, including

- staff training on skilled medical professional services coding for maximum reimbursement;
- a review and update of the sliding fee discount process to increase first-party collections at time of service;
- development of a standardized desktop tool to use when discounting fees for consistent application of the sliding fee schedule; and
- tracking the full value of direct services provided to clients whether or not the service is billable (ex. communicable disease investigations, breast and cervical health checks reimbursed by federal funds).

Although there were a number of recommendations in the three Performance Reviews, the department believes savings—other than for the Office of Children’s Services—cannot be directly attributed to the performance review.

cc: Jon Sherwood, Deputy Commissioner, Department of Health & Social Services  
Karen Forrest, Deputy Commissioner, Department of Health & Social Services  
Shawnda O’Brien, Acting Assistant Commissioner, Department of Health & Social Services

(Intentionally left blank)