

STATE OF ALASKA
LEGISLATIVE BUDGET AND AUDIT COMMITTEE
ANNUAL REPORT
2017

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

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LEGISLATIVE AUDITOR
Kris Curtis, CPA, CISA

LEGISLATIVE FISCAL ANALYST
David Teal

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30th Alaska State Legislature

Legislative Budget & Audit Committee

January 16, 2018

Members of the Legislature

Fellow Members:

In accordance with AS 24.20.311, the following is the 2017 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 2017 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 2017.

Respectfully submitted,

Legislative Budget and Audit Committee

A handwritten signature in cursive script, appearing to read "Bert Stedman".

Senator Bert Stedman, Chair

A handwritten signature in cursive script, appearing to read "Andy Josephson".

Representative Andy Josephson, Vice Chair

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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.

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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.

ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



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SUMMARY OF: State of Alaska, Single Audit for the Fiscal Year Ended June 30, 2016

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 \$4.1 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 Uniform Guidance*.

The report contains an opinion on the basic financial statements of the State of Alaska for FY 16, 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 has substantially complied with the applicable laws and regulations in the administration of its 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 63 recommendations, of which 15 are unresolved issues from last year. Of the 63 recommendations included in this report, 11 recommendations are 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 financial and federal program related prior audit recommendations not resolved as of June 30, 2016.

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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, 2018, and will have one year from that date to conclude its administrative operations.

What DLA Recommends

1. The board members, Alcohol and Marijuana Control Office (AMCO) director, and enforcement supervisor should work together to formally establish an enforcement plan to direct limited enforcement resources.
2. The board and the AMCO director should implement a process to monitor and track complaints to ensure they are assessed for follow up action and investigated in a timely manner.
3. The AMCO director should develop written procedures for establishing the expiration dates of marijuana handler permits and ensure staff receive the appropriate training.
4. The AMCO director should develop and implement procedures to segregate the duties for calculating and remitting fees to local governments.

A Sunset Review of the Department of Commerce, Community, and Economic Development, Marijuana Control Board (board)

October 6, 2017

Audit Control Number: 08-20100-17

REPORT CONCLUSIONS

The board is serving the public's interest by effectively licensing marijuana establishments and developing and adopting regulations necessary to implement statutes that allow for the cultivation, manufacture, and sale of marijuana in Alaska. The audit makes four recommendations for operational improvements.

In accordance with AS 44.66.010(a)(13), the board is scheduled to terminate on June 30, 2018. We recommend the legislature extend the board's termination date to June 30, 2024.

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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, 2018, and will have one year from that date to conclude its administrative operations.

What DLA Recommends

All prior audit 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, Board of Professional Counselors (board)

April 14, 2017

Audit Control Number 08-20102-17

REPORT CONCLUSIONS

The board is serving the public's interest by effectively licensing and regulating professional counselors and certified counselor supervisors. The board monitors licensees and works to ensure only qualified individuals practice in Alaska. Furthermore, the board develops and adopts regulations to improve the professional counselor occupation.

In accordance with AS 08.03.010(c)(6), the board is scheduled to terminate on June 30, 2018. We recommend that the legislature extend the board's termination date to June 30, 2026.

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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, 2018, and will have one year from that date to conclude its administrative operations.

What DLA Recommends

All prior sunset audit recommendations were either resolved or the issues still outstanding were considered insignificant. There were no new recommendations as part of the current sunset audit.

A Sunset Review of the Department of Commerce, Community, and Economic Development, Board of Marital and Family Therapy (board)

May 9, 2017

Audit Control Number 08-20103-17

REPORT CONCLUSIONS

The board is serving the public's interest by effectively licensing and regulating marital and family therapists and approving marital and family therapist supervisors. The board monitors licensees and works to ensure only qualified individuals practice in Alaska. Furthermore, the board develops and adopts regulations to improve the marital and family therapist occupation.

In accordance with AS 08.03.010(c)(11), the board is scheduled to terminate on June 30, 2018. We recommend that the legislature extend the board's termination date to June 30, 2026.

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Report Highlights

Why DLA Performed This Audit

The purpose of the audit was to determine if the commission should continue to exist and to what extent its termination date should be extended. The commission is set to sunset June 30, 2018, and will have one year from that date to conclude its administrative operations.

What DLA Recommends

1. The Division of Corporations, Business, and Professional Licensing's chief investigator should continue to improve oversight to ensure cases are actively investigated and completed timely.

A Sunset Review of the Department of Commerce, Community, and Economic Development, Real Estate Commission (commission)

June 15, 2017

Audit Control Number 08-20105-17

REPORT CONCLUSIONS

The audit concludes the commission is serving the public's interest by effectively licensing and regulating real estate licensees and offices. The commission monitored licensees and worked to ensure only qualified individuals practice in Alaska. Furthermore, the commission developed and adopted regulations to improve the real estate industry and better protect the public.

In accordance with AS 08.03.010(c)(19), the commission is scheduled to terminate on June 30, 2018. We recommend that the legislature extend the commission's termination date to June 30, 2026.

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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, 2018, and will have one year from that date to conclude its administrative operations.

What DLA Recommends

1. Division of Corporations, Business, and Professional Licensing's (DCBPL) director should continue to improve administrative support to the board.
2. DCBPL's director, in consultation with the board, should reduce fees to address the surplus.

A Sunset Review of the Department of Commerce, Community, and Economic Development, Board of Certified Real Estate Appraisers (board)

June 13, 2017

Audit Control Number 08-20106-17

REPORT CONCLUSIONS

The audit concludes the board is serving the public's interest by certifying and licensing real estate appraisers. The board monitored certificate holders and licensees, and worked to ensure only qualified individuals were issued certificates and licenses in Alaska. Furthermore, the board developed and adopted regulations to comply with federal requirements, improve the real estate appraisal industry, and better protect the public.

In accordance with AS 08.03.010(c)(20), the board is scheduled to terminate on June 30, 2018. We recommend that the legislature extend the board's termination date to June 30, 2026.

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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, 2018, and will have one year from that date to conclude its administrative operations.

What DLA Recommends

1. Division of Corporations, Business, and Professional Licensing's (DCBPL) director, in consultation with the board, should reduce fees.
2. DCBPL's director should develop and implement procedures to ensure courtesy licensees comply with monthly reporting requirements.

A Sunset Review of the Department of Commerce, Community, and Economic Development, Board of Psychologist and Psychological Associate Examiners (board)

October 5, 2017

Audit Control Number 08-20107-17

REPORT CONCLUSIONS

Overall, the audit concludes the board served the public's interest by effectively licensing and regulating psychologists and psychological associates. The board monitored licensees and worked to ensure only qualified individuals practice in Alaska.

In accordance with AS 08.03.010(c)(18), the board is scheduled to terminate on June 30, 2018. We recommend that the legislature extend the board's termination to June 30, 2026.

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Report Highlights

Why DLA Performed This Audit

The purpose of this 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, 2018, and will have one year from that date to conclude its administrative operations.

What DLA Recommends

1. The Division of Corporations, Business, and Professional Licensing's (DCBPL) director, in consultation with the board, should take action to improve procedures to ensure licensure requirements are met.
2. DCBPL's director should address the Federal Bureau of Investigations audit findings and concerns.
3. The director of the Office of the Governor, Boards and Commissions should work to fill the public member position.

A Sunset Review of the Department of Commerce, Community, and Economic Development, Board of Massage Therapists (board)

October 11, 2017

Audit Control Number 08-20109-17

REPORT CONCLUSIONS

In all areas except licensing, the audit found the board was operating in the public's interest. In general, meetings were conducted effectively, investigations were appropriately processed, and the board actively issued or changed regulations to improve the industry and better protect the public.

The audit concluded the board and DCBPL staff should improve its licensing procedures. Testing found that applicants were not consistently issued licenses in accordance with statutes, regulations, and/or procedures. Additionally, improvements are needed to comply with the federal standards over criminal history record information obtained as part of the licensing process.

In accordance with AS 08.03.010(c)(12), the board is scheduled to terminate on June 30, 2018. We recommend that the legislature extend the board's termination date to June 30, 2022.

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Report Highlights

Why DLA Performed This Audit

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

What DLA Recommends

There were no new recommendations as part of the current sunset audit.

A Sunset Review of the Department of Health and Social Services (DHSS), Alaska Health Care Commission (commission)

October 17, 2016

Audit Control Number 06-20098-17

REPORT CONCLUSIONS

Overall, the audit found the commission failed to operate in the public's interest by not developing a statewide health plan. The prior sunset audit dated May 6, 2013, concluded that, without a statewide health plan, the actions of the commission may not effectively impact health care in Alaska. The prior audit recommended the commission coordinate with DHSS on development of a plan and to clearly define roles and responsibilities of the commission. Subsequent to the audit, no significant progress was made towards development of an actionable plan. The commission has been inactive since July 2015 due to a lack of funding.

In accordance with AS 44.66.010(a)(9), the commission is scheduled to terminate on June 30, 2017. We do not recommend extending the commission's termination date.

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Report Highlights

Why DLA Performed This Audit

The audit of the Crime Lab was requested, in part, to determine if the new crime lab facility had an impact on available forensic services and the extent services were outsourced. The audit evaluates whether evidence control procedures at the new facility are suitably designed to ensure the integrity of evidence, identifies the number of untested Sexual Assault Response Team kits stored at the Crime Lab, and documents backlogs for all services. The audit determines staff turnover and evaluates personnel practices. Lastly, the audit evaluates and verifies the accuracy of the Crime Lab's performance measures.

What DLA Recommends

1. DPS' commissioner should ensure building security and evidence control procedures minimize the potential for evidence loss and theft.
2. The Crime Lab manager should develop policies and procedures to ensure access to the Laboratory Information Management System (LIMS) is granted based on users' business needs.
3. The Crime Lab manager should develop and follow detailed written procedures to ensure all employees complete security clearance verification prior to accessing LIMS.
4. The Crime Lab manager should comply with policies and procedures over drug standards.
5. DPS' commissioner should develop policies and procedures to ensure performance measures are accurate, relevant, complete, and based on an appropriate methodology.

A Performance Audit of the Department of Public Safety (DPS), Alaska Scientific Crime Detection Laboratory (Crime Lab), Select Issues

November 7, 2016

Audit Control Number 12-30084-17

REPORT CONCLUSIONS

The audit concludes that the new Crime Lab facility has not expanded the forensic services provided or reduced the process time for service requests. Despite the completion of the new Crime Lab facility, no additional forensic services have been added.

Toxicology related to traffic offenses is the only forensic service consistently outsourced. The cost of outsourcing traffic-related offenses is partially covered by a federal grant.

The audit was unable to evaluate the costs versus benefits of expanding the Crime Lab to provide additional forensic services due to a lack of cost data. A survey of law enforcement agencies identified a demand for additional forensic services, especially toxicology.

The audit found that from July 2007 through April 2016, backlogs existed in most services; however, backlogs have been reduced in 2016. According to a survey of Crime Lab forensic scientists and technicians, the primary reason for backlogs has been a lack of forensic scientists. The audit identified that 20 forensic scientist and technician positions were vacant in excess of six months during the audit period.

There were 122 Sexual Assault Response Team (SART) kits stored at the Crime Lab as of July 20, 2016. Of the 68 SART kits awaiting analysis by the Crime Lab, 74 percent were in backlog status (older than 30 days). The total number of untested kits maintained by law enforcement agencies statewide is unknown, as Crime Lab management lacks a method for tracking the number of kits distributed or used.

Report Highlights (Continued)

REPORT CONCLUSIONS (Continued)

The audit concludes that Crime Lab evidence control procedures do not adequately protect against evidence theft or loss. Furthermore, improvements are needed in building security and access controls to adequately protect sensitive areas of the Crime Lab.

A comparison to national benchmarks was not possible; however, the audit provides processing information to help gauge productivity between fiscal years. Fifty-five percent of the forensic analysis service requests received between July 2015 and April 2016 were completed within 30 days.

The audit concludes that performance measures were not accurately reported by Crime Lab management. Additionally, turnaround time from the date evidence was received by the Crime Lab to the date results were provided to the requesting agency was not tracked or reported. The audit also found unreliable information was used to calculate performance measures related to the DNA database.

The Crime Lab experienced consistent staff turnover from July 2007 through April 2016. The turnover rate does not appear excessive except for the FY 10 rate showing that 44 percent of physical discipline forensic staff left the lab. Review of personnel practices found improvements were needed over staff supervision and hiring.

ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Finance



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MEMORANDUM

DATE : January 3, 2017

TO: The Honorable Bert Stedman, Chairman
Legislative Budget and Audit Committee

Kris Curtis
Legislative Auditor

FROM: David Teal, Director

SUBJECT: Reductions in State Expenditures Associated with the Department of Education and Early Development and Alaska Commission on Postsecondary Education 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."

There were two separate reviews in this cycle: one of the Department of Education and Early Development (DEED), and one of the Alaska Commission on Postsecondary Education (ACPE) and Alaska Student Loan Corporation (ASLC). The Legislative Finance Division has not identified any reductions in state expenditures directly attributable to these reports in the current year (FY18) but there is a directly related reduction in the FY19 Governor's budget of \$44,200 of designated general funds.

As part of the review of DEED, the department put together nine possible budget reductions, totaling a 10% reduction in UGF funding. While seven of the nine recommendations were enacted in the FY17 budget, none of the reductions can be directly attributed to the performance review, which was not released until after the FY17 budget was enacted. The seven reductions included four temporary or expiring programs and three reductions that further reduced or eliminated funding for grants that had already been reduced in the previous fiscal year. The other reductions (elimination of grants for Parents as Teachers, Best Beginnings, and Pre-K grants) were proposed by the Governor in FY17 but not adopted by the legislature.

The review team made one additional recommendation to reduce expenditures: the consolidation of the Professional Teaching Practices Commission and the Teacher Certification program. This reduction would require legislation to fully implement. However, in the FY18 Management Plan, the department consolidated

administrative functions of the two programs and deleted a position. The FY19 Governor's budget request includes a reduction of \$44,200 of General Fund Program Receipts.

Rather than find new reductions in expenditures, the value of the performance review appears to have been to help the department absorb budget reductions imposed by the legislature. The department's unrestricted general fund budget was reduced by 44% between FY15 and FY18. The performance review was used by the department to help guide a restructuring effort in FY17 and FY18. Discussions with the department's leadership indicate that the performance review was useful for prioritizing the remaining funding.

The review of ACPE and ASLC did not recommend any budget reductions. However, it did recommend increases to fees for institutional authorizations. ACPE is undergoing a major review of its institutional authorization process, including the fee schedule, and expects regulations to be issued in early 2019. If fee revenue increases, then ACPE will be able to reduce the subsidy from ASLC receipts, which could result in lower student loan rates in the future. While this had been discussed previously, the findings of the performance review made it a higher priority. ACPE also implemented a new strategic plan and initiated a customer service survey in response to recommendations made in the review.

cc: Sana Efird, Department of Education and Early Development
Heidi Teshner, Department of Education and Early Development
Stephanie Butler, Alaska Commission on Postsecondary Education