MINUTES

JOINT FINANCE-APPROPRIATIONS COMMITTEE

DATE:	Thursday, January 09, 2025
TIME:	8:00 A.M.
PLACE:	Room C310
MEMBERS:	Senators Co-Chair Grow, Woodward, Cook, Bjerke, Hart, Carlson, Zuiderveld, Galloway, Ward-Engelking, Wintrow
	Representatives Co-Chair Horman, Miller, Furniss, Handy, Petzke, Tanner (14), Manwaring, Mitchell, Price, Galaviz
ABSENT/ EXCUSED:	None

Co-Chair Horman called the meeting to order at 8:00 a.m.

Co-Chair Horman made opening remarks about the importance of legislative audits as JFAC prioritizes transparency accountability in state budgets. It is the duty of the JFAC Co-Chairs to approve state audits; the Co-Chairs would like the rest of the committee updated on the audit findings while they review the budgets of the various state agencies.

Co-Chair Grow commented the Legislature appropriates the state's money as well as ensuring the money is appropriately spent.

Ms. April Renfro, Manager, Legislative Services Office (LSO) Audit Division, gave an overview of the Division. She cited the Division's statutory authority and outlined the scope of its work in providing an annual comprehensive financial report, annual single audit reports, accountability reports from agency reviews, and various special reports to the Legislature. The Audit Division is required to provide reports of uncorrected audit findings.

Co-Chair Grow stated JFAC has increased the stature and effectiveness of audits to help state agencies understand the consequences of long-term uncorrected audit findings. If an agency can't correct its audit findings and demonstrate its ability to spend funds according to guidelines and safeguards, it makes JFAC question how much additional funding to give the agency.

Co-Chair Horman stated corrective action on audit findings can range from something minor, such as making sure two individuals are watching the money for a transaction, to criminal investigations. Audit findings can be problems requiring a fix or problems requiring a referral for further investigation.

Ms. Renfro explained the audit process and specified all follow-up on prior findings must be completed by the auditee, then verified by the auditor. She stated of current uncorrected findings, 30% have been uncorrected for some period of time.

In response to a committee question, **Ms. Renfro** gave several reasons why audit findings may not be corrected immediately. These include internal reporting schedules, necessary legislative action, time needed for staff training, and time needed for developing new policies and procedures. For most findings, the Audit Division sets a target of 90 days; however, sometimes agencies need more time. Ms. Renfro discussed the procedure when an agency disagrees with an audit finding.

Co-Chair Grow cited a recent example in which an agency disagreed with the audit findings. JFAC agreed with the auditors and withheld funding until the agency made the corrections. **Co-Chair Horman** emphasized these situations are rare but whether the agencies agree or disagree with government accounting standards, they still need to abide by them. State agencies must follow the law.

Ms. Renfro gave examples of quantitative vs. qualitative audit findings and reviewed audit progress for FY 2024. LUMA, the cloud-based system the state of Idaho uses to manage its finances, human resources, payroll, and other functions, launched in July 2023. The system rollout faced several challenges and financial statements for the State were delayed, causing delays in audit reports. This will likely have a domino effect on accountability reports.

In response to a committee question, **Ms. Renfro** confirmed the Audit Division reviews how state entities track their appropriations, the controls they have in place, and whether they are complying with intent language.

In response to another committee question, **Ms. Renfro** anticipated communication with federal guarantors about the audit reporting delays. She stated during the pandemic, federal guarantors had provided additional extensions for audit reporting; those options are no longer available. She stated the Audit Division is being preemptive in letting federal guarantors know the reports will be delayed.

Co-Chair Horman commented there will be more conversations about LUMA. The delayed reports from LUMA are causing the audit delays. In response to a committee question, **Ms. Renfro** said future timely audit reports depend upon timely LUMA reports.

Mr. Jared Tatro, Deputy Division Manager, LSO Budget & Policy, explained the Statewide Cost Allocation Plan (SWCAP) is found in almost every state agency's budget. These adjustments are handled as part of the budget decisions for program maintenance. SWCAP is the state's mechanism for ensuring agencies have sufficient appropriation for costs related to insurance, LSO Audits, the State Capitol Mall, and IT support. This is done through cost allocation calculations and direct billings to the agencies in accordance with appropriated amounts. Mr. Tatro explained direct billing appropriation adjustments are included to ensure each entity has the necessary appropriation for specific functions, including risk management and IT support.

Mr. Kellen McGurkin, Analyst, LSO Budget & Policy, reviewed the difference between deficiency warrants, supplemental appropriations, and recissions. These are all adjustments to the current year's appropriation; he explained how they differ from normal appropriation requests.

Mr. McGurkin reminded the committee normally state agencies are allowed only the authority to spend funds based on the specific amounts JFAC appropriated to their different General, federal, or dedicated funds for a specific fiscal year. Deficiency warrants are the exception to this rule. Deficiency warrants allow select agencies to spend monies against the General Fund for select purposes, as authorized in statute, without a prior appropriation. Agencies making use of such deficiency warrants come before JFAC so they may receive an appropriation from the General Fund to the account where those expenditures occurred. The authority to spend against the General Fund is set in statute by the Legislature and comes with stipulations on allowable expense purposes. These expenditures are typically authorized by the Board of Examiners or the Board of Land Commissioners.

Co-Chair Grow commented two years ago JFAC received 115 supplemental appropriation requests. This made it difficult to track year-to-year growth in an agency's budget. The Co-Chairs asked agencies to make supplemental requests only in the case of an emergency or an unanticipated issue. Now JFAC receives significantly fewer supplemental requests.

Ms. Janet Jessup, Principal Analyst, LSO Budget & Policy, gave an overview of the JFAC budget hearing process. Every agency budget hearing will include an agency description, the agency organizational structure, the consolidated fund analysis, five-year appropriations and expenditures, FY 2024 expenditures by account category, a five-year base budget snapshot, FY 2024 & FY 2025 budget enhancements, and the FY 2026 budget request.

In response to committee questions, **Ms. Jessup** explained state agencies use salary savings in a variety of ways, such as planning for personnel retirement withdrawals. She pointed out onetime salary savings do not automatically become ongoing funding.

Ms. Jessup explained funds can be moved within a state agency, pursuant to code. These account categories include trustee and benefit payments, personnel costs, operating expenses, and capital outlay. She explained the difference between ongoing and onetime funding.

Co-Chair Horman explained the Change in Employee Compensation (CEC) in the FY 2025 budgets. Traditionally, 1% CEC has been used as a placeholder in the budget while the actual CEC was still being determined. Last year, the final CEC amount was not determined in time to be included in the program maintenance budgets; the final CEC number was 3%. In FY 2025 budgets, 1% CEC was in the agencies' maintenance budgets and 2% in the enhancement budgets. Co-Chair Horman pointed out the Economic Outlook Committee and the CEC Committee serve in an advisory role to JFAC. JFAC will consider their recommendations as part of the state agency FY 2026 maintenance budgets.

ADJOURN: There being no further business to come before the committee, the meeting adjourned at 10:00 a.m.

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Representative Horman	Alyson Jackson
Chair	Secretary