

STATE OF ALASKA
LEGISLATIVE BUDGET AND AUDIT COMMITTEE
ANNUAL REPORT
2019

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

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Alternate	Representative Jennifer Johnston	District 28

LEGISLATIVE AUDITOR
Kris Curtis, CPA, CISA

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David Teal

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31st Alaska State Legislature Legislative Budget & Audit Committee

January 21, 2020

Members of the Legislature

Fellow Members:

In accordance with AS 24.20.311, the following is the 2019 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 2019 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 2019.

Respectfully submitted,

Legislative Budget and Audit Committee

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Representative Chris Tuck, Chair

Handwritten signature of Click Bishop in blue ink.

Senator Click Bishop, 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 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 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. Performance reviews were defunded beginning in 2017.

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, 2018

PURPOSE 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 \$4.3 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 18, findings and 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

With the exception of General Fund accounts rents and royalties and due to other funds, and Note 2 relating to the State's Constitutional Budget Reserve Fund, 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.

With the exception of the United States Forest Service Fire Suppression program, the Bureau of Land Management Fire Suppression program, the 1332 State Innovation Waivers program, and the Temporary Assistance for Needy Families Cluster, 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 findings regarding material noncompliance with the provisions of laws and regulations, and material weaknesses and significant deficiencies in the State's internal control over financial reporting and internal control over federal compliance.

FINDINGS AND RECOMMENDATIONS

This report contains 74 findings, of which 28 are unresolved issues from last year. 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 prior financial and federal program related audit findings not resolved as of June 30, 2018.

Report Highlights

Why DLA Performed This Audit

The audit's purpose 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 terminate June 30, 2019, 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 should improve management oversight procedures to ensure required documentation is obtained, reviewed, and retained to support licensure.
2. DCBPL's chief investigator should increase oversight to improve the timeliness of investigations.
3. The Office of the Governor, Boards and Commissions director should work with the board to identify potential applicants in a timely manner.

A Sunset Review of the Department of Commerce, Community, and Economic Development, Big Game Commercial Services Board (board)

September 14, 2018

Audit Control Number 08-20114-19

REPORT CONCLUSIONS

The audit concluded that the board served the public's interest by conducting meetings in accordance with applicable laws, amending regulations to improve occupations under the board's purview, and supporting changes by the Department of Law to improve the timeliness of the disciplinary process. Additionally, the board worked to eliminate the over \$1 million deficit reported in the prior 2015 sunset audit.

The audit also concluded that board licenses were not consistently supported by adequate documentation, a high number of investigations had unjustified periods of inactivity, and three board positions were vacant for an extended period.

In accordance with AS 08.03.010(c)(9), the board is scheduled to terminate on June 30, 2019. We recommend that the legislature extend the board's termination to June 30, 2025, which is two years less than the eight year maximum allowed for in statute. The reduced extension is mainly due to DCBPL staff failing to consistently issue licenses in accordance with laws and failing to conduct investigations in a timely manner.

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Report Highlights

Why DLA Performed This Audit

The audit was performed to determine if there is a continued need for the board and whether its termination date should be extended. The board is set to sunset June 30, 2020, and will have one year from that date to conclude its administrative operations.

What DLA Recommends

1. The board should adopt regulations to provide guidance for registering with the controlled substance prescription database.
2. The board should develop procedures to ensure licensees with a Drug Enforcement Administration (DEA) number register in the controlled substance prescription database.
3. The board chair should work with DCCED's Division of Corporations, Business, and Professional Licensing's director to establish and implement procedures to ensure the board reports disciplinary actions in accordance with state law.

A Sunset Review of the Department of Commerce, Community, and Economic Development (DCCED), State Medical Board (board)

April 26, 2019

Audit Control Number 08-20118-19

REPORT CONCLUSIONS

The audit concluded the board served the public's interest by effectively licensing physicians, osteopaths, podiatrists, physician assistants, and paramedics. The board monitored licensees and worked to ensure only qualified individuals practiced in Alaska. Furthermore, the board developed and adopted certain regulatory changes to protect the public, improve the licensing process, and improve the delivery of services.

The audit also concluded the board did not serve the public interest by inconsistently reporting board license actions to the Federation of State Medical Boards (FSMB). In addition, the board did not adopt regulations to require licensees register in the controlled substance prescription database and did not adequately monitor licensees to ensure those with a DEA number registered with the controlled substance prescription database.

In accordance with AS 08.03.010(c)(13), the board is scheduled to terminate on June 30, 2020. We recommend the legislature extend the board's termination date to June 30, 2025, which is three years less than the eight year maximum allowed per statute. The reduced extension is mainly due to the failure of the board to consistently report license actions to the FSMB, adopt regulations governing registration in the controlled substance prescription database, and monitor compliance with the registration requirement.

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Report Highlights

Why DLA Performed This Audit

The audit was requested to examine and report on the corporation's appropriations, spending, and available balances. Additionally, auditors were asked to determine whether appropriated funds were spent in compliance with legislative restrictions and whether significant spending decisions were approved by the board of directors.

What DLA Recommends

1. The corporation's board should include an Alaska veterans' preference in its procurement procedures.
2. The corporation's president should create procedures to ensure contracts are approved by, or communicated to, the board in accordance with board bylaws.
3. The corporation's board should formally approve the operating budget annually.

A Special Review of the Department of Commerce, Community, and Economic Development, Alaska Gasline Development Corporation Select Financial Issues

July 31, 2018

Audit Control Number 08-30088-19

REPORT CONCLUSIONS

The audit addresses the Alaska Gasline Development Corporation's (corporation) funding and spending in terms of its two gas development projects: the integrated interstate gas infrastructure project (AK LNG) and the small diameter in-state pipeline project (ASAP). Since establishment in May 2010, the legislature appropriated to the corporation a net total of \$479.8 million for the two projects which earned an additional \$5.7 million in interest. From these revenues, the corporation expended \$433.3 million and, as of July 24, 2018, had an estimated available balance of \$52.2 million.

The corporation's statutes and appropriation bills impose two main conditions on funding: (1) appropriations should be spent to carry out the corporation's purposes, powers, and duties, and (2) funding for the two projects should not be comingled. The audit found that the corporation's spending generally complied with these restrictions, with one exception. The audit identified \$150,000 of ASAP costs that were incorrectly coded to the AK LNG fund. This error was corrected once identified by auditors. The audit also found the corporation's procurement procedures lacked an Alaska veterans' preference. (Recommendation 1)

The audit evaluated board approval of spending decisions in three operational areas: contracts, budgets, and hiring decisions. Prior to April 2016, there was no requirement for the board to approve contracts. Beginning in April 2016 large dollar contracts should have been either approved by or communicated to the board. The audit found no evidence the board approved or was specifically notified of the

large dollar contracts, including those of embedded contractors and consultants. (Recommendation 2)

In accordance with corporation bylaws and procedures, the board was required to approve operating and capital budgets. The audit found two operating and several capital budgets were not properly approved. The corporation had addressed the deficiencies associated with capital budgets prior to the audit, but deficiencies related to operating budget approval were not corrected. (Recommendation 3)

Corporation bylaws only require the board approve the hiring of the corporation's president. The audit found the board approved hiring decisions in accordance with bylaws.

Report Highlights

Why DLA Performed This Audit

The audit's purpose 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 June 30, 2020, and will have one year from that date to conclude its operations.

What DLA Recommends

1. The commission's chair should ensure procedures are implemented to publish meeting notices timely and accurately.
2. The commission's chair should update its strategic plan to reflect current goals and priorities based on experience.

A Sunset Review of the Department of Natural Resources, Alaska Seismic Hazards Safety Commission (commission)

March 15, 2019

Audit Control Number 10-20117-19

REPORT CONCLUSIONS

The audit found that there continues to be a public policy need for the commission's existence. The commission brings together volunteer experts in earthquake-related fields (i.e. engineering and geology) and members of key government agencies to provide advice to policy makers on disaster preparedness and seismic hazard mitigation. Its activities during the audit period included establishing mitigation priorities, issuing recommendations to state agencies, providing advice to local governments and the governor, and helping school districts secure federal grant funding to assess the vulnerability of older buildings to significant structural damage during an earthquake. The commission also helped coordinate classes to train individuals on how to assess buildings and structures in the aftermath of a significant seismic event. One of the classes was held in September 2018, just a few months before southcentral Alaska experienced a magnitude 7.0 on-land earthquake.

The audit also concluded that not all commission meetings were adequately public noticed and the commission's strategic plan should be updated to incorporate the knowledge gained through recent seismic events. (Recommendations 1 and 2)

In accordance with AS 44.66.010(a)(8) the commission is scheduled to terminate on June 30, 2020. We recommend that the legislature extend the commission's termination date to June 30, 2028.

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Report Highlights

Why DLA Performed This Audit

The audit was requested to address concerns about BOG's regulatory outcomes and decision process. The audit evaluated whether DFG, BOG, and ACs followed established procedures and whether BOG decisions were made in compliance with State law. The audit also determined the extent DFG complied with legislative intent by making comments, reports, data, and recommendations available prior to a BOG meeting and prior to ACs' consideration of proposals. Further, the audit determined the degree to which AC regulatory recommendations agreed with DFG recommendations and the degree to which BOG decisions were upheld by the courts. Satisfaction with, and knowledge of, the BOG regulatory process was evaluated by surveying AC and BOG members.

What DLA Recommends

1. BOG's executive director should update the AC manual to define "reasonable public notice" and provide training to AC members.
2. BOG's executive director should ensure information updates are clearly identified on BOG's website.

A Special Review of the Department of Fish and Game (DFG), Board of Game (BOG) Regulatory Process

September 23, 2019

Audit Control Number 11-30085-19

REPORT CONCLUSIONS

The audit concluded that BOG, Advisory Committees (AC), and DFG followed established procedures and complied with State laws governing the regulatory process. AC member survey respondents generally believed BOG's decision making process was effective, but were less satisfied with the transparency, objectivity, and thoroughness of BOG deliberations. The audit found AC meetings were consistently conducted in accordance with laws and procedures, except for public noticing. (Recommendation No. 1) Over a ten year period, few BOG regulatory decisions were challenged in court. The courts upheld the majority of board decisions.

The audit also concluded that DFG comments, reports, data, and recommendations were not routinely made available to ACs via BOG's website at the time ACs considered proposals; however, a biologist was generally in attendance at AC meetings. Auditors noted that information on BOG's website may be updated without clearly identifying the update. (Recommendation 2) For most of the recommendations reviewed by auditors, ACs agreed with DFG recommendations. Philosophical differences between DFG staff and AC members may lead to different proposal recommendations regardless of the availability of DFG information.

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Report Highlights

Why DLA Performed This Audit

This audit determines whether there is a need for the board's continued existence and whether the board's termination date should be extended. The board is set to terminate June 30, 2020, and will have one year from that date to conclude its administrative operations.

What DLA Recommends

1. The board's executive director should improve procedures to ensure final revocation hearings are performed timely.
2. The board's executive director should work with the Department of Corrections' (DOC) commissioner to improve the quality of telephonic hearings.
3. The board's executive director should take steps to ensure regulations are properly updated.
4. DOC's Administrative Services Division director should take steps to ensure the Alaska Correctional Offender Management System complies with State information technology security standards and national best practices.

A Sunset Review of the Department of Corrections, Board of Parole

May 8, 2019

Audit Control Number 20-20116-19

REPORT CONCLUSIONS

The audit concluded that the board responded in an effective and efficient manner to significant changes in parole laws. During the audit period, the board conducted its meetings, made parole decisions, set parole conditions, and held revocation hearings in accordance with state law.

The audit also concluded that administrative improvements are needed to ensure regulations are accurate and up to date, and all revocations are performed within statutory timelines. Additionally, the audit found that technological improvements may improve board operations.

In accordance with AS 44.66.010(a)(2), the board is scheduled to terminate June 30, 2020. We recommend the legislature extend the board's termination date five years to June 30, 2025, which is three years less than the eight year maximum allowed for in statute. The reduced extension is mainly in acknowledgment of recent changes to the board's statutes as well as anticipated changes and the need for continued oversight.