

STATE OF ALASKA  
LEGISLATIVE BUDGET AND AUDIT COMMITTEE  
ANNUAL REPORT  
2022

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

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Vice Chair	Representative Chris Tuck	District 23
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Member	Representative Ivy Spohnholz	District 16
Member	Representative James Kaufman	District 28
Alternate	Representative Dan Ortiz	District 36

LEGISLATIVE AUDITOR  
Kris Curtis, CPA, CISA

LEGISLATIVE FISCAL ANALYST  
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# 33<sup>rd</sup> Alaska State Legislature

## Legislative Budget & Audit Committee

January 17, 2023

Members of the Legislature

Fellow Members:

In accordance with AS 24.20.311, we are transmitting the 2022 annual report of the Legislative Budget and Audit Committee. This report summarizes the audit reports issued during the year.

Copies of each audit report released during 2022 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 2022.

Respectfully submitted,

Legislative Budget and Audit Committee

A handwritten signature in black ink, appearing to read "Natasha von Imhof".

Senator Natasha von Imhof, Chair

A handwritten signature in blue ink, appearing to read "Chris Tuck".

Representative Chris Tuck, Vice Chair

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# ORGANIZATION AND FUNCTION

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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), 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.



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## **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.

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### **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.

# Report Highlights

## Why DLA Performed This Audit

In response to concerns about investigation delays, an audit was requested to review ASCHR operations, with a focus on ASCHR's complaint resolution process. Specifically, the audit evaluated whether the commission resolved complaints promptly and reasons for delays. Additionally, the audit reports steps taken by the commission to seek out and eradicate discrimination.

## What the Legislative Auditor Recommends

1. ASCHR's executive director should adopt written policies and procedures to guide the complaint resolution process, establish timelines to encourage timely resolution, and continue efforts to fill vacancies.

# A Special Review of the Office of the Governor, Alaska State Commission for Human Rights (ASCHR), Select Issues

July 20, 2022

Audit Control Number 01-30100-22

## REPORT CONCLUSIONS

The audit found that state law requires ASCHR to investigate complaints promptly; however, the term "prompt" is not defined in ASCHR regulations or policies. Forty-three percent of ASCHR complaints closed during the audit period took longer than one year to resolve.

The COVID-19 pandemic decreased the opportunity for discrimination, thereby reducing the number of complaints filed with ASCHR. Auditor review found many complaints were inactive for extended periods. ASCHR procedures contributed to inefficiencies. Turnover and vacancies also led to processing delays. ASCHR management expects operational changes made during 2021 and 2022 will improve the timeliness of complaint processing.

ASCHR's outreach activities were reduced during 2019 as a result of turnover and leadership changes. Activities increased after 2019, but were subject to preapproval by commission members through March 2022.

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# 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, 2021

### 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 \$6.2 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 21, 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 Schedule of Prior Audit Findings.

### REPORT CONCLUSIONS

With the exception of General Fund rents and royalties and fund balances, 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 Denali Commission program, the Temporary Assistance for Needy Families program, the Children's Health Insurance program, the Medicaid cluster, and the Presidential Declared Disaster Assistance to Individuals and Households-Other Needs program, 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 75 findings, of which 35 are unresolved issues from last year. Some of the recommendations made in this report require significant changes in procedures, additional resources, 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, 2021.

# Report Highlights

## Why DLA Performed This Audit

The audit was performed to determine if there is a continued need for the board and if its termination date should be extended. The board is set to sunset on June 30, 2022, and will have one year from that date to conclude its administrative operations.

## What the Legislative Auditor Recommends

1. The board chair and DCBPL's director should improve procedures and training to ensure applicants meet requirements prior to licensure.
2. The board should adopt regulations for renewing outsourcing facilities and third-party logistics provider licenses.
3. Applicable occupational boards and DCBPL's director should continue to coordinate efforts to improve the monitoring and enforcement of CSPD requirements.
4. DCCED's commissioner should allocate sufficient resources to ensure licensees holding a DEA registration number are

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

July 15, 2021

Audit Control Number 08-20126-22

## REPORT CONCLUSIONS

Overall, the audit concluded that the board served the public's interest by effectively conducting its meetings and actively amending regulations; however, improvements over the board's licensing function are needed. Further, the audit concluded that Division of Corporations, Business and Professional Licensing (DCBPL) staff investigated complaints unrelated to the controlled substance prescription database (CSPD) in a timely manner and activity worked toward implementing new CSPD requirements.

At the time of the audit, occupational boards were not effectively monitoring or enforcing CSPD requirements. Additionally, DCBPL licensing staff were not consistently entering the existence of a Drug Enforcement Administration (DEA) registration number into DCBPL's licensing database, which prevented the licensing database from being used to monitor compliance with CSPD registration requirements.

In accordance with AS 08.03.010(c)(16), the board is scheduled to terminate on June 30, 2022. We recommend that the legislature extend the board's termination date six years, to June 30, 2028, which is less than the eight-year maximum allowed in statute. The reduced extension reflects the need for more timely oversight of the board's evolving role in combating the public health opioid crisis.

# Report Highlights (Continued)

consistently recorded in DCBPL's licensing database.

5. DCCED's commissioner should allocate sufficient resources to ensure the CSPD requirements are enforced.



# Report Highlights

## Why DLA Performed This Audit

The audit was performed to determine if there is a continued need for the board and if its termination date should be extended. The board is set to sunset on June 30, 2023, and will have one year from that date to conclude its administrative operations.

## What the Legislative Auditor Recommends

1. The board's executive administrator should ensure that all board meetings are adequately public noticed.
2. The board should ensure that emergency regulations comply with statutes.

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

July 19, 2022

Audit Control Number 08-20132-22

## REPORT CONCLUSIONS

The audit concluded that the board developed and adopted regulations to protect the public, improve the licensing process, and expand access to care during the coronavirus disease 2019 (COVID-19) public health emergency. Further, the board served the public's interest by effectively licensing physicians, osteopaths, and podiatrists; however, emergency courtesy licenses for physician assistants were not issued in accordance with state law.

The board's workload significantly increased during the audit period due to the COVID-19 pandemic. The board met frequently, sometimes weekly, to consider pandemic-related regulations. The number of licensing applications increased dramatically as a result of practitioners traveling to Alaska to help meet the need for health care services and out-of-state practitioners providing services via technology (commonly referred to as telehealth). The dramatic increase in workload occurred right after all board members were replaced by the governor. Board turnover and vacancies were common during the audit period.

In accordance with AS 08.03.010(c)(13), the board is scheduled to terminate on June 30, 2023. We recommend that the legislature extend the board's termination date to June 30, 2031, which is the maximum extension allowed per statute.

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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 if its termination date should be extended. The board is set to sunset on June 30, 2023, and will have one year from that date to conclude its administrative operations.

## What the Legislative Auditor Recommends

1. DCCED's commissioner should work with policymakers to improve the recruitment and retention of investigators.
2. DCCED's commissioner should work with policymakers to improve the recruitment and retention of licensing staff, and board members should adequately review applications prior to approval.
3. DCBPL's director should work with the board to ensure the online licensing application is sufficient to monitor compliance with continuing education hours and that accurate regulatory references are included in the application.

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# A Sunset Review of the Department of Commerce, Community, and Economic Development (DCCED), Board of Certified Direct-Entry Midwives (board)

October 14, 2022

Audit Control Number 08-20133-22

## REPORT CONCLUSIONS

Overall, the audit concludes that the board operated in the public's interest by conducting its meetings in an effective manner, by supporting statutory changes when deemed necessary, and by actively amending regulations. The audit also concludes that the board and Division of Corporations, Business and Professional Licensing (DCBPL) staff did not consistently certify midwives in accordance with statutes and regulations. Further, an investigation that concerned a threat to public safety was not addressed by DCBPL investigators in an efficient manner.

In accordance with AS 08.03.010(c)(8), the board is scheduled to terminate on June 30, 2023. We recommend the legislature extend the board's termination date four years, to June 30, 2027, which is half of the eight-year maximum allowed in statute. The reduced extension reflects the need for more timely oversight in recognition of the audit findings and in recognition that the board's draft regulations may significantly change its licensing function.

# Report Highlights (Continued)

4. The Office of the Governor, Boards and Commissions director should work with the board to identify potential applicants to fill board vacancies in a timely manner.

# Report Highlights

## Why DLA Performed This Audit

An audit of Alaska's CARES Act Small Business Relief Program was requested to determine whether all eligible businesses were fairly treated and whether the process for procuring program operators complied with procurement laws. Additionally, the audit lists all grants distributed.

## What the Legislative Auditor Recommends

1. DCCED's commissioner should work toward recovering the unallowable grant payments identified in this audit.
2. Alaska Industrial Development and Export Authority's (AIDEA) executive director should ensure the chief procurement officer follows procurement procedures and adequate documentation is maintained.

# A Special Review of the Department of Commerce, Community, and Economic Development (DCCED), Alaska Coronavirus Aid, Relief, and Economic Security (CARES) Act Small Business Relief Program

May 9, 2022

Audit Control Number 08-30103-22

## REPORT CONCLUSIONS

The audit concluded that the Small Business Relief Program disbursed approximately \$282 million of CARES Act funds through the issuance of 5,754 grants; however, the distribution rate of grant funds fell far short of expectations. The State expected to distribute \$150 million per month, yet only \$18 million was distributed by the end of the program's second month. Despite a federal extension to December 2021, authorization for the program lapsed at the end of June 30, 2021, at which point \$823,000 of funds were still available and 669 grant applications were unprocessed. DCCED management was unable to explain why all of the funds were not awarded, because key decision makers were no longer employed by DCCED.

The program's initial eligibility criteria was widely criticized as being too restrictive. Pressure to reach a larger number of Alaskan businesses and fully utilize available funding led DCCED's commissioner to expand eligibility multiple times. The most significant modifications expanded eligibility to include commercial fishermen, allowed applicants to apply for both the Small Business Relief Program and federal CARES Act loan programs, and opened the program to businesses that served as secondary sources of income.

The audit found the grant application processing time was much slower than expected, partly due to the program design and partly due to the rate applications were deemed incomplete or inaccurate. Several program requirements were inconsistently considered and/or enforced by program operators. Some of the inconsistencies

## REPORT CONCLUSIONS (Continued)

were the result of DCCED commissioner directives designed to speed up the approval process, some were the result of appeal decisions that were not applied to all applicants, while others were rooted in different interpretations by operators or between staff of the same operator.

Results of testing found a high rate of unallowable grant awards. Auditors tested 155 grants and identified at least one error for 39 percent of the grants tested. The program design increased the risk of unallowable grants and post-payment controls were ineffective. In total, 13 percent of the grant amounts tested were unallowable. The audit did not find evidence that grants were awarded in violation of the State's ethics laws.

AIDEA staff generally followed procurement regulations; however, the procurement process discouraged potential bidders. Changes to the program's design and eligibility criteria led to numerous request for proposal amendments, which delayed procurement and proved frustrating for potential bidders. A lawsuit that challenged how the program was authorized and designed also delayed procurement.