STATE OF ALASKA

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

ANNUAL REPORT

2024

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

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LEGISLATIVE AUDITOR
Kris Curtis, CPA, CISA

LEGISLATIVE FISCAL ANALYST
Alexei Painter

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33rd Alaska State Legislature
Legislative Budget & Audit Committee

January 20, 2025

Members of the Legislature

Fellow Members:

In accordance with AS 24.20.311, we are transmitting the 2024 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 2024 are on file in the senate and house chambers 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 2024.

Respectfully submitted,

Legislative Budget and Audit Committee

Representative Ben Carpenter, Chair

Senator Bert Stedman, Vice Chair

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CONTENTS

CONTENTS
(Continued)

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. 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.

8. Conduct a review of inactive state accounts and funds, make recommendations regarding which inactive state accounts and funds, if any, should be repealed, and submit an electronic report of the division's recommendations to the governor, the president of the senate, the speaker of the house of representatives, the chair of the finance committee of each house of the legislature, the senate secretary, and the chief clerk of the house of representatives, and notify the legislature that the report is available.

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.

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.

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, 2023

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 $5.7 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 opinions on the basic financial statements of the State of Alaska for FY 23, 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

The Alaska International Airports Fund FY 23 audit was not available at the time the State's financial statement opinions were issued. As a result, we were unable to obtain evidence that the major enterprise fund's amounts are properly reported as included in the statements of financial position, changes in financial position, and cash flows.

With the exception of the Pandemic Electronic Benefit Transfer Food Benefits program, the Supplemental Nutrition Assistance program cluster, the Education Stabilization Fund, the Temporary Assistance for Needy Families program, the Low-Income Home Energy Assistance program, and the Fire Management Assistance grant, 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 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 71 findings, of which 31 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, 2023.

Report Highlights

Why DLA Performed This Audit

In response to concerns over the efficacy of TVEP, this audit was requested to make objective information available to lawmakers prior to reauthorizing the program. TVEP is set to expire June 30, 2024.

What the Legislative Auditor Recommends

1. The legislature should consider repealing AS 23.15.835(d) and allowing TVEP funding to be awarded via a grant process guided by AWIB goals and priorities.
2. The Department of Labor and Workforce Development's commissioner should work with the Office of Management and Budget to resolve the underpayments for seven FY 22 TVEP training providers.

A Special Review of the Department of Labor and Workforce Development, Technical Vocational Education Program

October 10, 2023

Audit Control Number 07-30104-24

REPORT CONCLUSIONS

The audit concluded that $12.9 million of Technical Vocational Education Program (TVEP) funding was expended during FY 22. Thirty-two percent was spent to maintain and operate training facilities, 61 percent was spent to train participants, and seven percent was spent for administration. A total of 6,688 TVEP participants were trained during FY 22.

The audit concluded that TVEP is not structured to effectively meet Alaska's technical and vocational education needs or to ensure training providers have a fair opportunity to participate in the program. Access to training, need for specific types of training, and training capacity do not drive the annual award process. Further, TVEP statutory performance metrics are not evaluated against stated objectives or goals and the Alaska Workforce Investment Board (AWIB) does not use the metrics to evaluate the program or to allocate funding. As required by AS 23.15.835(d), TVEP funds are awarded in set percentages to specific training providers without regard to regional/industry training needs or performance. Further, the audit found TVEP training providers were subject to limited accountability and oversight procedures.

Since the creation of TVEP through FY 22, a total of $204 million of Unemployment Insurance (UI) employee taxes has been diverted from the UI Compensation Fund (UI Fund) to the State's TVEP account (a subfund of the general fund). The diversions reduced the UI Fund balance, which may have contributed to increased employer UI tax rates. Further, auditors noted the FY 22 TVEP fund balance of $2.4 million was swept into the Constitutional Budget Reserve Fund (CBRF), which effectively resulted in the use of employee taxes to repay the general fund's CBRF liability.

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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, 2024, and will have one year from that date to conclude its administrative operations.

What the Legislative Auditor Recommends

1. The Division of Corporations, Business and Professional Licensing's (DCBPL) director should develop a control procedure to help ensure licenses are not approved based on outdated documentation.
2. DCCED's commissioner should work with policymakers to improve the recruitment and retention of investigators.
3. DCCED's commissioner should work with policymakers to improve the recruitment and retention of DCBPL licensing staff.
4. DCBPL's director, in consultation with the board, should consider increasing licensing fees.

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

August 14, 2023

Audit Control Number 08-20134-24

REPORT CONCLUSIONS

Overall, the audit concluded that the board operated in the public's interest by conducting its meetings in an effective manner; and actively amending regulations to address statutory changes, improve the licensing process, and enhance public safety. The audit also concluded that licenses were not consistently issued in compliance with state law, board related cases were not consistently investigated in a timely manner, continuing education audits were not completed, and licensing fees did not cover the cost of regulating the profession.

In accordance with AS 08.03.010(c)(12), the board is scheduled to terminate on June 30, 2024. We recommend the legislature extend the board's termination date six years, to June 30, 2030, which is two years less than the maximum allowed by statute. The reduced extension reflects the need for more routine oversight in recognition of the audit findings.

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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 on June 30, 2024, and will have one year from that date to conclude its administrative operations.

What the Legislative Auditor Recommends

1. AMCO's director should establish procedures to ensure handler permit documentation is properly maintained.
2. The MCB and AMCO's director should continue to implement a new license and enforcement information system.
3. The legislature should consider requiring regulation changes be approved by the majority of MCB members.

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

October 30, 2023

Audit Control Number 08-20137-24

REPORT CONCLUSIONS

Overall, the audit concluded that the Marijuana Control Board (MCB *or* board) served the public's interest by holding its meetings in compliance with state law, actively amending regulations, and conducting investigations in a timely manner. The audit also concluded that licenses were issued in accordance with statutes and regulations; however, applications were not processed in a timely manner. Additionally, Alcohol and Marijuana Control Office (AMCO) staff did not maintain adequate documentation to show compliance with marijuana handler permit laws.

The audit identified one instance that regulations were approved with two "yay" votes. Although approving regulations with only two votes of the five-member board was permissible under state law, the audit questions whether the action was in the public's best interests. Additionally, the audit noted deficiencies in the tracking of enforcement activities by AMCO staff. Further, the audit reports that, as of April 2023, 59 delinquent marijuana taxpayers collectively owed $3.1 million in taxes.

As part of the audit, a survey was sent to 319 marijuana licensees; 112 fully responded (response rate of 35 percent). Sixty-three percent of respondents rated the MCB's overall effectiveness in serving the public's interest as "effective" or "very effective".

In accordance with AS 44.66.010(a)(13), the MCB is scheduled to terminate on June 30, 2024. We recommend the legislature extend the board's termination date three years, to June 30, 2027, which is significantly less than the eight-year maximum allowed in statute. The three-year extension

REPORT CONCLUSIONS (Continued)

recommendation is made in recognition that a report issued by the governor's Advisory Task Force on Recreational Marijuana may lead to significant changes to MCB and AMCO duties, and a new information system, which is expected to be implemented by the end of 2023, would significantly change MCB's licensing and enforcement processes. A three-year extension would allow for a timely evaluation of the substantial changes. Further, a three-year extension would align the MCB's next sunset review with the Alcoholic Beverage Control Board's sunset review and allow a comprehensive review of AMCO's support to both boards.

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, 2025, and will have one year from that date to conclude its administrative operations.

What the Legislative Auditor Recommends

1. The Office of the Governor, Boards and Commissions director should work with the board to identify potential applicants to fill board seats in a timely manner.
2. Division of Corporations, Business and Professional Licensing's (DCBPL) director should improve training to ensure certifications are supported by adequate documentation, and board members should adequately review applications prior to approval.
3. DCCED's commissioner should work with policymakers to improve the recruitment and retention of DCBPL licensing staff.

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

June 6, 2024

Audit Control Number 08-20138-24

REPORT CONCLUSIONS

The audit concluded that the board served the public's interest by conducting its meetings in accordance with state law and actively amending regulations to enhance public safety and improve the certification process. The audit also concluded that the board generally certified midwives in compliance with state law, but documentation improvements were needed. Furthermore, the audit found the board did not audit compliance with certification renewal requirements in a timely manner.

During the audit period, a change to regulations required midwives to obtain a national certification as a prerequisite to state certification. Prior to the change, midwives already had one of the highest licensure/certification fees of any occupation. This change further increased the costs to obtain and maintain state certification.

In accordance with AS 08.03.010(c)(8), the board is scheduled to terminate on June 30, 2025. We recommend that the legislature extend the board's termination date six years to June 30, 2031, which is two years less than the maximum allowed by statute. The reduced extension reflects the need for more routine oversight of the board in light of the audit findings.

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Report Highlights

Why DLA Performed This Audit

This 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, 2025, 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 policy makers to improve the recruitment and retention of investigators.

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

June 25, 2024

Audit Control Number 08-20140-24

REPORT CONCLUSIONS

The audit concluded that the board served the public's interest by effectively conducting its meetings, actively amending nursing regulations, and effectively licensing nursing professionals. The audit also concluded that board related cases were not consistently investigated in a timely manner, and one board position had been vacant for an extended period.

In accordance with AS 08.03.010(c)(14), the board is scheduled to terminate on June 30, 2025. We recommend that the legislature extend the board's termination date six years to June 30, 2031, which is two years less than the maximum allowed by statute. The reduced extension reflects the need for more routine oversight due to the licensing and investigation delays indentified by the audit.

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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, 2025, and will have one year from that date to conclude its administrative operations.

What the Legislative Auditor Recommends

No recommendations were made as part of this 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 17, 2024

Audit Control Number 08-20141-24

REPORT CONCLUSIONS

Overall, the audit concluded that the board served the public's interest by conducting meetings in an effective manner; actively amending regulations to improve the registration process; and effectively registering architects, engineers, land surveyors, and landscape architects.

In accordance with AS 08.03.010(c)(3), the board is scheduled to terminate on June 30, 2025. We recommend that the legislature extend the board's termination date eight years to June 30, 2033.

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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, 2025, and will have one year from that date to conclude its administrative operations.

What the Legislative Auditor Recommends

1. The Division of Corporations, Business and Professional Licensing director should create procedures to ensure the final draft of regulations is provided to occupational boards for review and approval before regulations are filed and made effective.

2. The Boards and Commissions director should work with the board to identify potential applicants to fill board seats in a timely manner.

3. DCCED's commissioner should work with policymakers to improve the recruitment and retention of investigators.

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

April 24, 2024

Audit Control Number 08-20142-24

REPORT CONCLUSIONS

The audit concluded that the board served the public's interest by conducting meetings in an effective manner; actively amending regulations to address statutory changes, protect the public, and improve the licensing process; and effectively licensing veterinary professionals. The audit also concluded that board related cases were not consistently investigated in a timely manner, two board positions had expired terms, and as of January 31, 2024, one board position had been vacant for 31 months. Additionally, the audit found that the final version of regulation changes published in 2023 was not reviewed or approved by the board.

In accordance with AS 08.03.010(c)(22), the board is scheduled to terminate on June 30, 2025. We recommend that the legislature extend the board's termination date six years to June 30, 2031, which is two years less than the maximum allowed by statute. The reduced extension reflects the need for more routine oversight of the board in light of the audit findings.

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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 commission and if its termination date should be extended. The commission is set to sunset on June 30, 2024, and will have one year from that date to conclude its administrative operations.

What the Legislative Auditor Recommends

1. The commission's chair should ensure the annual analysis and evaluation report is complete and provided to the legislature and governor.

A Sunset Review of the Department of Health, Alaska Commission on Aging (commission)

October 6, 2023

Audit Control Number 16-20135-24

REPORT CONCLUSIONS

Overall, the audit concluded that the commission served the public's interest by helping older Alaskans lead dignified, independent, and useful lives through advocacy, outreach, and education. Furthermore, the commission fulfilled the federal requirement that each state establish a council to advise the state on aging matters, including developing and administering a state plan.

In accordance with AS 44.66.010(a)(4), the commission is scheduled to terminate on June 30, 2024. We recommend the legislature extend the commission's termination date eight years, to June 30, 2032.

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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, 2025, and will have one year from that date to conclude its administrative operations.

What the Legislative Auditor Recommends

1. The board chair should work with DOC's commissioner to ensure all hearings are conducted in a confidential manner.
2. The board chair and DOC's commissioner should ensure regulations are updated in a timely manner.
3. DOC's commissioner should ensure fiscal notes for pending legislation properly reflect decreases, as appropriate.

A Sunset Review of the Department of Corrections (DOC), Board of Parole (board)

July 31, 2024

Audit Control Number 20-20139-24

REPORT CONCLUSIONS

The audit concluded that the board generally complied with State law when conducting its meetings, setting parole conditions, and holding hearings. Furthermore, the board complied with State law when granting discretionary parole; however, the board granted discretionary parole at a much lower rate than it granted before criminal justice reform. The board was unable to provide specific reasons why its parole approval rate decreased.

The audit found that the board's fiscal note for House Bill 49, the bill that repealed criminal justice reform, did not decrease staff positions even though it was clear the bill would decrease the board's workload. The continued need for five board staff positions is questionable given the board's workload reverted back to pre-reform levels. The audit also noted the board and DOC management did not update regulations in a timely manner.

In accordance with AS 44.66.010(a)(2), the board is scheduled to terminate on June 30, 2025. We recommend that the legislature extend the board's termination date four years to June 30, 2029, which is half of the maximum allowed by statute. The reduced extension recommendation reflects the need for more timely legislative oversight considering the unexplained decrease in the parole approval rate, as well as the audit findings related to unjustified staff positions and outdated regulations.

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Report Highlights

Why DLA Performed This Audit

This audit reviews DFCS's compliance with House Bill 151 foster care reform laws with an implementation deadline of September 5, 2019, which include the requirements to disclose sibling contact information to separated siblings, implement a longer training program for employees, assist family members in obtaining foster care home licenses, provide or assist individuals exiting State custody with obtaining important documents, and approve or deny foster care license applications within 45 days.

What the Legislative Auditor Recommends

1. OCS's director should improve training to ensure OCS staff follow procedures for background checks and address the safety risks identified by auditors.

2. OCS's director should strengthen training and implement procedures to ensure application dates are entered accurately and consistently in ORCA.

3. OCS's director should continue efforts to address staffing shortages to ensure foster home applications

A Special Review of the Department of Family and Community Services (DFCS), Office of Children's Services Compliance with Foster Care Reform Laws, Part 2

November 21, 2023

Audit Control Number 26-30096-24

REPORT CONCLUSIONS

The audit concluded that Office of Children's Services (OCS) staff offered license assistance to relatives in a prompt manner; however, 80 percent of the unlicensed relatives reviewed as part of this audit did not obtain a license. Auditors could not verify OCS's compliance with the requirement to approve or deny a foster care home license within 45 days of receiving a completed application due to unreliable completion dates within the license system. Using the application receipt date auditors concluded that license applications were processed, on average, within 77 days of receipt.

The audit found that OCS staff made efforts to keep siblings in contact when separated, although the degree to which contact information was disclosed to siblings was not specifically documented in the child welfare information system (ORCA). The audit also noted that OCS staff did not consistently record whether individuals 16 years of age or older obtained birth certificates and other important documents.

Further, the audit found a longer training program was implemented as a result of foster care reform. Training has been conducted virtually since the COVID-19 pandemic. The adequacy and effectiveness of the longer training program was not reviewed as part of this audit.

Although auditors did not specifically test for the appropriateness of child placements, three cases were identified where children were placed at risk due to OCS staff not following background check procedures.

Report Highlights (Continued)

are processed and approved in a timely manner.

4. OCS's director should implement procedures for documenting efforts made to assist individuals with obtaining important documents.

5. OCS's director should continue efforts to address staffing shortages and ensure supervisors certify in writing whether OCS staff has searched for an appropriate placement with a relative or family friend as required by law.

6. OCS's director should improve security over access to ORCA.