

STATE OF ALASKA
LEGISLATIVE BUDGET AND AUDIT COMMITTEE
ANNUAL REPORT
2013

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

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LEGISLATIVE AUDITOR
Kris Curtis, CPA, CISA

LEGISLATIVE FISCAL ANALYST
David Teal

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28th Alaska State Legislature Legislative Budget & Audit Committee

January 21, 2014

Members of the Legislature

Fellow Members:

In accordance with AS 24.20.311, the following is the 2013 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 2013 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://www.legaudit.akleg.gov>. We would encourage all legislators to utilize this valuable information.

The Legislative Budget and Audit Committee wishes to thank the legislature for its support in 2013.

Respectfully submitted,

Legislative Budget and Audit Committee

A handwritten signature in blue ink that reads "Anna L. Fairclough".

Senator Anna Fairclough, Chair

A handwritten signature in black ink that reads "Mike Hawker".

Representative Mike Hawker, 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 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.

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), five 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 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 or 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.

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ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE



Division of Legislative Audit

P.O. Box 113300
Juneau, AK 99811-3300
(907) 465-3830
FAX (907) 465-2347
legaudit@akleg.gov

SUMMARY OF: A Special Report on the Department of Administration (DOA), Office of Public Advocacy (OPA), Select Procurement Issues, October 19, 2012

PURPOSE OF THE REPORT

In accordance with Title 24 of the Alaska Statutes and a special request by the Legislative Budget and Audit Committee, we have conducted a performance audit of OPA. The audit objectives were to:

1. Evaluate OPA's compliance with state law when procuring professional services;
2. Evaluate whether OPA's professional service contracts were prudently administered; and
3. Identify whether OPA's professional service contractors were appropriately classified as contractors rather than as employees.

REPORT CONCLUSIONS

OPA has not complied with the State Procurement Code. From FY 06 through FY 12, over \$17.8 million in state funds were paid for improperly obtained professional services.

Additionally, OPA has not prudently administered its contracts. An evaluation of OPA's contracts and invoices identified administrative deficiencies including: contract amendments that were not supported; contract prepayments that were not made in accordance with state rules; novations used incorrectly to increase contract amounts; and contract invoices that were not adequately supported. Additionally, OPA did not use the compensation requirements established in regulations.

The deficiencies were caused by a number of factors including insufficient understanding of state laws by OPA personnel and inadequate oversight by DOA's Division of Administrative Services (DAS) management. The deficiencies limited fair and open competition, led to overspending state resources, and increased the potential for fraud, waste, and abuse.

OPA's professional service contractors were appropriately classified as contractors rather than as employees.

FINDINGS AND RECOMMENDATIONS

1. DAS' director should ensure that OPA professional services are obtained in accordance with state law. As a part of improvements, OPA management should not procure large contracts as they do not have large procurement authority.
2. DAS' director should ensure that OPA complies with small procurement rules. As a part of improvement, DAS' director should consider limiting OPA's small procurement authority until OPA personnel is sufficiently trained.
3. DAS' director should improve oversight of OPA's contract administration to ensure compliance with the State Procurement Code and the *Alaska Administrative Manual*.

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SUMMARY OF: A Special Report on the Department of Administration, Alaska Land Mobile Radio Communications System, September 13, 2013

PURPOSE OF THE REPORT

In accordance with Title 24 of the Alaska Statutes and a special request by the Legislative Budget and Audit Committee, we have conducted a performance audit of the Alaska Land Mobile Radio (ALMR) Communications System (system). The purpose of the audit is to report on the ALMR system's use and degree of interoperability. The audit also identifies system expenditures and funding needs; assesses the condition of the divested assets; identifies ALMR functions required by law; and evaluates the reasonableness of the ALMR feasibility study.

REPORT CONCLUSIONS

Based on our audit, we conclude there are no federal or state laws that require the State of Alaska to have an interoperable communication system. However, there are federal and state directives that provide guidance for such systems.

During 2012, ALMR assets at 41 sites were transferred from the Department of Defense (DoD) to the State. Prior to accepting the transferred assets, Department of Administration (DOA) and DoD representatives conducted an inventory of the assets. Based on the inventory, ALMR assets were determined operational, and \$120,000 of upgrades were identified. As a result of the transfer, DOA's annual budget increased by \$1.5 million to operate and maintain the transferred assets.

All ALMR system users could not be surveyed as part of this audit, in part, because ALMR management and user agencies do not adequately track equipment. Instead, ALMR system user agencies were surveyed. Survey respondents believed the system provides interoperable communications, but noted certain limitations. Limitations include: (1) the ALMR system does not provide coverage to all areas of the State, and (2) the ALMR system was not always available when needed. Survey respondents also commented on limitations with their handheld radio range and reception.

In February 2012, the legislature directed DOA to recover a portion of ALMR costs from federal agencies. In FY 14, a cost share agreement was implemented that requires DoD to reimburse DOA's Division of Enterprise Technology Services (ETS) for the cost of operating ALMR based on the percentage of ALMR sites owned by DoD. Federal non-DoD agencies are required to reimburse ETS based on system usage. According to DOA management, state agencies, local governments, and nonprofits do not reimburse ETS for their respective ALMR system usage.

An ALMR feasibility study, conducted by DOA through a contractor, generally addressed legislative intent. The study identified the State of Alaska as the main funding source for operating and maintaining the system.

FINDINGS AND RECOMMENDATIONS

Recommendation No. 1

The ALMR Executive Council should ensure user agencies conduct an annual inventory of ALMR equipment.

Due to a lack of oversight by the ALMR Executive Council and user agencies, an annual inventory of ALMR user agency equipment was not performed by either ALMR management or user agencies. Over half of ALMR user agencies (68 of the 120) stated they do not track ALMR equipment numbers and user names. As a result, there is an increased risk of unauthorized use or monitoring of the ALMR system.

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Juneau, AK 99811-3300
(907) 465-3830
FAX (907) 465-2347
legaudit@akleg.gov

SUMMARY OF: State of Alaska, Single Audit for the Fiscal Year Ended June 30, 2012
(Reissued)

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 \$3.4 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 Circular A-133*.

The report contains an opinion on the basic financial statements of the State of Alaska for FY 12, 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. Additionally, the State's FY 12 *Comprehensive Annual Financial Report* includes a Certificate of Achievement for Excellence in Financial Reporting which is presented by the Government Finance Officers Association.

All borrowing from the Constitutional Budget Reserve Fund (CBRF) was completely repaid in FY 10 and no borrowing activity from the CBRF occurred during FY 11 or FY 12.

The State of Alaska did not comply with *Federal Funding Accountability and Transparency Act* (FFATA) reporting requirements applicable to the Social Services Block Grant (SSBG; CFDA 93.667) administered by the Department of Health and Social Services. Failure to comply with FFATA reporting requirements resulted in a material weakness and material noncompliance for the SSBG program. The State has substantially complied with the applicable laws and regulations in the administration of its other major federal financial assistance

programs. The report does contain recommendations regarding significant deficiencies in the State's internal control over financial statements and federal programs.

FINDINGS AND RECOMMENDATIONS

This report contains 41 recommendations, of which 17 are unresolved issues from last year. One of the 41 recommendations is made to Alaska Energy Authority whose audit was performed 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 most prior audit recommendations not resolved by the release of the FY 12 statewide single audit.

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P.O. Box 113300
Juneau, AK 99811-3300
(907) 465-3830
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SUMMARY OF: A Sunset Review on the Department of Health and Social Services, Alaska Health Care Commission, May 6, 2013

PURPOSE OF THE REPORT

In accordance with Title 24 and Title 44 of the Alaska Statutes (sunset legislation), we have reviewed the activities of the Alaska Health Care Commission (commission). The purpose of this audit was to determine if there is a demonstrated public need for its continued existence and if it has been operating in an effective manner. As required by AS 44.66.050(a), this report shall be considered by the committee of reference during the legislative oversight process in determining whether the commission should be reestablished. Currently, under AS 44.66.010(a)(9), the commission will terminate on June 30, 2014, and will have one year from that date to conclude its administrative operations.

REPORT CONCLUSIONS

Overall, the commission is operating in the public's interest, but improvements in the development of a statewide health plan are needed to justify its continued existence. Without a statewide health plan, the actions of the commission may not effectively impact health care in Alaska. (See Recommendation No 1.) Deficiencies related to public notices and annual reports were also noted. (See Recommendation Nos. 2 and 3.)

We recommend the commission's termination date be extended three years to June 30, 2017, to provide adequate time to develop a statewide health plan.

FINDINGS AND RECOMMENDATIONS

1. The commission should coordinate with DHSS' commissioner to identify each agency's roles and responsibilities regarding developing a statewide health plan and pursue development accordingly.
2. The commission chair should implement a policy to utilize DHSS public noticing procedures for commission meetings.
3. The commission chair should implement procedures to ensure annual reports include all statutorily required components.

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SUMMARY OF: A Sunset Review on the Department of Commerce, Community, and Economic Development, Board of Marine Pilots (BMP or board), November 5, 2012

PURPOSE OF THE REPORT

In accordance with Title 24 and Title 44 of the Alaska Statutes (sunset legislation), we have reviewed BMP's activities. The purpose of this audit was to determine if there is a demonstrated public need for the board's continued existence and if the board has been operating in an effective manner. This audit also addresses the recommendations made in the prior sunset audit. As required by AS 44.66.050(a), this report shall be considered by the committee of reference during the legislative oversight process in determining whether the board should be reestablished. Currently, under AS 08.03.010(c)(10), BMP will terminate on June 30, 2013, and will have one year from that date to conclude its administrative operations.

REPORT CONCLUSIONS

We conclude that BMP's termination date should be extended. Regulating and licensing qualified marine pilots benefits the public's safety and welfare, and protects the marine environment. The board provides reasonable assurance that individuals licensed to pilot passenger and cargo ships in Alaskan waters are qualified. We recommend that the board's termination date be extended to June 30, 2019.

The board has successfully resolved many of the issues identified in the prior sunset audit. This report makes one new recommendation to improve BMP operational activities.

FINDINGS AND RECOMMENDATIONS

Recommendation No. 1

The marine pilot coordinator should improve administration of BMP operational activities.

While the board has successfully resolved many of the issues identified in the prior sunset audit, current analysis of BMP operational activities showed administrative deficiencies regarding public meeting notifications, licensing documentation, and oversight of the pilot associations' drug and alcohol programs.

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SUMMARY OF: A Sunset Review on the Department of Commerce, Community, and Economic Development, Regulatory Commission of Alaska, July 19, 2013

PURPOSE OF THE REPORT

In accordance with Title 24 and Title 44 of the Alaska Statutes (sunset legislation), we have reviewed the Regulatory Commission of Alaska's (commission or RCA) activities. The purpose of this audit was to determine if there is a demonstrated public need for its continued existence and if it has been operating in an effective manner. As required by AS 44.66.050(a), this report shall be considered by the committee of reference during the legislative oversight process in determining whether the commission should be reestablished. Currently, under AS 44.66.010(a)(3), RCA will terminate on June 30, 2014, and will have one year from that date to conclude its administrative operations.

REPORT CONCLUSIONS

Overall, RCA is operating in the public's interest. In our opinion, the commission fulfills a public need and is serving Alaskans by:

- Assessing utility and pipeline companies' capabilities for safely serving the public;
- Evaluating regulated entities' tariffs and charges;
- Verifying charges passed through to consumers from electric and natural gas utilities;
- Adjudicating disputes between ratepayers and regulated entities; and
- Providing consumer protection services.

We recommend the legislature extend RCA's termination date until June 30, 2022.

Although the commission partially addressed case management system data deficiencies noted in the audit of RCA's FY 11 annual report,¹ continuing deficiencies were noted and further improvements are recommended. We also recommend the legislature consider clarifying the statutory timeline for rulemaking proceedings.

¹Department of Commerce, Community and Economic Development; Regulatory Commission of Alaska, FY 11 Annual Report, May 23, 2012, audit control number 08-30067-12.

FINDINGS AND RECOMMENDATIONS

Recommendation No. 1

RCA's chair should improve and enforce written procedures to ensure case management system data is accurate, consistent, and complete.

Although RCA management developed written procedures for tariff filing and docket data entry during FY 12, testing results showed procedures were not consistently applied. The data errors can be attributed to a lack of adequate training and documentation of data review, and a lack of ongoing quality reviews to ensure case management system data is accurate, consistent, and complete.

Recommendation No. 2

The legislature should consider clarifying AS 42.05.175(e) to ensure RCA fulfills legislative intent when processing regulatory dockets.

The legislature should consider clarifying AS 42.05.175(e) to ensure RCA fulfills legislative intent when processing regulatory dockets. Currently, RCA interprets AS 42.05.175(e) to allow for two separate dockets during the regulatory process. If the legislature intends the entire regulatory deliberative process to be subject to the 730-day timeline, the legislature should consider clarifying Alaska Statutes.

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SUMMARY OF: A Sunset Review on the Department of Commerce, Community, and Economic Development, Board of Chiropractic Examiners, June 6, 2013

PURPOSE OF THE REPORT

In accordance with Title 24 and Title 44 of the Alaska Statutes (sunset legislation), we have reviewed the Board of Chiropractic Examiners' (board or BCE) activities. The purpose of this audit was to determine if there is a demonstrated public need for the board's continued existence and if it has been operating in an effective manner. As required by AS 44.66.050(a), this report shall be considered by the committee of reference during the legislative oversight process in determining whether BCE should be reestablished. Currently, under AS 08.03.010(c)(5), the board will terminate on June 30, 2014, and will have one year from that date to conclude its administrative operations.

REPORT CONCLUSIONS

We conclude that BCE's termination date should be extended. The board is protecting the public's interest by effectively licensing and regulating chiropractors. BCE monitors licensees and ensures that only qualified individuals practice. Furthermore, the board develops and adopts regulatory changes to improve the chiropractic profession in Alaska. We recommend that the board's termination date be extended eight years to June 30, 2022.

The prior sunset audit included one recommendation which has been resolved. This report makes two new recommendations for improving board operations.

FINDINGS AND RECOMMENDATIONS

1. The Office of the Governor should make board appointments in compliance with statutory requirements.
2. The Division of Corporations, Business and Professional Licensing's director should continue efforts to improve the investigative case management system's integrity and confidentiality.

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legaudit@akleg.gov

SUMMARY OF: A Sunset Review on the Department of Commerce, Community, and Economic Development, Board of Examiners in Optometry, June 30, 2013

PURPOSE OF THE REPORT

In accordance with Title 24 and Title 44 of the Alaska Statutes (sunset legislation), we have reviewed the activities of the Board of Examiners in Optometry (board or BEO). The purpose of this audit was to determine whether there is a demonstrated public need for BEO's continued existence and whether it has been operating in an effective manner. As required by AS 44.66.050(a), this report shall be considered by the committee of reference during the legislative oversight process in determining whether the board should be reestablished. Currently, under AS 08.03.010(c)(14), the board will terminate on June 30, 2014, and will have one year from that date to conclude its administrative operations.

REPORT CONCLUSIONS

We conclude that the board's termination date should be extended. BEO is serving the public's interest by effectively licensing and regulating optometrists. The board monitors licensees and ensures that only qualified individuals practice. The board also develops and adopts regulatory changes to improve the optometry profession in Alaska. We recommend that the board's termination date be extended to June 30, 2022.

The prior sunset audit included two recommendations which have been resolved. This report makes one new recommendation to the Division of Corporations, Business and Professional Licensing (DCBPL or division) regarding its investigative support to the board. Improvements are needed to address various investigative case management system deficiencies.

FINDINGS AND RECOMMENDATIONS

1. DCBPL's director should continue efforts to improve the investigative case management system's integrity and confidentiality.

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(907) 465-3830
FAX (907) 465-2347
legaudit@akleg.gov

SUMMARY OF: A Sunset Review on the Department of Commerce, Community, and Economic Development, Board of Marital and Family Therapy, June 19, 2013

PURPOSE OF THE REPORT

In accordance with Title 24 and Title 44 of the Alaska Statutes (sunset legislation), we have reviewed the activities of the Board of Marital and Family Therapy (board or BMFT). The purpose of this audit was to determine if there is a demonstrated public need for the board's continued existence and if it has been operating in an effective manner. As required by AS 44.66.050(a), this report shall be considered by the committee of reference during the legislative oversight process in determining whether BMFT should be reestablished. Currently, under AS 08.03.010(c)(11), the board will terminate on June 30, 2014, and will have one year from that date to conclude its administrative operations.

REPORT CONCLUSIONS

We conclude that BMFT's termination date should be extended. Regulating and licensing marital and family therapists benefits the public's safety and welfare. The board provides reasonable assurance that individuals licensed as marital and family therapists are qualified.

We recommend that the board's termination date be extended four years to June 30, 2018, which is half of the eight-year maximum extension provided in Alaska Statutes. The reduced extension recommendation is mainly due to the board not fully addressing the prior sunset audit recommendation to pursue regulation changes that are necessary to protect the public's interest. Although the board has initiated one regulatory revision, it has not addressed the need for distance therapy and distance supervision.

FINDINGS AND RECOMMENDATIONS

1. BMFT should develop a strategy to address the need for distance therapy and distance supervision.
2. The Office of the Governor and BMFT should work together to fill vacant board seats in a timely manner.

3. The Division of Corporations, Business and Professional Licensing director should continue efforts to improve the investigative case management system's integrity and confidentiality.

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SUMMARY OF: A Sunset Review on the Department of Commerce, Community, and Economic Development, State Physical Therapy and Occupational Therapy Board, June 17, 2013

PURPOSE OF THE REPORT

In accordance with Title 24 and Title 44 of the Alaska Statutes (sunset legislation), we have reviewed the State Physical Therapy and Occupational Therapy Board's (board) activities. The purpose of this audit was to determine whether there is a demonstrated public need for the board's continued existence and whether it has been operating in an effective manner. As required by AS 44.66.050(a), this report shall be considered by the committee of reference during the legislative oversight process in determining whether the board should be reestablished. Currently, under AS 08.03.010(c)(16), the board will terminate on June 30, 2014, and will have one year from that date to conclude its administrative operations.

REPORT CONCLUSIONS

We conclude that the board's termination date should be extended. The board is protecting the public's interest by effectively licensing and regulating physical therapists, physical therapy assistants, occupational therapists, and occupational therapy assistants. The board monitors licensees and ensures that only qualified individuals practice. Furthermore, the board develops and adopts regulatory changes to improve the physical and occupational therapy professions in Alaska. We recommend that the board's termination date be extended to June 30, 2022.

The prior sunset audit included one recommendation which has been resolved. This report makes one new recommendation to the Division of Corporations, Business and Professional Licensing (DCBPL) to address various deficiencies in its investigations case management system.

FINDINGS AND RECOMMENDATIONS

1. DCBPL's director should continue to improve the investigative case management system's integrity and confidentiality.

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SUMMARY OF: A Sunset Review on the Department of Commerce, Community, and Economic Development, Board of Certified Real Estate Appraisers, June 10, 2013

PURPOSE OF THE REPORT

In accordance with Title 24 and Title 44 of the Alaska Statutes (sunset legislation), we have reviewed the Board of Certified Real Estate Appraisers' (board or BCREA) activities. The purpose of this audit was to determine if there is a demonstrated public need for its continued existence and if it has been operating in an effective manner. As required by AS 44.66.050(a), this report shall be considered by the committee of reference during the legislative oversight process in determining whether the board should be reestablished. Currently, under AS 08.03.010(c)(19), the board will terminate on June 30, 2014, and will have one year from that date to conclude its administrative operations.

REPORT CONCLUSIONS

We conclude that BCREA's termination date should be extended. Regulating and licensing real estate appraisers benefits the public's interest. The board provides reasonable assurance that individuals licensed as real estate appraisers are qualified. We recommend the board's termination date be extended only four years to June 30, 2018, which is half of the maximum allowed in state law. The reduced extension is in recognition of the increase in the board's federally mandated responsibilities. In the upcoming years, federal law requires the board to expand its regulation responsibilities to include appraisal management companies.

The Division of Corporations, Business and Professional Licensing (DCBPL) materially addressed the prior sunset audit recommendations; however, additional deficiencies were noted. This audit makes two recommendations to improve the administrative support to the board.

FINDINGS AND RECOMMENDATIONS

1. DCBPL's director should continue efforts to improve the investigative case management system's integrity and confidentiality.
2. DCBPL's director should take steps to improve administrative support to BCREA.

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ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE



Division of Legislative Audit

P.O. Box 113300
Juneau, AK 99811-3300
(907) 465-3830
FAX (907) 465-2347
legaudit@akleg.gov

SUMMARY OF: A Sunset Review on the Department of Natural Resources, Alaska Seismic Hazards Safety Commission, September 19, 2013

PURPOSE OF THE REPORT

In accordance with Title 24 and Title 44 of the Alaska Statutes (sunset legislation), we have reviewed the activities of the Alaska Seismic Hazards Safety Commission (commission or ASHSC). The purpose of this audit was to determine if there is a demonstrated public need for the commission's continued existence and if the commission has been operating in an effective manner. As required by AS 44.66.050(a), this report shall be considered by the committee of reference during the legislative oversight process in determining whether the commission should be reestablished. Currently, under AS 44.66.010(a)(8), the commission will terminate on June 30, 2014, and will have one year from that date to conclude its administrative operations.

REPORT CONCLUSIONS

Overall, we conclude the commission is operating in the public's interest, but improvements are needed to increase effectiveness. During the audit period, the commission served the public's interest by issuing eight seismic hazards mitigation recommendations. As the State's designated seismic hazard mitigation advisory commission, the ASHSC relies on other organizations to implement recommended actions. Six recommendations were issued to the State and legislature, and two were issued to other entities. The commission also gathered, analyzed, and disseminated information and assisted with seismic hazards safety mitigation training efforts.

The audit identified several areas for operational improvements. (See Recommendation Nos. 1 through 4.) Recommendations include improving strategic planning documents; replacing chronically absent commission members; filling vacant positions in a timely manner; and ensuring commission recommendations identify the required actions and organizations responsible for implementation.

FINDINGS AND RECOMMENDATIONS

1. The commission should improve prioritization and accountability within its strategic planning documents.

2. The commission should recommend replacing habitually absent members in a timely manner.
3. The Office of the Governor and the commission should work together to fill all commission vacancies in a timely manner.
4. The commission should ensure recommendations clearly identify the organization responsible for implementing an action and the action to be performed.

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SUMMARY OF: A Special Report on the Department of Natural Resources, Agriculture Revolving Loan Fund, Selected Issues, June 24, 2013

PURPOSE OF THE REPORT

In accordance with Title 24 of the Alaska Statutes and a special request by the Legislative Budget and Audit Committee, we have conducted a performance audit of the Agriculture Revolving Loan Fund (fund or ARLF). The purpose of this audit is to examine the fund's performance and administration and compare fund administration to other loan programs and industry best practices. The goal of the evaluation is to identify how the fund's performance could be improved and how efficiencies could be gained with an emphasis on whether the fund should be administered by a different state agency.

REPORT CONCLUSIONS

We conclude that ARLF's fiscal condition is the result of agricultural policy decisions made over the past 30 years by executive and legislative branches of government. Many lending and management decisions were made in favor of supporting the agricultural industry over maintaining the fund's fiscal health. Since inception, ARLF's fund equity has declined by 69 percent, and it annually loses over \$118,000 from operating Mount McKinley Meat and Sausage Company (MMM&S).

Although ARLF's default rate was found to be reasonable at the program level when compared to other agricultural loan programs, the audit identified numerous administrative deficiencies that, if not corrected, will likely contribute to future losses. Examples of deficiencies include ineffective and inefficient processes for loan evaluation and approval, property management, and loan management. Additionally, this audit found regulations do not promote fiscally responsible decisions on a consistent basis.

Our review of comparable loan programs found that boards similar to the Board of Agriculture and Conservation (BAC) are not commonly used for lending decisions. It is more common for lending decisions to be made by professional lending staff or by a committee with lending expertise. Based on administrative deficiencies and opportunities for increased efficiency, we conclude that moving ARLF administration and loan decisions to the Division of Economic Development may improve the loan program's efficiency and effectiveness, and help ensure the fund's future solvency.

FINDINGS AND RECOMMENDATIONS

Recommendation No. 1

The legislature should consider moving the ARLF administration to the Department of Commerce, Community, and Economic Development's Division of Economic Development.

Report conclusions outline examples of deficiencies in the Division of Agriculture's processes for evaluating and approving loans, managing property, and managing loans. Decisions to promote agriculture and support Alaskan farmers through the use of ARLF assets have not always been fiscally prudent. While BAC diligently works to serve the agricultural industry, improvements have not effectively eliminated the types of deficiencies noted in the audit.

Recommendation No. 2

ARLF administrators should revise ARLF's regulations to promote industry best practices.

ARLF's regulations do not promote consistent fiscally responsible decisions. Specifically, regulations do not include criteria for approving loans and do not provide sufficient guidelines for evaluating collateral.

Recommendation No. 3

ARLF administrators should pursue disposal of business properties and revise property leasing rates to provide a return on ARLF assets.

ARLF currently owns two active business properties, the MMM&S and the Alaska Farm Cooperative (cooperative). Operating businesses such as the MMM&S and the cooperative is not within ARLF's statutory authority. ARLF's statutory purpose is to promote more rapid development of agriculture as an industry by means of long-term low-interest loans.

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FAX (907) 465-2347
legaudit@akleg.gov

SUMMARY OF: A Sunset Review on the Department of Public Safety, Council on Domestic Violence and Sexual Assault, May 21, 2013

PURPOSE OF THE REPORT

In accordance with Title 24 and Title 44 of the Alaska Statutes (sunset legislation), we have reviewed the Council on Domestic Violence and Sexual Assault's (council or CDVSA) activities. The purpose of this audit was to determine if there is a demonstrated public need for its continued existence and if it has been operating in an effective manner. As required by AS 44.66.050(a), this report shall be considered by the committee of reference during the legislative oversight process in determining whether the council should be reestablished. Currently, under AS 44.66.010(a)(5), the council will terminate on June 30, 2014, and will have one year from that date to conclude its administrative operations.

REPORT CONCLUSIONS

The council is serving in the public's interest by funding and monitoring Alaskan domestic violence and sexual assault response programs and prevention activities. Additionally, the council effectively served as the central coordinator for related services throughout the State. However, areas for operational improvements were noted as discussed in the Findings and Recommendations.

CDVSA is scheduled to terminate June 30, 2014. We recommend the council's termination date be extended eight years to June 30, 2022.

FINDINGS AND RECOMMENDATIONS

1. The council should address its statutory responsibility to consult with the Department of Health and Social Services to formulate standards and procedures as required by AS 18.66.300.
2. The council's executive director should implement written procedures to ensure public notices are posted timely.
3. The council's executive director should improve grant award and monitoring policies and procedures.

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FAX (907) 465-2347
legaudit@akleg.gov

SUMMARY OF: A Special Report on the Department of Transportation and Public Facilities, Knik Arm Bridge and Toll Authority (KABATA), Knik Arm Crossing (KAC) Project, March 7, 2013

PURPOSE OF THE REPORT

In accordance with Title 24 of the Alaska Statutes and a special request by the Legislative Budget and Audit Committee, we have conducted a performance audit of KABATA's KAC Project. The audit objectives were to:

1. Provide a historical summary of major KAC Project milestones;
2. Identify significant changes to the project scope;
3. Evaluate the adequacy of public participation;
4. Provide a detailed summary, by source, of KAC authorized, expended, and remaining funding, including the level of funding necessary to complete the project;
5. Ascertain the reasonableness of KAC toll and revenue projections and the KAC projected financial plan;
6. Evaluate the KAC private-public-partnership (P3) agreement; and
7. Outline the balance of risks and rewards between public and private partner entities as outlined in the P3 agreement.

REPORT CONCLUSIONS

The audit concludes that KAC toll and revenue projections are unreasonably optimistic, and the projected cash flows to the State are likely overstated as a result. These are important considerations for policymakers since the P3 compensation arrangement requires KABATA to make payments to the private partner regardless of the project's ability to generate toll revenues. The deficiencies in KABATA's methodology for generating toll and revenue projections are addressed in Recommendation No. 1.

KABATA's FY 03 through FY 12 expenses total \$70.4 million and authorized funding totals \$131 million. The project is expected to require an additional \$1.4 billion from a variety of sources including bonds, loans, grants, and private equity. A discussion of key project planning and development milestones is provided as part of this report's Background Information section. Appendix A provides a list of significant KAC Project milestones.

The audit was unable to fully outline the balance of risks and rewards embodied in the final P3 agreement because the procurement process is not complete, and the P3 agreement has not been finalized. However, the general structure of the P3 agreement has been defined by KABATA's governing board and provides that the State will bear the risk of lower-than-expected toll revenues.

It is important to note that a final P3 agreement will also contain rewards and additional risks that are not addressed in this report due to the scope limitation already discussed. This report is not concluding whether or not this specific risk is justified when considering the P3 agreement's balance of risks and rewards for the agreement as a whole. The risk of lower-than-expected toll revenues is an important aspect of understanding the potential effect of deficiencies in projections and should be considered in that context.

FINDINGS AND RECOMMENDATIONS

Recommendation No. 1

KABATA management should revise traffic and toll revenue projections to address deficiencies.

The audit of key assumptions and inputs used in KABATA's transportation modeling process identified several concerns regarding the validity of assumptions and inputs used as a basis for projecting KAC toll revenues. Overstated traffic volume in KABATA's modeling process has the effect of overstating projected toll revenues.

