

## **Finding No. 2024-001**

**Type:** Basic Financial Statements  
**Impact:** Significant Deficiency

### **Condition:**

The FY 24 draft Annual Comprehensive Financial Report (ACFR) misreported general fund opioid settlement funds as unearned revenue.

### **Context:**

In 2021 and 2022, nationwide settlements were reached with various producers, distributors, and pharmacy chains involved in the production, distribution, and sale of opioids. The State of Alaska is a party to the nationwide litigation and settlements, and is expected to receive additional settlement monies, all of which are primarily restricted to be spent on opioid remediation activities.

### **Cause:**

The errors were caused by lack of sufficient oversight by Division of Finance (DOF) management and the absence of procedures and separate funds to record opioid settlement monies to ensure the monies were properly recorded for financial reporting purposes and were spent in compliance with the settlements.

### **Criteria:**

Per *Codification of Governmental Accounting and Financial Reporting Standards*, Section 1600, revenues are recognized in the accounting period in which they become susceptible to accrual; when they become both measurable and available to finance expenditures of the fiscal period.

Per *Codification of Governmental Accounting and Financial Reporting Standards*, Section 1800, amounts that can only be used for specific purposes pursuant to constraints imposed by laws or regulations of other governments should be reported as restricted fund balance.

### **Effect:**

Misreporting of opioid settlement income resulted in the following misstatements:

- Statement 1.13 general fund and Statement 1.02 governmental activities revenues understated \$23 million.
- Statement 1.11 general fund fund balance understated \$23 million and unearned revenue overstated \$23 million.
- Statement 1.01 governmental activities long-term liabilities: due or payable after one year overstated \$11 million, long-term liabilities: due or payable within one year overstated \$12 million, and net position restricted understated \$23 million.

The noted errors were corrected via audit adjustments and the activity was properly reported in the final FY 24 ACFR.

**Recommendation:**

The Office of Management and Budget (OMB) director should work with the legislature to create separate fund(s) to account, track, and manage opioid settlement resources. Additionally, the state accountant should improve procedures over classifying revenues.

**Views of Responsible Officials:**

Management agrees with this finding.