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Prepared by the
Division of
Legislative Audit

DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT

A Summary of 2010 through 2012 Audit Recommendations



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**Department of Commerce, Community,
and Economic Development
Division of Corporations, Business and
Professional Licensing**

Sunset Audit Overview

Over the past three years, we have performed eleven sunset audits of boards and commissions under the Department of Commerce, Community, and Economic Development. All of these reports recommended that the boards' termination dates be extended from four to eight years. Many of the recommendations in these reports are directed to administrative and investigative support deficiencies and addressed to the Division of Corporations, Business and Professional Licensing (division). These audit reports can be obtained at <http://www.legaudit.state.ak.us/pages/bydept.htm>.

These include:

2012:

- A sunset review of the Board of Public Accountancy (p.43 of 51)
- A sunset review of the State Medical Board (p.45 of 51)
- A sunset review of the Board of Marine Pilots (issued January 2013) (p.49 of 51)

2011:

- A sunset review of the Big Game Commercial Services Board (p.19 of 51).
- A sunset review of the Regulatory Commission of Alaska (p.23 of 51)

2010:

- A sunset review of the Board of Certified Real Estate Appraisers (p.7 of 51)
- A sunset review of the Board of Pharmacy (p.9 of 51)
- A sunset review of the Board of Psychologist and Psychological Associate Examiners (p.11 of 51)

- A sunset review of the Board of Barbers and Hairdressers (p.13 of 51)
- A sunset review of the Board of Dental Examiners (p.15 of 51)
- A sunset review of the Board of Nursing (p.16 of 51)

In the fall of 2011, we issued a report on the division's administrative and investigative support issues. This audit includes an overall analysis of administrative and investigative support activities and provides the current status of the deficiencies in these operations. The recommendations resulting from this report are included in this departmental summary. While these deficiencies certainly negatively impact the effectiveness of board operations, we have not included any administrative or investigative support recommendations resulting from the sunset audits of the individual boards to avoid duplication in this departmental summary.

**Department of Commerce, Community,
and Economic Development
Division of Corporations, Business and
Professional Licensing
Select Occupational Licensing and
Enforcement Issues**

Audit Control Number
08-30063-11

REPORT CONCLUSION

Based on our audit of the Department of Commerce, Community, and Economic Development's (department) Division of Corporations, Business and Professional Licensing (division), we determined:

- The division did not make all of the appropriate fee adjustments resulting from the most recent fee analysis.
- In FY 11, personal services time was accurately recorded for occupational licensing and enforcement employees.
- The division uses an unreasonable method for allocating indirect costs which result in overcharges to occupations being regulated. Roughly calculated, the annual overcharge could be \$500,000.
- The division tracks costs to licensing programs rather than occupation programs. Some statutes allow for costs to be charged to the licensing program while others require costs accounted for at the occupation level.
- A member of the Board of Marine Pilots did not publicly disclose a potential conflict of interest.
- There is insufficient reliable data to assess the level of enforcement activities. Recently, the division implemented a new investigations tracking system. The migration of data from the existing system to the new database was problematic, and as a result, there are significant inaccuracies in summary information and a lack of complete data.

Select Occupational Licensing and Enforcement Issues (Continued)

- **Recommendation A:** The division director should ensure occupational licensing fees are adjusted annually in accordance with state law.

The division does not comply with statutory requirements that the department calculate and implement occupational licensing fee adjustments based on the results of an annual fee analysis. A review of the FY 11 fee analysis identified the following issues related to fee change recommendations and implementations.

- Eight licensing programs had 21 fee adjustments not implemented despite the analysis identifying changes were necessary.
- Two licensing programs did not have an FY 11 fee analysis.
- For five programs,¹ not all statutory fees were included in the analysis.

According to division management, all calculated fee changes were not implemented primarily because they were not satisfied with the fee analysis for which they believed the methodology was outdated and the calculations were unreliable. The analysis requires a significant, detailed review prior to department approval due to results that are oftentimes questionable. Division management is hesitant to go forward with some of the recommendations due to lack of confidence in the methodology and results and sensitivity to public reaction to fee changes. However, this hesitation and detailed review process was not uniformly applied in FY 11.

- ✓ **Agency Response:** Partially agreed.

The department stated that it agreed that the division director should make sure that occupational licensing fees are annually reviewed. However, it did not agree that such annual reviews would necessarily prove a need for annual adjustments to occupational licensing fees.

❖ Current Status

¹Eleven fee types under five programs: (1) Board for Architects, Engineers, and Land Surveyors, (2) Board of Professional Counselors, (3) Board of Public Accountancy, (4) Board of Social Work Examiners, and (5) Board of Barbers and Hairdressers.

Select Occupational Licensing and Enforcement Issues (Continued)

- **Recommendation B:** The division's director should improve the method for allocating division indirect costs and for tracking occupation direct costs.

The division's current method in accounting for costs results in an inappropriate distribution of costs to individual occupations. These accounting deficiencies are primarily in two areas:

1. The division lacks a reasonable methodology for allocating division indirect expenses (this includes division administrative staff as well as the division's share of department-side support services costs). Currently, all of the division's indirect expenses are charged to the professional licensing cost pool and none to the corporations and business licensing cost pool.

The corporations and business licensing sections account for 11 positions (17% of the division's total 64). The division's indirect costs totaled \$3.3 million in FY 10. Using 17% as a conservative estimate, corporations and business licensing share of the division's indirect costs was approximately \$560,000. Since none of the division's indirect costs were charged to the corporations and business licensing section, \$560,000 were inappropriately allocated to occupations.

2. The division does not separately track occupational direct costs. All division direct costs are recorded in the Alaska state accounting system to licensing programs. The fee analysis process includes allocating these direct costs to occupations based on license count. While this method is efficient for allocating routine and recurring costs, it is not appropriate when the division incurs significant and unusual costs directly attributable to a single occupation.

- ✓ **Agency Response:** Partially agreed.

The department stated that it agreed that its allocation of division indirect costs needs improvement, but it did not fully agree on the recommendation for tracking occupational direct costs.

❖ Current Status

Select Occupational Licensing and Enforcement Issues
(Continued)

- **Recommendation C:** The division's director should take immediate action to address deficiencies in the new investigations case management system.

The extent of the division's enforcement of Title 8 of the Alaska Statutes could not be readily measured due to the incomplete and unreliable condition of the data within the division's new case management software application. This is primarily due to management's insufficient oversight of the project planning, data conversion, and system implementation processes. Additionally, the department's information technology and investigations staff were not adequately involved.

There were significant issues in transferring data from the old system to the new investigative systems and there are ongoing deficiencies in the operations of the current system regarding inadequate controls over data entry and case record maintenance.

- ✓ **Agency Response:** Agreed.

The department stated that the division is addressing investigations case management system deficiencies by working on the deficiencies with an engaged business user team.

❖ **Current Status**

**Department of Commerce, Community,
and Economic Development
Board of Certified Real Estate Appraisers**

Audit Control Number
08-20064-10

REPORT CONCLUSION

The use of state certified real estate appraisers will be a continuing requirement for Alaska's financial institutions to qualify for federal deposit insurance and to participate in selling mortgage loans to federal government-sponsored enterprises.² Failure to maintain a real estate appraiser certification program that meets federal requirements could cause the financial institutions – and by extension, the citizens of the State – to lose the opportunity to participate in a number of federally sponsored real estate loan programs and lose the ability to obtain federal deposit insurance. In this context, we recommend that the legislature extend the Board of Certified Real Estate Appraisers' termination date to June 30, 2014.

²Government-sponsored enterprises include such entities as the Federal Home Loan Mortgage Corporation (generally referred to as "Freddie Mac") and the Federal National Mortgage Association (generally referred to as "Fannie Mae").

Board of Certified Real Estate Developers Sunset
(Continued)

- **Recommendation A:** The Board of Certified Real Estate Appraisers and the Department of Commerce, Community, and Economic Development (department) should take timely corrective action in response to the Appraisal Subcommittee's findings.

The Appraisal Subcommittee conducted a monitoring inspection of Alaska's real estate appraiser regulatory program in 2007. The inspection cited an inadequate application review process as the reason for the deficiencies. The Appraisal Subcommittee directed the department and the Board of Certified Real Estate Appraisers to contact the improperly certified appraisers and request further documentation. If the appraisers continued failing to meet requirements, the department and the Board of Certified Real Estate Appraisers were directed to downgrade the certification credentials within 90 days. The department and the Board of Certified Real Estate Appraisers must resolve the finding in order to come into compliance with the Title 11 of the 1989 Financial Institutions Reform, Recovery, and Enforcement Act, as amended.

The department's Division of Corporations, Business and Professional Licensing sent out letters to the three applicants notifying them of the deficiency detected through the Appraisal Subcommittee review. The division requested each appraiser submit additional documentation showing the appraisers met certification requirements. Only one of the three appraisers responded. The Board of Certified Real Estate Appraisers failed to downgrade certification credentials for the two appraisers still out of compliance. Until proper documentation is submitted, the two appraisers affected are not qualified to practice as certified appraisers in accordance with federal law.

- ✓ **Agency Response:** Agreed.

The department stated that it would work with the board to find a resolution to the Appraisal Subcommittee's findings.

❖ **Current Status**

**Department of Commerce, Community,
and Economic Development
Board of Pharmacy**

Audit Control Number
08-20065-10

REPORT CONCLUSION

We recommend that the Board of Pharmacy's termination date be extended until June 30, 2018.

Board of Pharmacy
(Continued)

- **Recommendation A:** The Board of Pharmacy should approve collaborative protocols in accordance with regulation.

Collaborative protocols are cooperative practice agreements in which practitioners authorize pharmacists to administer or dispense drugs in accordance with a written protocol. The agreements specify a time period in which the protocol defines the types of drugs that pharmacists may administer or dispense, and a plan for practitioners to review the decisions made by pharmacists during the period of agreement. In one case, a collaborative protocol was requested for a one year period, but the board approved it for a two year period. Furthermore, three requests for collaborative protocol were approved by the board even though the associated written agreements did not fully comply with regulation.

- ✓ **The Agency and Board Response:** Agreed.

The department stated that it would review its procedures and discuss with the board the appropriate process for collaborative agreements.

The Board of Pharmacy stated that it would strive to maintain collaborative practice protocol standards.

❖ **Current Status**

**Department of Commerce, Community,
and Economic Development
Board of Psychologist and
Psychological Associate Examiners**

Audit Control Number
08-20066-10

REPORT CONCLUSION

The Board of Psychologist and Psychological Associate Examiners is operating in an efficient and effective manner and should continue to regulate the psychology profession. We recommend the legislature extend the Board of Psychologist and Psychological Associate Examiners' termination date to June 30, 2018, the maximum extension allowed in statute.

Board of Psychologist and Psychological Associate Examiners
(Continued)

- **Recommendation A:** The Department of Commerce, Community, and Economic Development's (department) Division of Corporations, Business and Professional Licensing (division) administrative officer should take steps to ensure courtesy licensees comply with reporting requirements.

State regulation 12 AAC 60.035(a) authorizes courtesy licensees to practice psychology; the licensee has to submit a report to the Board of Psychologist and Psychological Associate Examiners each month during the period of courtesy licensure indicating the number of days practiced during the month. The Board Psychologist and Psychological Examiners' licensing examiner did not monitor or report compliance with monthly reporting requirement. One licensee failed to submit any monthly reports; another submitted a report that covered a nine month period; and a third licensee submitted late reports. There was no follow-up by division staff or the Board of Psychologist and Psychological Associate Examiners.

- ✓ **Agency and Board Response:** Agreed.

The department stated that its licensing staff would work with the Board of Psychologist and Psychological Associate Examiners to review reporting requirements and make the licensee compliance options more efficient.

The Board of Psychologist and Psychological Associate Examiners stated that courtesy licensee hours of use would become a standard agenda item at its board meetings.

❖ **Current Status**

**Department of Commerce, Community,
and Economic Development
Board of Barbers and Hairdressers**

Audit Control Number
08-20068-10

REPORT CONCLUSION

The Board of Barbers and Hairdressers has been operating in an efficient and effective manner and should be continued until June 30, 2019.

Board of Barbers and Hairdressers
(Continued)

- **Recommendation A:** The current public member should surrender her hairdresser license or be removed from the public member board position.

The public member, appointed on January 29, 2008, was and is currently, a licensed hairdresser.

- ✓ **Agency and Board Response:** Agreed.

Both the Department of Commerce, Community, and Economic Development and the Board of Barbers and Hairdressers stated that the public member would surrender her hairdresser's license and remain on the board.

❖ **Current Status**

**Department of Commerce, Community,
and Economic Development
Board of Dental Examiners**

Audit Control Number
08-20069-10

REPORT CONCLUSION

We recommend that the legislature extend Board of Dental Examiners' termination date to June 30, 2019.

**Department of Commerce, Community,
and Economic Development
Board of Nursing**

Audit Control Number
08-20070-10

REPORT CONCLUSION

We recommend that the legislature extend the Board of Nursing's termination date to June 30, 2019.

Board of Nursing
(Continued)

- **Recommendation A:** The Board of Nursing should take steps to ensure all appropriate entities are notified when an advanced nurse practitioner's authority to write prescriptions has been revoked or suspended.

From July 1, 2002, to March 31, 2010, there were two incidents where a nurse's authorization to write prescriptions was revoked by the Board of Nursing. However, not all appropriate entities were notified. As a result one advanced nurse practitioner continued to write prescriptions. The disciplinary database accessible on the Board of Nursing's website is not an effective control for stopping illegal prescriptions from being filled. Not notifying the federal Drug Enforcement Agency that a prescriber's authorization has been revoked or suspended can result in illegal prescriptions being filled.

- ✓ **Agency and Board Response:** Agreed.

The Department of Commerce, Community, and Economic Development stated that it would work with the Boards of Nursing and other health care related boards, agencies, and professionals to establish disciplinary proceedings and sanction awareness.

According to the Board of Nursing, it established protocols to prevent future incidents of advanced nurse practitioners writing prescriptions though their authority to do so had been revoked or suspended.

❖ **Current Status**

**Board of Nursing
(Continued)**

- **Recommendation B:** The Board of Nursing chairman should take steps to ensure that the required training program reviews are being conducted.

The Board of Nursing is not consistently providing the required oversight of certified nursing assistant training programs. The required site reviews are not being conducted for all the certified nursing assistant training programs. As of June 30, 2010, only 11 of the 21 required reviews for the year had been performed. As a result, training programs are being given approval to operate for another two years without the reviews being conducted or processed.

Additionally, in years the on-site reviews are not done, the self-evaluation forms completed by the training program staff are not being processed. As a result, the Board of Nursing is not aware of any issues that are highlighted in the self-evaluations.

- ✓ **Agency and Board Response:** Agreed.

The department and Board of Nursing stated that they had been unable to permanently fill the position responsible for conducting the reviews due to the non-competitive salary involved, but they were continuing to search for a solution for providing adequate inspections and reviews.

❖ **Current Status**

**Department of Commerce, Community,
and Economic Development
Big Game Commercial Services Board**

Audit Control Number
08-20071-11

REPORT CONCLUSION

The Big Game Commercial Services Board has provided reasonable assurance that the individuals licensed to guide and/or outfit hunts as well as transport hunters to and from hunt locations in Alaska are qualified to do so. We recommend that the Big Game Commercial Services Board's termination date be extended for four years to June 30, 2016.

Big Game Commercial Services Board
(Continued)

- **Prior Audit Recommendation A:** The Big Game Commercial Services Board should consider modifying regulatory first aid requirements to provide consistency between guide-outfitter licensee types.

Not all types of guide-outfitter licensees are required to maintain a valid first aid card issued by the Red Cross or similar organization for licensure. As a result, public safety is placed at risk by not requiring all guide-outfitter licensee types to provide proof of current first aid training at the time of initial and renewal of licenses.

Legislative Audit's 2011 Status

There are four guide-outfitter licensee types: assistant, Class A assistant, registered, and master. Alaska Statute 08.54.620(a)(3) and AS 08.54.630(a)(3) require Class A assistant and assistant guides to "*possess a current first aid card issued by the Red Cross or a similar organization.*" However, AS 08.54.610 does not require registered or master guides to have proof of certification. Registered and master guides who contract for a guided hunt must be present in the field with the client at least once during the hunt. By not requiring those licensees to possess proof of current first aid, the public's safety is at greater risk – particularly in remote locations.

- ✓ **Agency Response:** Agreed.

The department stated that it would present a draft of regulations on first aid requirements at the Big Game Commercial Services Board meeting scheduled for December 2011.

❖ **Current Status**

Big Game Commercial Services Board
(Continued)

- **Prior Audit Recommendation B:** The Big Game Commercial Service Board should reconsider the electronic accumulation of information gathered from hunt records and transporter reports.

Staff resources were ill-spent recording historic licensee hunt records/reports into an electronic database. Additionally, the Big Game Commercial Services Board did not identify an intended use or the stakeholders of that information.

Legislative Audit's 2011 Status

The Division of Corporations, Business and Professional Licensing (division) discontinued entering historical report data but is capturing current information from FY 07 forward. However, the Big Game Commercial Service Board has yet to identify an intended use or specific stakeholders of the information being captured.

Board members believed multiple state and federal agencies have been routinely using the database information for various purposes. Nevertheless, only one state agency and the division's Investigation Unit were identified as consistently accessing the database. Moreover, other agencies allowed access indicated they use it minimally or not at all. These data entry costs have contributed to the financial deficit which will have to be paid by all licensees.

- ✓ **Agency Response:** Agreed.

The department stated that it would form an internal project team to assess the purpose, stakeholders, costs related to, and maintenance of the information gather, and it would present a draft of the topic to the Big Game Commercial Services Board in the December 2011 board meeting.

❖ **Current Status**

Big Game Commercial Services Board
(Continued)

- **Recommendation C:** The division director should ensure controls over the database security of hunt records and the physical custody of hunt records and transporter reports are adequate.

The division does not have adequate security in place to limit access to confidential³ hunt records/reports by only authorized users. These records are in both electronic and physical formats. Division staff tasked with assigning security access lack the technical knowledge to ensure adequate security controls⁴ are in place to limit access. The database is not routinely monitored to ensure only authorized users have access. Additionally, the division has no policy or procedure to ensure the files are physically secured.

- ✓ **Agency Response:** Agreed.

The department stated that it would form an internal project team to consider how to ensure control over database security and physical custody of hunt records.

❖ **Current Status**

³Alaska Statute 08.54.760 *Hunt Records; Confidentiality of Hunt Records and Activity Reports*.

⁴*State of Alaska, Information Security Policy ISP 171: Identity Management*.

**Department of Commerce, Community,
and Economic Development
Regulatory Commission of Alaska**

Audit Control Number
08-20067-11

REPORT CONCLUSIONS

In our opinion, the Regulatory Commission (commission) of Alaska fulfills a public need and is serving Alaskans. We recommend that the legislature extend the commission's termination date until June 30, 2019.

Regulatory Commission of Alaska Sunset
(Continued)

- **Prior Audit Recommendation A:** The commission should establish standards for certain aspects of discovery.

Our original recommendation in 2006 was that the commission develop regulations that would enhance the transparency, accountability and efficiency of the commission's decision making process. Specifically, it was to have the commission establish timelines for matters not already covered by statutory timelines, establish standards for certain aspects of discovery and lastly to clarify terms used in statute that relate to established timelines for certain formal proceedings.

Legislative Audit's 2011 Position

Except for establishing standards for certain aspects of discovery, the commission has implemented this regulation. During our 2010 audit, the commission was in the process of evaluating industry and public input on discovery-related regulations.

- ✓ **Commission Response:** Agreed

According to the commission, it was pursuing the remaining part to the recommendation by considering discovery regulations. It stated that new regulations take time and careful consideration because interested entities have conflicting views.

❖ **Current Status**

**Department of Commerce, Community,
and Economic Development,
Division of Corporations,
Business and Professional Licensing,
State Medical Board**

Audit Control Number
08-30059-11

REPORT CONCLUSION

Based on our audit of the Department of Commerce, Community, and Economic Development's (department), Division of Corporations, Business and Professional Licensing (division), State Medical Board, we determined the following concerning the Alaska State Medical Board.

- Complaints are not processed in a timely, efficient, and effective manner.
- The State Medical Board disciplinary sanctions are consistently applied to both adjudicated and non-adjudicated cases.
- State Medical Board disciplinary actions are not reported to the Federation of State Medical Boards and the National Practitioners Data Bank in accordance with state and federal laws.
- Complaints initiated by the State Medical Board's executive administrator regarding license renewal application issues are reasonable.
- State Medical Board disciplinary sanctions and reporting to the Federation of State Medical Boards and the National Practitioners Data Bank are now similar to other states.

State Medical Board
(Continued)

- **Recommendation A:** The division's director should implement improvements over complaint processing.

The division's Investigation Unit is untimely, has inefficiencies, and is sometimes ineffective in processing State Medical Board complaints. Non-adjudicated cases that are initiated by an internal source are investigated in a timely manner. However, non-adjudicated complaints that are initiated by external sources and adjudicated complaints are not processed timely and effectively. Some inefficiencies are due to untimely responses to requests for information, documents, and subpoenas from respondents and medical agencies. Nevertheless, non-adjudicated, external-source complaints take an average of 241 days longer in the complaint phase and 104 days longer in the investigations phase than non-adjudicated, internal-source complaints. Adjudicated complaints only take an average of 5 days longer in the complaint phase but take an average of 602 days longer in the investigation phase than non-adjudicated, internal-source complaints. Furthermore, the division's case management system contains deficiencies which contribute to inefficient complaint processing.

- ✓ **Agency and Board Response:** Agreed.

The department stated that it was developing a management plan with role assignments and timelines, restructuring responsibilities, and reviewing case load standards to determine the optimum number of cases per investigator working on the database, and considering getting a highly qualified investigator to oversee correcting long-standing issues.

❖ **Current Status**

State Medical Board
(Continued)

- **Recommendation B:** The division's director should implement procedures to ensure that State Medical Board disciplinary actions are reported in accordance with state and federal laws.

Employee turnover, no written procedures for reporting, and no oversight of the reporting process resulted in unreported State Medical Board disciplinary actions and untimely report submissions. The division's director should require Investigation Unit management to document in writing the reporting procedures and provide oversight of the process.

- ✓ **Agency Response:** Agreed.

The departments stated that new division management was taking corrective actions by drafting policy and procedures specific to reporting disciplinary actions, cross-training staff, working with the National Practitioner's Data Bank system, and monitoring Federation of State Medical Boards information and clarifications that impact the State's licensing programs.

❖ **Current Status**

**State of Alaska
Single Audit
for the
Fiscal Year Ended
June 30, 2011**

Department of Commerce, Community, and Economic Development

Audit Control Number
02-40012-12

There are two primary objectives for the State of Alaska, Single Audit for the Fiscal Year Ended June 30, 2011 (Statewide Single Audit). The first is to determine if the financial statements of the State of Alaska are fairly presented in accordance with generally accepted accounting principles. The second is to determine if the State has materially complied with the various federal laws, regulations, and contract provisions in the expending of federal financial assistance.

The Department of Commerce, Community, and Economic Development (department) had one recommendation in the most recently issued Statewide Single Audit.

**FY 11 Statewide Single Audit
(Continued)**

- **Recommendation A:** The DCCED Division of Administrative Services (DAS) director should develop and implement policies and procedures to ensure that management decisions on audit findings are issued timely.

DCCED staff failed to issue a management decision regarding a subrecipient's single audit finding for the Schools and Roads – Grants to States program within the federally required six-month time period. Due to an oversight, DCCED staff followed up on the subrecipient's financial finding, but did not follow up on the federal program related finding. DCCED personnel do not have policies and procedures to ensure accurate and timely follow-up on subrecipient United States Office of Management and Budget Circular A-133 audit findings. Monitoring subrecipient audit findings is a significant control which, if not properly implemented, can lead to noncompliant grantees receiving additional federal funds.

- ✓ **Agency Response:** Agreed.

According to the department, a written procedure has been drafted for subrecipient A-133 audits, and is currently being reviewed for approval and implementation.

❖ **Current Status**

**Department of Natural Resources, University of Alaska, and Department of Commerce, Community,
and Economic Development,
Virus Free Seed Potato Project**

Audit Control Number
10-30064-12

REPORT CONCLUSION

This audit concludes that no significant monetary or non-monetary returns are being received by the State or private entities as a result of certifying seed potatoes for international export. The export market is stagnant, the number of acres used to grow seed potatoes is not large and the acreage has not increased. Furthermore, seed potato exports have not provided a positive return in terms of regulation costs compared to revenue generated by export sales. These factors are not expected to change. Consequently, the continued use of state resources to certify seed potatoes for international export will act as a subsidy for seed potato farmers.

The report conclusions, as they relate to export certifications, should not be interpreted as negating the necessity for state certification. Inspections and certifications of seed potatoes have been conducted by the State since the mid-1960s to reduce the risk of disease. This audit does not conclude that continued state certification of seed potatoes is unwarranted or unnecessary.

Whether or not regulation of seed potato crops is an essential state service is subjective and depends on the definition of essential. Diseased seed potatoes may create significant economic losses for producers; however, they do not result in illness or loss of human life. The agriculture industry views the inspection and certification process as essential to the success of the industry.

Detailed conclusions regarding seed project funding, expenditures, administration, and monetary and non-monetary returns are listed below.

- A total of \$5.5 million in state and federal funds have been appropriated for the seed project from FY 95 through December 2011. Of the total, \$3.4 million (62 percent) were state funds and \$2.1 million (38 percent) were federal funds.

Virus Free Seed Potato Project
(Continued)

- Seed project expenditures totaling \$3.4 million from FY05 through December 2011 were reasonable and necessary to carry out the purpose of the project. Expenditure activity includes state certification and export certification costs.
- The only significant UA facility used for the seed project has been the Plant Pathology and Biotechnology Laboratory. UA charged indirect cost rates as part of seed project grants and agreements.
- The seed project has resulted in minimal monetary returns to the State and private enterprises.
- Non-monetary returns associated with the seed project include expanding Alaska's international market relations and expanding the knowledge base of seed potato diseases. Both of these non-monetary returns may yield benefits to the State of Alaska over the long term.
- Export certification funding has provided a subsidy to growers. Without significant changes, future state funding for export certification will continue to be a subsidy to potato growers.

There were no findings or recommendations for the virus free seed potato project audit.

**Department of Commerce, Community and Economic Development
Department of Revenue
Alaska Film Production Tax Incentive Program
Financial Compliance & Select Performance Issues**

Audit Control Number
08-30065-12
08-30066-12

REPORT CONCLUSIONS

Based on our review, we concluded the following:

- The Alaska Film Office (AFO) and Department of Revenue Tax Division generally adhere to film tax approval, issuance, and redemption statutes and regulations when administering the Alaska Film Production Tax Incentive Program (AFPTIP). Film tax credits are made available to qualified producers, are properly calculated using qualified expenditures, and are appropriately approved. The approved film tax credits included \$100,000 or more of qualified expenditures that were generally incurred within the qualified 24-month expenditure period. Total film tax credits issued have not exceeded \$100 million, and all redeemed AFPTIP credits have been used within three years of being issued to offset corporate income taxes.
- Although state agencies materially complied with AFPTIP statutes and regulations, areas for improvement were identified in the approval and redemption processes.
- The Alaska Film Production Tax Incentive Program (AFPTIP) has generated a net positive economic impact in the State. The results of an economic impact study for the period July 2008 through February 2012 indicate direct spending from AFPTIP approved productions has generated \$2 in economic output for every \$1 in Alaska Film Production Tax Credits (tax credit) issued. Additionally, the study estimates that direct spending by production companies generated 432 Alaska resident full time equivalent (FTE) direct and indirect jobs at a cost, in credits issued, of \$56,600 per FTE. While

Alaska Film Production Tax Incentive Program
(Continued)

the study highlights a net positive economic impact, the AFPTIP does not generate tax revenues sufficient to pay for credits issued.

- In general terms, the Alaska Film Office's (AFO) eligibility and application review is adequately designed to protect the State's best interests. However, improvements are needed. Necessary improvements include developing written criteria for evaluating whether a production is not in the State's best interests, and strengthening residency verification and documentation requirements to ensure the State is provided the information necessary to adequately review and approve tax credit calculations.
- Except for internship certifications, the AFO is sufficiently meeting its statutory program responsibilities. The AFO is promoting Alaska as a viable film location, cooperating with private entity organizations, and providing production assistance. Although identified as one of its statutory duties, the AFO has not yet certified any internship programs.
- Whether the AFPTIP, as compared to other states, is the most cost effective method for incentivizing the film industry cannot be determined. The significant variations in the design of film production incentive programs and difference in state tax structures make comparisons between states problematic. Other states' impact analysis reports on film production incentive programs indicate that all film production programs create positive economic impacts while in operation.

Alaska Film Production Tax Incentive Program
(Continued)

- **Recommendation A:** The Department of Commerce, Community and Economic Development's (DCCED) Division of Economic Development (DED) director and Alaska Film Office (AFO) development specialist should develop clear and measurable criteria to support best interest determinations.

The AFO does not have regulations or written procedures outlining clear and measurable criteria to determine that a production is "not contrary to the best interests of the State." The best interest determination by DED staff was not documented for approved or denied prequalification applications. Without documenting determinations in accordance with clear and measurable criteria, denials could be seen as arbitrary which increases the risk for appeal and litigation. Approvals may also be questioned in the absence of a documented justification.

- ✓ **Agency Response:** Agreed.

According to the department, new processes and documentation regarding the qualification process have been implemented.

❖ **Current Status**

Alaska Film Production Tax Incentive Program
(Continued)

- **Recommendation B:** The AFO development specialist should ensure that expenditures reported as reviewed by a certified public accountant (CPA) fall within the 24-month qualifying period.

In three of the nine credit applications examined, qualifying expenditure dates specified in the CPA's opinion letter were not within the 24-month qualifying period. The AFO either failed to note the discrepancy or failed to document the change in the agreed upon start date. By not ensuring the dates on the CPA examination letter matched the qualifying period of expenditures, there is a risk that the approved credits were overstated.

- ✓ **Agency Response:** Agreed.

According to the department, the division has developed new Agreed Upon Procedures (AUP) that are specifically linked to the final application. Alaska CPAs are required to be trained in using the AUP. A training session was held on January 26, 2012 with more than 30 Alaska CPAs and division staff attending.

❖ **Current Status**

Alaska Film Production Tax Incentive Program
(Continued)

- **Recommendation C:** The AFO development specialist should ensure that the names of the director and proposed cast are included in the prequalification application as required by statute.

Five of the ten prequalification applications examined as part of this audit did not include the names of the director and/or the proposed cast. Not consistently requiring that the names of the potential director and cast be included on the prequalification application limits the AFO's ability to evaluate the reasonableness of production expenditures in its prudent administration of the AFPTIP. For example, the salary and fees paid to a lead actor who also serves as producer is an area of potential abuse given that, in this situation, the higher the salary paid to the actor, the higher the tax credit received by the producer.

- ✓ **Agency Response:** Agreed.

According to the department, the division will require the detailed information defined by statute prior to approving a qualified production period. Productions may apply and qualify for the production incentive, but not receive authorization to incur qualified expenses until the cast and crew detail is provided.

❖ **Current Status**

Alaska Film Production Tax Incentive Program
(Continued)

- **Recommendation D:** The AFO development specialist should strengthen qualified expenditure documentation requirements to ensure Alaska Film Production Tax Credit (tax credit) calculations are adequately supported.

The State lacks sufficient documentation to fully demonstrate tax credit calculations are accurate. In many cases, information submitted to the AFO by production companies did not provide sufficient details to verify non-wage goods and services spending was made to Alaska businesses, and resident wages were paid to Alaska residents. Testing revealed claims that included expenditures to non-Alaska vendors and wages paid to non-residents.

- ✓ **Agency Response:** Agreed.

According to the agency, strengthened documentation requirements were implemented to ensure tax credit calculations are adequately supported. These requirements include verification of all claimed expenses when the production's expenses are below a \$500,000 threshold, and audit procedures for productions above \$500,000.

❖ **Current Status**

Alaska Film Production Tax Incentive Program
(Continued)

- **Recommendation E:** DCCED's Division of Economic Development (DED) director should consider amending AFPTIP regulations to more clearly define *Alaska residency* and provide CPAs a more effective method of verifying expenditures claimed as resident wages.

Alaska residency, for purposes of determining qualified spending on resident wages, is not clearly defined in AFPTIP regulation and cannot be readily verified.

- ✓ **Agency Response:** Agreed.

According to the department, the new Agreed Upon Procedures specify that eligibility for the Alaska hire credit requires an employer/employee relationship with traditional withholding. AFO staff developed an Alaska residency affidavit that contains declarations consistent with the residency requirements of obtaining a permanent fund dividend. These affidavits and supporting documents should be kept on file by the production and provided to the CPA as part of the verification process.

❖ **Current Status**

Alaska Film Production Tax Incentive Program
(Continued)

- **Recommendation F:** The AFO development specialist should strengthen procedures for collecting and reporting Alaska employment data to ensure reliable information is available for program evaluation.

AFO performance measures, established at the end of 2011, include the goal to: "Increase Alaska employment resulting from film and television production in Alaska." The data for measuring progress toward this goal is provided by production companies reporting Alaska employment as required by the tax credit application. Obtaining consistent data is needed for effective program evaluation. From 2008 through 2011, the AFO's method of obtaining employment data from film production companies did not provide reliable information due to inconsistency in reporting the number of jobs created and lack of specificity as to the year the jobs were created.

- ✓ **Agency Response:** Agreed.

According to the department, action has been taken to address the issue through revisions to the tax credit application form. A change to the form will be made to request the total number of hours worked on the project for both resident and non-resident workers. The number of hours can either be divided by 1,560 to arrive at an FTE estimate based on a 30 hour work week, or by 2,080 based on a 40 hour week.

❖ **Current Status**

Alaska Film Production Tax Incentive Program
(Continued)

- **Recommendation G:** The AFO development specialist should develop film production internship training program certification procedures.

The AFO has not certified any Alaska film production internship training programs. One of the AFO's statutory duties is to certify Alaska film production internship training programs and promote program interns' employment by eligible productions. Without written procedures outlining requirements for certification, entities interested in sponsoring an internship program lack the guidance necessary to proceed. Furthermore, without documenting criteria necessary for certification as an Alaska film production internship training program, the AFO's decisions to approve or deny applicants may lack transparency.

- ✓ **Agency Response:** Agreed.

According to the department, DCCED worked closely with the Alaska Workforce Investment Board and the Department of Labor and Workforce Development to draft criteria to evaluate and certify internship programs. Additional outreach programs will continue with the University and other training providers to establish internship opportunities.

❖ **Current Status**

**Department of Commerce, Community and Economic Development
Regulatory Commission of Alaska
FY 11 Annual Report**

Audit Control Number
08-30067-12

REPORT CONCLUSIONS

The commission accurately reported on regulatory docket timelines and statutory timeline extensions. However, the data on tariff filings, utility and pipeline dockets, and performance measures is unreliable and/or not reported accurately.

Regulatory Commission of Alaska
(Continued)

- **Recommendation A:** The Regulatory Commission of Alaska (RCA) chair should implement and enforce written procedures to ensure that case management system data is accurate, consistent, and complete.

The commission continues to have unreliable data in the annual report. The reliability issues have resulted from inaccurate and incomplete case management system data. The commission primarily relies on case management system data for compiling the annual report. Audit test work performed to reconcile annual report data to the source files showed that dates and other timeline data were either not entered or entered incorrectly into the case management system. The data errors can be attributed to lack of: written guidance, adequate training, and ongoing quality reviews necessary to ensure case management system data is entered and maintained accurately, consistently, and completely.

- ✓ **Agency Response:** Agreed.

According to the department, the RCA has noted that written guidance has been provided to staff on the case management system data entry and quality control measures.

❖ **Current Status**

**Department of Commerce, Community and Economic Development
Board of Public Accountancy
Sunset Review**

Audit Control Number
08-20077-12

REPORT CONCLUSIONS

In our opinion, the board's termination date should be extended. The Board of Public Accountancy (BPA) is serving the public's interest by effectively licensing and regulating Certified Public Accountants (CPA). The board is also serving the public's interest by monitoring the profession and ensuring only qualified individuals practice as CPAs.

BPA is proactive in shaping the future of the accounting profession through member participation on national committees which set professional standards. Furthermore, the board successfully developed and adopted regulatory changes to improve the public accountancy profession in Alaska.

The board is scheduled to terminate June 30, 2013. If no action is taken by the legislature, BPA will have one year from that date to conclude its administrative operations. We recommend the board's termination date be extended eight years to June 30, 2021.

Board of Public Accountancy Sunset Review
(Continued)

- **Recommendation A:** The Division of Corporations, Business, and Professional Licensing (DCBPL) director should continue to address deficiencies in the investigative case management system.

Information maintained on the case management system was examined for completeness and evaluated for accuracy by comparing the information to the data maintained in the corresponding hard copy files. Of the 15 cases examined, ten were missing key information in the case management system. Missing information included details such as priority codes, case open dates, and resolution codes. Additionally, two of the 15 cases were listed as open for over a year beyond their closure dates. The noted deficiencies in the investigative case management system hamper the division's ability to provide adequate investigative support to the board.

- ✓ **Agency Response:** Agreed.

According to the department, DCBPL has taken steps to address the deficiencies, including an interdisciplinary task force to identify underlying problems, develop a corrective action plan, establish case management procedures, and deliver training to investigative staff.

❖ **Current Status**

**Department of Commerce, Community and Economic Development
State Medical Board
Sunset Review**

Audit Control Number
08-20078-12

REPORT CONCLUSIONS

In our opinion, the board is serving the public's interest by effectively licensing and regulating osteopaths, podiatrists, physicians, physician assistants, and paramedics. The board is also serving the public's interest by monitoring the profession and ensuring only qualified individuals are licensed to practice medicine.

The board is scheduled to terminate June 30, 2013. We recommend the board's termination date be extended seven years to June 30, 2020.

State Medical Board Sunset Review
(Continued)

- **Recommendation A:** The Division of Corporations, Business, and Professional Licensing (DCBPL or division) director should continue to address deficiencies in the investigative case management system.

Case management system information was examined for completeness and accuracy by comparing the system data to information maintained in the corresponding hard copy case files. Of the 25 cases, system data for five cases was not fully supported by the case files. Deficiencies in the case management system hamper the division's ability to provide adequate investigative support to the board.

- ✓ **Agency Response:** Agreed.

According to the department, DCBPL has taken steps to address the deficiencies, including an interdisciplinary task force to identify underlying problems, develop a corrective action plan, establish case management procedures, and deliver training to investigative staff.

❖ **Current Status**

State Medical Board Sunset Review
(Continued)

- **Recommendation B:** DCBPL's director should implement procedures to ensure board disciplinary actions are reported in accordance with state and federal law.

Per Alaska statute and federal regulations, disciplinary actions must be reported to the Federation of State Medical Boards (FSMB) and the National Practitioner Database (NPDB) within 30 days. Of the 25 investigative files reviewed, three contained disciplinary actions taken by the board. All three were reported to FSMB and NPDB; however, none were reported within 30 days as federally required. There continues to be a lack of reporting oversight, and no written procedures have been developed.

- ✓ **Agency Response:** Agreed.

According to the department, this was partially addressed with timeliness reporting requirements implemented by Investigations Unit Standard Operating Procedure 5. In addition, DCBPL has a databank specific reporting process in draft form. The board has also tasked the Executive Administrator with reporting on the status of disciplinary actions taken at or since the previous meeting.

❖ **Current Status**

State Medical Board Sunset Review
(Continued)

- **Recommendation C:** DCBPL's director should ensure continuing medical education (CME) reviews comply with state law.

The quantity of biennial CME reviews performed between FY07 and FY12 did not meet regulatory requirements. Reviews were performed in FY09 and in FY11. Regulations require a minimum selection of five percent of total licensees when the number of board licensees is greater than 3,000. The FY09 CME roster identified that 172 licensees were reviewed which was 36 less than the minimum number of 208 (five percent of 4,152 licensees). The error was not identified due to lack of oversight by division staff. Insufficient biennial CME reviews diminish the public's assurance that licensed individuals are maintaining professional competency.

- ✓ **Agency Response:** Agreed.

According to the department, significant improvements in the CME audit process are planned for the licensing database that is currently under development. In addition, CME audit management will continue to be a focus of ongoing staff training to ensure CME reviews selected meet the minimum number required by regulation.

❖ **Current Status**

**Department of Commerce, Community and Economic Development
Board of Marine Pilots
Sunset Review**

Audit Control Number
08-20076-13

REPORT CONCLUSIONS

Under AS 08.03.010(c)(10), the Board of Marine Pilots (BMP or the board) is scheduled to terminate on June 30, 2013. We recommend BMP's termination date be extended to June 30, 2019. If the legislature does not take action to extend the board's termination date, AS 08.03.020 allows the board one year in which to conclude its administrative operations.

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.

The board has successfully resolved many of the problems identified in prior sunset audits. This report makes one new recommendation for improvements to BMP operational activities.

The Department of Commerce, Community, and Economic Development's Division of Corporations, Business, and Professional Licensing (DCBPL or division) improved the allocation of division indirect costs to occupational licensing boards.

A June 2011, DCBPL special audit recommended the division improve its methodology for allocating division indirect costs. The division had charged 100 percent of its indirect expenses to the professional licensing cost pool rather than allocating costs between the professional licensing cost pool and business licensing cost pool. This resulted in the over-allocation of divisional indirect costs to occupational boards.

The indirect cost allocation finding has been resolved. DCBPL revised its indirect cost allocation methodology to correct noted deficiencies. The revised methodology appropriately allocates division indirect costs to both cost pools based on full time equivalent positions.

Board of Marine Pilots
(Continued)

To facilitate correcting the fiscal impact of prior allocation errors, the division received a \$3.4 million supplemental appropriation in FY 12. Using financial data from the state accounting system and DCBPL position counts, the division restated the schedule of revenues and expenditures for all occupational boards back to FY 00 using the revised allocation methodology. The supplemental appropriation was used to eliminate occupational board deficits resulting from the incorrect allocation methodology.

**Board of Marine Pilots
(Continued)**

- **Recommendation A:** The marine pilot coordinator should improve administration of BMP operational activities.

Analysis of BMP operational activities noted the following administrative deficiencies: (1) For three of six board meetings, public notice was not given in a timely manner. (2) Two new license and vessel endorsement application packages were not verified for completeness by the marine pilot coordinator. The application packages were missing required documents. (3) The marine pilot coordinator did not have adequate oversight procedures over certain drug and alcohol program requirements. The marine pilot coordinator did not confirm the timeliness of drug testing, or verify the reports for accuracy.

- ✓ **Agency response:** Agreed.

According to DCCED, the new marine pilot coordinator is developing documentation and checklists to ensure an adequate oversight process is in place. The division is also finalizing a policy pertaining to meeting preparation and public notice requirements to ensure meetings are publicly and timely noticed. According to BMP, the board will work with the marine pilot coordinator and DCBPL to address the findings.

❖ **Current Status**
