Division of Legislative Audit

Report Digest #04-30054-10

SUMMARY OF: A Special Report on the Department of Revenue (DOR), Alaska Natural Gas Development Authority (ANGDA),Selected Operational Issues, October 8, 2010

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 ANGDA. The primary objectives of the audit were to determine whether ANGDA duplicates the efforts of other state agencies or initiatives of the State, identify the extent to which ANGDA coordinates, cooperates, and shares information with other state agencies, and to determine whether ANGDA's long range plans changed or were modified based on work of other state agencies or initiatives.

Other objectives included identifying ANGDA's assets, appropriations, and outstanding financial commitments as well as determining how ANGDA has expended its available funding for the period of July 1, 2003, through April 30, 2010.

REPORT CONCLUSIONS

ANGDA has not duplicated the efforts of other agencies working on a large-diameter main natural gas pipeline. This is due to ANGDA's policy of modifying its plans based on other pipeline initiatives. ANGDA started out with a plan to acquire and condition North Slope (NS) gas and construct a pipeline. However based on other initiatives, ANGDA modified its goal to focus on a pipeline that would spur off a larger pipeline accessing the NS gas supply. ANGDA's decision to pursue a spur line minimized its role in accomplishing its fundamental mission. It also resulted in ANGDA conducting activities that stretched the bounds of its statutory authority.

ANGDA did not successfully coordinate efforts with the state agency pursuing a small diameter in-state pipeline (the Office of the Governor). This lack of cooperation resulted in both entities pursuing alternative projects that would achieve the same objective.

ANGDA generally received adequate cooperation from other state agencies and routinely shares its information with other agencies and the public through a variety of mechanisms.

ANGDA's appropriations, spending, outstanding financial commitments, and detailed assets, are presented in Appendix A-D of this report.

FINDINGS AND RECOMMENDATIONS

1. The legislature should consider ANGDA for sunset after resolution of uncertainties surrounding the development of NS natural gas.

ANGDA does not play a lead role in acquiring and conditioning NS natural gas or constructing a pipeline to transport the gas. Plans to develop natural gas, including building a large-diameter and/or a small-diameter pipeline, are being led by other private or public entities. The Alaska Gas Inducement Act (AGIA) licensees are guiding the progress of building a large-diameter pipeline. The Joint In-state Gasline Development Team, created by HB 369, is guiding the development of a small-diameter pipeline.

Public entities should not outlast their public purpose. Sunset laws enacted throughout the nation ensure public entities do not continue in perpetuity. These laws subject public entities to periodic evaluation to verify their continued existence is justified by a public purpose, and the public's interest is being adequately served.

ANGDA is not subject to sunset provision and, therefore, is at risk of outlasting its public purpose. Once the AGIA and Denali open seasons conclude, and the pipeline plan required under HB 369 is complete, the legislature should evaluate whether ANGDA has a significant and unique role in state pipeline efforts. If ANGDA does not have such a role, the legislature should consider whether the continued existence of a separate authority to carry out ANGDA's activities is justified and in the public's best interest. ANGDA's continued existence without a significant role is a waste of state resources and dilutes crucial decision-making in the State's effort to bring NS gas to market.

2. <u>ANGDA should work with DOR's accounting staff to properly present assets in its financial statements and note disclosures.</u>

ANGDA's financial reporting and disclosure of capital assets associated with its conditional ROW lease is inaccurate and not in accordance with generally accepted accounting principles. Specifically, ANGDA's financial statements for the period ending June 30, 2010, overstate capital assets by over $3.5 million. The required notes to the financial statements reported that ANGDA incurred capitalized costs in the process of obtaining a conditional right-of-way (ROW). However, the amount reported includes significant costs unrelated to and incurred after obtaining the conditional ROW, and is not adjusted for accumulated amortization.