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Prepared by the
Division of
Legislative Audit

DEPARTMENT OF NATURAL RESOURCES

A Summary of 2013 and 2014 Audit Recommendations



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**Department of Natural Resources
Alaska Seismic Hazards
Safety Commission**

Audit Control Number
10-20087-13

REPORT CONCLUSIONS

Overall, we found the Alaska Seismic Hazards Safety Commission (commission) is operating in the public's interest. The commission has gathered and disseminated information; facilitated discussions and partnerships with various members of state, local, and federal government as well as private entities concerning seismic hazards and risk mitigation; encouraged efforts to address seismic risk mitigation; and brought attention to seismic hazards. Therefore, we recommend the legislature extend the commission termination date to June 30, 2020.

Alaska Seismic Hazards Safety Commission Sunset Review
(Continued)

- **Recommendation A:** The commission should improve prioritization and accountability within its strategic planning documents.

Prior FY 11 Finding: The commission lacks a clear strategy for prioritizing and monitoring its efforts which has limited its effectiveness and efficiency in providing guidance to decision makers addressing seismic hazard risks in the State. The commission has been active in gathering and disseminating information, facilitating discussions, and forming partnerships with various organizations. While these efforts are important toward achieving some of its statutory objectives, there are few deliverable or measurable effects of its efforts to reduce seismic hazards risk.

Legislative Audit's Current Position: The commission made progress toward resolving this finding by developing a strategic plan that identified objectives and strategies that correlate to the commission's statutorily mandated powers and duties. Each strategy lists a priority, target date, and planned outcome. Although the commission had made significant progress, additional improvements are needed to further focus their efforts. Improvements recommended include: prioritizing tasks more clearly; consistently identifying the person or subcommittee responsible for task completion; and consistently associating commission goals and action lists with the commission's overarching strategic plan objectives.

- ✓ **Agency Response:** Agreed.

The Department of Natural Resources stated that they will continue to work with the commission, where appropriate, to achieve these goals. The commission agreed to implement the recommendation.

❖ **Current Status**

Alaska Seismic Hazards Safety Commission Sunset Review
(Continued)

- **Recommendation B:** The commission should recommend replacing habitually absent members in a timely manner.

Prior FY 11 Finding: The commission did not follow its rules of procedure requiring its members with three or more consecutive unexcused absences to be immediately recommended for replacement.

Legislative Audit's Current Position: This issue has not been resolved. The commission did not follow their procedures which require members with three or more consecutive unexcused absences to be immediately recommended for replacement. Between November of 2012 and February 2013, one commission member had four consecutive unexcused absences. The member's absences contributed, in part, to the lack of a quorum for two commission meetings. Without a quorum, the commission could not conduct official business which decreased effectiveness.

- ✓ **Agency Response:** Agreed.

The department and commission agreed to implement this recommendation.

❖ **Current Status**

Alaska Seismic Hazards Safety Commission Sunset Review
(Continued)

- **Recommendation C:** The Office of the Governor and the commission should work together to fill all commission vacancies in a timely manner.

Prior FY 11 Finding: The commission is composed of 11 members who are a cross section of government and private sector representatives including three local government members from seismically active regions of the State. During FY 10, one local government seat was vacant over nine months. Alaska Statute 44.37.065(c) requires the governor to appoint both government and private commission seats. According to the Office of the Governor, the vacancy was due to an insufficient applicant pool.

Legislative Audit's Current Position: This finding was not resolved during the audit period. The Department of Military and Veteran's Affairs (DMVA) commission designee seat was vacant for 10 months. DMVA's representative left the commission in March 2012, and the replacement was not appointed until January 2013.

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

DNR and the commission agreed to work with the Office of the Governor to ensure vacancies are filled in a timely manner.

❖ **Current Status**

Alaska Seismic Hazards Safety Commission Sunset Review
(Continued)

- **Recommendation D:** The commission should ensure that recommendations clearly identify the organization responsible for implementing an action, as well as the action to be performed.

Recommendations issued by the commission did not consistently specify the organization responsible for implementing the recommendation. Additionally, not all recommendations adequately identified the action to be performed. The commission would benefit from working with DNR management to identify the most appropriate agency or organization to direct commission recommendation.

- ✓ **Agency Response:** Agreed

DNR acknowledged the importance of these recommendations and stated that it will work with the commission on these communication efforts, as well as helping to identify potentially responsible parties. The commission agreed to change their recommendation format to implement the recommendation.

- ❖ **Current Status**

Department of Natural Resources
Agriculture Revolving Loan Fund (ARLF) – Selected Issues

Audit Control Number:
10-30071-13

Report Conclusions

This audit examines the Agriculture Revolving Loan Fund's (ARLF) performance and administration and compares fund administration to other loan programs and industry best practices. The goal of the evaluation was 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.

We conclude that ARLF's fiscal condition is the result of agriculture 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 Mount McKinley Meat and Sausage Company investment operations.

Although ARLF's default and delinquency rates for the last five years were 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 1) loan evaluation and approval, 2) property management, and 3) loan management. Additionally, the 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 Division of Economic Development (DED) may improve the loan program's efficiency and effectiveness, and help ensure the fund's future solvency.

Agriculture Revolving Loan Fund Selected Issues (Continued)

- **Recommendation A:** The legislature should consider moving the Agriculture Revolving Loan Fund's (fund or ARLF) administration to the Department of Commerce, Community, and Economic Development's (DCCED) Division of Economic Development (DED).

Report conclusions outline examples of deficiencies in the Division of Agriculture's (DoAg) processes for evaluating and approving loans, managing property, and managing loans. The Division of Legislative Audit has issued numerous recommendations over the past 20 years to improve the fund's administration. Many of the prior recommendations have not been addressed and are still applicable. The deficiencies can be partially attributed to the competing priorities of assisting Alaska's agricultural industry and maintaining the fund's fiscal health. If the deficiencies described in this report persist, ARLF's equity may continue to decline, and the fund's ability to promote agricultural development through long-term low-interest loans may diminish.

We recommend transferring ARLF administration and lending decisions to DED. ARLF's small number of loans would be more efficiently administered by DED who has existing expertise in lending and loan servicing. Furthermore, the transfer to DED may reduce ARLF administrative costs. ARLF performance will also benefit from DED's automated system that may help improve the effectiveness and efficiency of administration.

Agency Response: Disagreed.

BAC and DNR disagreed with this recommendation. BAC argued that transferring lending duties to a department unfamiliar with agricultural lending processes is not in the best interest of the agricultural industry. DNR argued that the fund has seen steady growth over the past 5 years. The Division of Legislative Audit disagreed with this claim. While the fund has seen growth over the 5 year period, the growth was caused by the recovery of the fund's investment in the Matanuska Maid Dairy which resulted in an increase of approximately \$2.2 million in FY 10. If that recovery was excluded, the fund equity decreased over the 5 year period.

❖ **Current Status**

Agriculture Revolving Loan Fund Selected Issues
(Continued)

- **Recommendation B:** ARLF administrators should revise ARLF's regulations to promote industry best practices.

ARLF's regulations do not promote consistently fiscally responsible decisions. Specifically, regulations do not include criteria for approving loans and do not provide sufficient guidelines for evaluating collateral. Current ARLF regulations were adopted to give BAC and the Division of Agriculture staff broad latitude and substantial discretion for evaluating and approving loans. However, the broad regulations do not encourage consistent loan decisions and prudent fiscal management practices which contribute to poor fund performance. Alaska Statute 03.09.040(a) allows BAC to adopt regulations to carry out its duties. Regulations should utilize industry best practices to ensure the fund's future solvency.

- ✓ **Agency Response:** Agreed.

Both DNR and BAC concur with this recommendation and agree that ARLF regulations need to be reviewed and revised. However, both emphasize the regulations need to continue to provide flexibility to structure loans to meet borrower's needs. The goal of promoting agriculture and implementing industry best practices are often at odds.

❖ **Current Status**

**Agriculture Revolving Loan Fund Selected Issues
(Continued)**

- **Recommendation C:** 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 Mount McKinley Meat and Sausage Company (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 objective is to promote the more rapid development of agriculture as an industry by means of long-term low-interest loans.

Alaska Statute 03.10.050 states that the property acquired by ARLF through foreclosure, default or other action should be disposed of to maximize the State's return. Instead of pursuing disposal of the MMM&S and the cooperative, which could have adverse affects on the agricultural industry, policy decisions continue to be made to operate or maintain ownership of these businesses. The MMM&S continues to incur annual losses to the fund, and the cooperative provides no financial return. The cumulative effect is a reduction of ARLF assets.

- ✓ **Agency Response:** Agreed.

Both DNR and BAC concur with this recommendation and agreed to pursue disposal. However, the agreement is conditioned on ensuring that the MMM&S continue to operate. BAC also agreed that lease rates should be reviewed to provide an appropriate return.

❖ **Current Status**

**State of Alaska
Single Audit
for the
Fiscal Year Ended
June 30, 2013**

Department of Natural Resources

Audit Control Number
02-40014-14

There are two primary objectives for the State of Alaska, Single Audit for the Fiscal Year Ended June 30, 2013 (Statewide Single Audit). The first is to determine if the State of Alaska's financial statements 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 when expending federal financial assistance.

The Department of Natural Resources had two recommendations in the FY 13 Statewide Single Audit.

**FY 13 Statewide Single Audit
(Continued)**

Recommendation A: The Division of Forestry (DOF) director should develop and implement policies and procedures to ensure employees certify their time when they are unavailable for signature.

DOF management does not have policies and procedures to address occurrences when employees working on the Fire Suppression program were unavailable to sign their timesheets, and due to the nature of the program, these occurrences were frequent. United States Office of Management and Budget Circular A-87, Attachment B, Section 8.h.(5)(d) requires personnel activity reports or equivalent documentation to be signed by the employee. Additionally, the Master Cooperative Wildland Fire Management Agreement, Exhibit C, Alaska Statewide Annual Operating Plan requires timesheets to be completed and signed before tactical and support resources are released. If this is not possible, teletype or email approval of hours worked is considered acceptable.

Lack of employee signatures results in unallowable personal services expenditures charged to the federal program.

Questioned costs: \$45,769

Agency Response: Agreed.

The DNR plans to implement policies and procedures and training for employees on positive time reporting prior to the 2014 fire season beginning April 1, 2014, and will coordinate its efforts with the Division of Personnel, Payroll Section to ensure the timesheets of record are accurate and complete.

❖ **Current Status**

**FY 13 Statewide Single Audit
(Continued)**

Recommendation B: The Oil and Gas Division director should develop and implement procedures to accurately report trust accounts.

Generally accepted accounting principles require assets held in a trustee or agency capacity be reported in the Comprehensive Annual Financial Report (CAFR) as assets and liabilities of an agency fund. When preparing the CAFR, Division of Finance staff requests all departments report trust accounts maintained by non-state financial institutions for inclusion in the CAFR. Staff within the Oil and Gas division inaccurately reported this information. A lack of adequate procedures resulted in a material misstatement of \$144.6 million on the draft FY 13 CAFR agency funds statement; however, the error was identified and adjusted during the audit.

Agency Response: Agreed

The DNR states that it has procedures in place to track all performance bonds and financial instruments that are held outside of AKSAS and report these for the CAFR. It also recognizes the need to integrate the procedures between divisions in order to ensure accurate and timely reporting and has already undergone efforts to do so.

❖ **Current Status**
