

ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE



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SUMMARY OF: State of Alaska, Single Audit for the Fiscal Year Ended June 30, 2003

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 almost \$2.4 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 Circular A-133 issued by the U.S. Office of Management and Budget.

The report contains an opinion on the basic financial statement of the State of Alaska for fiscal year 2003, recommendations on financial and compliance matters, auditor's reports on internal controls and compliance and the Schedule of Expenditures of Federal Awards.

REPORT CONCLUSIONS

For a second year, 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.

During FY 03, over \$498 million was transferred from the Constitutional Budget Reserve Fund (CBRF) to the General Fund in accordance with Chapter 1, SSSLA 2002, section 94(b) to fund the State's FY 03 shortfall between revenues and general fund appropriations. Other significant transactions between the General Fund and the CBRF during this fiscal year included \$130.7 million returned from the CBRF to the General Fund after being swept at the end of FY 02, and \$88.8 million being swept from a variety of General Fund sub-funds and accounts, then transferred to the CBRF at the end of FY 03.

Additionally, except for federal financial reporting requirements for the Military Construction program administered by the Alaska Aerospace Development Corporation, the

State has complied with the applicable laws and regulations in the administration of its major federal financial assistance programs.

FINDINGS AND RECOMMENDATIONS

This report contains 42 recommendations, of which seven were presented last year. Also included in this year's report are six recommendations made to various state corporations and the University of Alaska, whose audits were performed by other auditors. Many 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 IV identifies the current status of most prior audit recommendations not resolved by the release of the FY 02 Statewide Single Audit.

July 6, 2004

Honorable Members of the
Alaska State Legislature

The Honorable Frank Murkowski
Governor
State of Alaska

The Honorable Dara A. Corrigan
Acting Principal Deputy Inspector General
Office of the Inspector General
U.S. Department of Health and Human Services

We are pleased to transmit the Single Audit of the State of Alaska for the fiscal year ended June 30, 2003. The audit was conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States, and complies with the federal Single Audit Act Amendments of 1996 and the related Circular A-133 issued by the U.S. Office of Management and Budget.

The report includes an opinion on the basic financial statements of the State of Alaska for fiscal year 2003, recommendations on financial and compliance matters, and required auditor's reports on internal controls and compliance, and the Schedule of Expenditures of Federal Awards.

The findings and recommendations included in this report are organized by department and include prior financial/compliance findings not fully corrected by the departments. Our fiscal year 2002 Single Audit contained 47 recommendations; this report presents 42 recommendations, seven of which were presented last year. Included in this year's recommendations are six recommendations made to various state corporations and the University of Alaska, whose audits were performed by other auditors. With your active support and encouragement, we hope to continue seeing improvement in the implementation rate by the state agencies.

Members of the Legislature
The Honorable Frank Murkowski
The Honorable Dara A. Corrigan

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July 6, 2004

We would again like to acknowledge the professional assistance and cooperation of the Department of Administration's Division of Finance. The division has a strong professional commitment to excellence in the financial accounting and reporting for the State of Alaska. Its continued efforts towards resolving statewide accounting and reporting concerns are commendable.

We would also like to acknowledge the cooperation of all other state agencies involved during the conduct of this audit.

The dedicated staff of the Division of Legislative Audit remains committed to improving the financial accountability of the State of Alaska. Your active involvement is critical to improving that accountability. We are available to assist you in that effort.

Pat Davidson, CPA
Legislative Auditor

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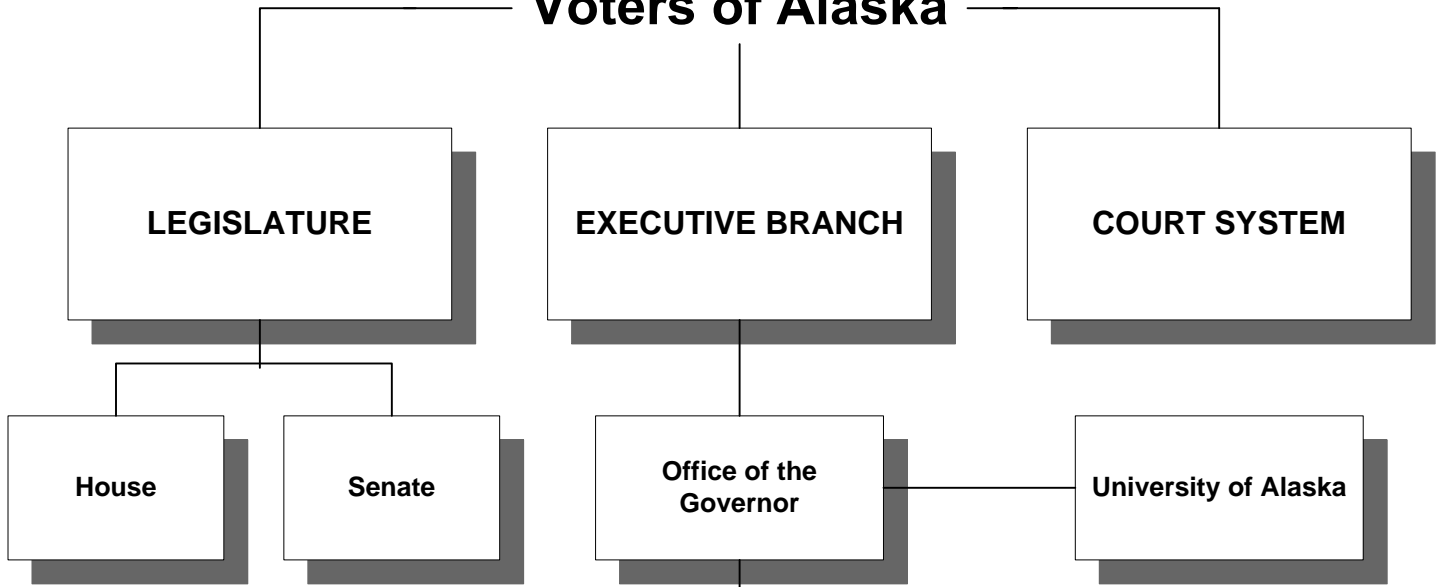
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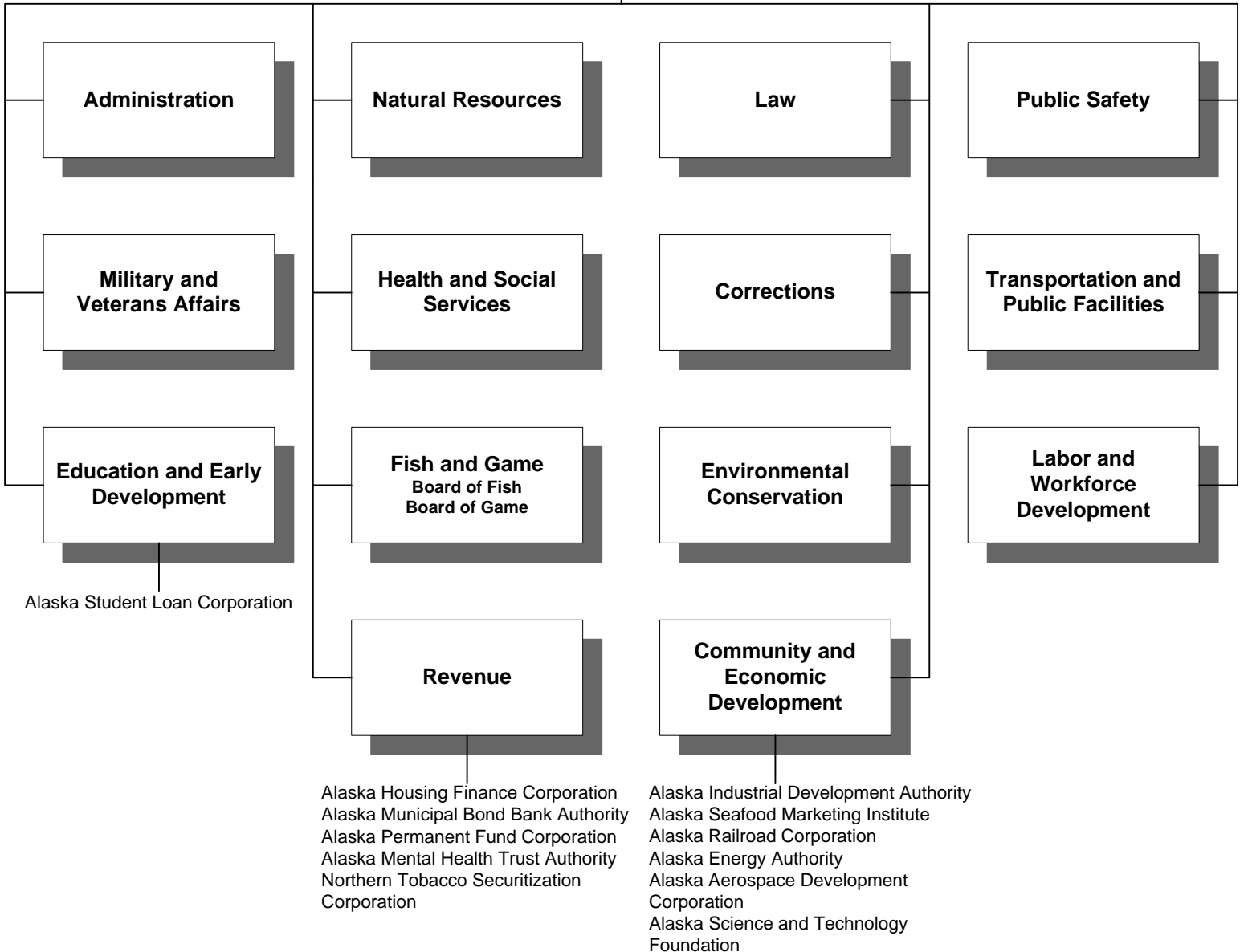
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Voters of Alaska



Departments



Independent Auditor's Report

Members of the Legislative
and Audit Committee:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Alaska as of and for the year ended June 30, 2003, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Alaska's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Alaska Permanent Fund, the Fiduciary Funds – Pension and Other Employee Benefit Trust Funds and the Component Units, except for the Alaska Science and Technology Foundation and the Alaska Mental Health Trust Authority. Those financial statements reflect total assets and revenues of the government-wide financial statements and total assets and revenues or additions to the fund financial statements as follows:

<u>Government-Wide Financial Statements</u>	<u>Percent of Assets</u>	<u>Percent of Revenues</u>
Primary Government – Governmental Activities	74%	24%
Component Units	95%	98%
 <u>Fund Financial Statements</u>		
Governmental Funds – Alaska Permanent Fund	100%	100%
Fiduciary Funds – Pension and Other Employee Trust Funds	100%	100%
Component Units	95%	98%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units and funds, is based on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors proved a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the basic financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Alaska, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedule, and the corresponding notes as listed in the foregoing table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2003, on our consideration of the State of Alaska's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Pat Davidson, CPA
Legislative Auditor

November 28, 2003

STATE OF ALASKA MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the State of Alaska, we offer readers of the state's financial statements this narrative overview and analysis of the financial activities of the state for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found preceding this narrative on pages i-v i of this report, and the financial statements that follow.

Financial Highlights

Government-wide

- The assets of the state exceeded its liabilities at the close of FY 03 by \$32.8 billion (net assets). Of this amount, \$4.1 billion is invested in capital assets, \$24.9 billion is restricted for various purposes (of which the Alaska Permanent Fund represents \$24.1 billion), and unrestricted net assets are \$3.8 billion. Unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$646 million. This increase is primarily attributable to the investment income of the Alaska Permanent Fund.

Fund level

- As of the close of the current fiscal year, the state's governmental funds reported combined ending fund balances of \$28.6 billion, with \$1.2 billion unreserved fund balance deficit and a fund balance reserved for specific purposes of \$29.9 billion. The Alaska Permanent Fund principal is \$24.1 billion of the reserved fund balance, the Constitutional Budget Reserve Fund (CBRF, a subfund of the general fund) is \$5.1 billion, with the balance reserved for education and other purposes.
- At the end of the current fiscal year, unreserved fund balance for the general fund was a deficit of \$1.9 billion.

Long-term debt

- The state's total long-term debt increased by \$589 million (50 percent) during the current fiscal year. The key factor in this increase is the issuance of general obligation bonds.

Overview of the Financial Statements

This Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the state's basic financial statements. The state's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements (reporting on the state as a whole)

The government-wide financial statements are designed to provide readers with a broad overview of the state's finances, in a manner similar to a private-sector business. It includes all of the state's funds and component units except for fiduciary funds. However, the primary focus of the statements is clearly on the state and the presentation allows the user to address the relative relationship with the discretely presented component units.

The statement of net assets presents information on all of the state's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets should serve as a useful indicator of whether the financial position of the state is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements report three activities:

- **Governmental Activities** – Most of the state's basic services are reported in this category. Governmental activities are principally supported by taxes and intergovernmental revenues. The Legislature, the Judiciary, and the general operations of the Executive departments fall within the governmental activities.

- Business-type Activities – The state charges fees to customers to help it cover all or most of the cost of certain services it provides. The state's International Airports Fund, the various loan funds, and the Unemployment Compensation fund are examples of business-type activities.
- Discretely Presented Component Units – Component units are legally separate organizations for which the state is financially accountable. The state has one university and nine corporations and authorities that are reported as discretely presented component units of the state.

The government-wide financial statements are statement numbers 1.01 and 1.02.

This report includes two statements (statement numbers 1.12 and 1.14) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities (accrual accounting) on the appropriate government-wide statements. The following summarizes the impact of transitioning from modified accrual to accrual accounting.

- Capital assets (land, buildings, equipment, infrastructure, and construction in progress) used in governmental activities are not reported in governmental fund statements.
- Internal service funds are reported as governmental activities in the government-wide financial statements, but are reported as proprietary funds in the fund financial statements.
- Unless due and payable in the current period, certain long-term liabilities such as capital lease obligations, compensated absences, litigation, and others only appear as liabilities in the government-wide statements.
- Capital outlay spending results in capital assets in the government-wide statements, but are reported as expenditures on the governmental fund statements.
- Bonds and note proceeds result in liabilities in the government-wide statements, but are recorded as other financing sources in the governmental fund statements.

Fund Financial Statements (reporting on the state's major funds)

The fund financial statements are statement numbers 1.11 through 1.42 and provide detailed information about the major individual funds. The state has three major funds, the general fund and the Alaska Permanent Fund, which are included in the governmental funds' statements, and the International Airports Fund, which is included in the business-type activities funds' statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State of Alaska, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the state can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. We have also included the discretely presented component units in the fund financial statements and include detailed information on the three major component units, the University of Alaska, Alaska Housing Finance Corporation, and Alaska Industrial Development and Export Authority.

Governmental funds – Most of the state's basic services are reported in the governmental funds. Governmental funds include the general fund, special revenue funds, capital project funds, debt service funds, and permanent funds. Governmental fund financial statement focus is on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating whether there are more or fewer financial resources that can be spent in the near future to finance the state's programs. These funds are reported using modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund financial statements are statement numbers 1.11 through 1.14.

As mentioned earlier, the state has only two major governmental funds, the Alaska Permanent Fund and the general fund. Together these two funds represent 95.3 percent of total government-wide cash and investments and 84.6 percent of total government-wide net assets (excluding component units). The governmental funds financial statements present detail on each of these funds, with summarized information on all other governmental funds. In addition, detail for each of the nonmajor governmental funds is available in combining statements elsewhere in this report.

The state's main operating fund is the general fund. However, the state maintains many accounts and subfunds (created by law) within the general fund. In addition, as a result of implementing GASBS 34 in FY 02, several funds previously classified as other fund types are now included as a part of the general fund. Two of the most notable funds are the Constitutional Budget Reserve Fund and the Permanent Fund Dividend Fund. Because of materiality and public interest in

these two funds, individual fund data for each of these subfunds is provided in the combining statement for the general fund elsewhere in this report.

Proprietary funds - When the state charges customers for the services it provides, whether to outside customers or to other state agencies, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting, the same method used by private-sector businesses. Enterprise funds are used to report activities that provide supplies and services to the general public. The state uses enterprise funds to account for its international airports operations, its various loan funds, and the unemployment compensation fund. These activities are reported within business-type activities on the government-wide financial statements.

Internal service funds account for activities that provide supplies and services for other state programs. These include, among others, the state's equipment fleet and data processing/telecommunications. Because these services primarily benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

The proprietary fund financial statements are statement numbers 1.21 through 1.23. The International Airports Fund is a major enterprise fund of the State of Alaska with 16.7 percent of total government-wide liabilities (excluding component units). The proprietary funds financial statements present detail on this fund with summarized information on all other proprietary funds. In addition, detail for each of the nonmajor proprietary funds is provided in the combining statements elsewhere in this report.

Fiduciary funds - The state acts as a trustee or fiduciary for its employee pension plans. In addition, it is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The state's fiduciary activities are reported in the Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets. These funds, which include pension (and other employee benefit) and agency funds, are reported using accrual accounting. Since fiduciary assets are restricted in purpose and are not available to support the state's own programs, these fiduciary assets are not presented as part of the government-wide financial statements.

The fiduciary fund financial statements are statement numbers 1.31 and 1.32.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the component unit statement of activities (statement number 1.42).

Additional Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules for the general fund reconciling the statutory and generally accepted accounting principles (GAAP) fund balances at fiscal year-end (statement number 2.01).

Other Supplementary Information

Other supplementary information includes combining financial statements for nonmajor governmental, proprietary, and fiduciary funds, as well as nonmajor discretely presented component units. These nonmajor funds are added together by fund type and presented in single columns in the basic financial statements, but are not reported individually on the fund financial statements. Only the major funds, the general fund, the Alaska Permanent Fund, and the International Airports Fund are presented individually on the fund financial statements. Schedules of revenues, expenditures and changes in fund balances – budget and actual are also presented for all governmental funds with annually adopted budgets.

Government-wide Financial Analysis

As noted earlier, net assets should serve over time as a useful indicator of a government's financial position. State assets exceeded liabilities by \$32.8 billion at the close of the most recent fiscal year (see table below). By far the largest portion of the state's net assets (74 percent) reflects its investments held in the Alaska Permanent Fund. However, the majority of these assets are not available for future spending since the principal of the fund (\$24.1 billion) may not be spent.

The remainder of the state's net assets (26 percent) represents amounts invested in capital assets net of related debt (\$4.1 billion), resources that are subject to external restrictions of how they may be used (\$0.8 billion) and unrestricted net assets for funds other than the Alaska Permanent Fund (\$3.8 billion).

Net Assets
(Stated in millions)

	Governmental		Business-type		Total	
	Activities		Activites		Primary Government	
	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002
Current and other noncurrent assets	\$ 29,616	\$ 28,944	\$ 936	\$ 1,014	\$ 30,552	\$ 29,958
Capital Assets	4,116	3,727	576	473	4,692	4,200
Total assets	33,732	32,671	1,512	1,487	35,244	34,158
Long-term liabilities	1,398	843	366	366	1,764	1,209
Other liabilities	686	798	18	21	704	819
Total liabilities	2,084	1,641	384	387	2,468	2,028
Net assets:						
Invested in capital assets, net of related debt	3,724	3,353	415	371	4,139	3,724
Restricted	24,473	22,207	412	417	24,885	22,624
Unrestricted	3,451	5,470	301	312	3,752	5,782
Total net assets	\$ 31,648	\$ 31,030	\$ 1,128	\$ 1,100	\$ 32,776	\$ 32,130

The net assets of governmental activities increased \$594 million and business-type activities increased \$38 million, before prior period adjustments. The increase for governmental activities is primarily due to the increase in Alaska Permanent Fund net assets. The increase in business-type activities is primarily due to the increase in net assets of the International Airports, Alaska Clean Water, and Alaska Drinking Water funds (enterprise funds) resulting from capital contributions.

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the state's net assets changed during FY 03.

Changes in Net Assets
(Stated in millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002
Revenues						
Program Revenues						
Charges for services	\$ 1,529	\$ 1,092	\$ 247	\$ 212	\$ 1,776	\$ 1,304
Operating grants	1,303	1,112	18	33	1,321	1,145
Capital grants	612	503	53	36	665	539
General revenues						
Taxes	1,063	1,020	-	-	1,063	1,020
Interest & investment earnings	1,066	1,191	7	7	1,073	1,198
Other	171	(1,404)	1	1	172	(1,403)
Total revenues	5,744	3,514	326	289	6,070	3,803
Expenses						
General government	279	414	-	-	279	414
Alaska Permanent Fund Dividend	909	1,086	-	-	909	1,086
Education & University	1,179	1,148	-	-	1,179	1,148
Health & human services	1,554	1,406	-	-	1,554	1,406
Law & justice	130	119	-	-	130	119
Public protection	458	413	-	-	458	413
Natural resources	206	194	-	-	206	194
Development	143	127	-	-	143	127
Transportation	418	407	-	-	418	407
Intergovernmental	65	65	-	-	65	65
Debt service	20	17	-	-	20	17
Loans	-	-	9	17	9	17
Unemployment compensation	-	-	192	150	192	150
Airports	-	-	78	69	78	69
Total expenses	5,361	5,396	279	236	5,640	5,632
Excess (deficiency)						
Payments from component units	81	63	-	1	81	64
Transfers	3	1	(3)	(1)	-	-
Special Items:						
ASTF Liquidation	97	-	-	-	97	-
Interest Earned on Grants Administered by AIDEA	30	-	-	-	30	-
Airport's Arbitrage Rebate	-	-	(5)	-	(5)	-
Increase(decrease) in net assets	594	(1,818)	39	53	633	(1,765)
Net assets - beginning *	31,034	32,848	1,100	1,047	32,134	33,895
Prior period adjustment	20	-	(11)	-	9	-
Net Assets - ending	\$ 31,648	\$ 31,030	\$ 1,128	\$ 1,100	\$ 32,776	\$ 32,130

* FY 2002 beginning net assets were restated to include any prior period adjustments, and FY 2003 beginning net assets were restated due to fund reclassification (see note 3 for further information).

Financial Analysis of the State's Funds

As noted earlier, the state uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the state's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the state's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the state's governmental funds reported combined ending fund balances of \$28.6 billion, an increase of \$682 million in comparison with the prior year. The unreserved fund balance, which is normally available for spending at the government's discretion was a deficit balance of \$1.2 billion, consisting of a deficit of \$1.9 billion in the general fund, \$100 million in the Alaska Permanent Fund (earnings reserve account), \$439 million in capital project funds, and \$93 million for other governmental funds. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) for the Alaska Permanent Fund (\$24.1 billion), 2) for the Constitutional Budget Reserve Fund (\$5.1 billion), 3) to liquidate contracts and purchase orders of the prior period (\$249 million), or 4) for a variety of other restricted purposes (\$360 million).

The general fund is the chief operating fund of the state. At the end of the current fiscal year, unreserved fund balance of the general fund was a deficit of \$1.9 billion, while total fund balance reached \$3.6 billion. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance, which is a deficit, represents 33 percent of total general fund expenditures, while total fund balance represents 64 percent of that same amount.

The fund balance of the state's general fund decreased by \$567 million during the current fiscal year. The key factor in this decrease is expenditures of \$5.6 billion exceeded general fund revenues and other fund sources, resulting in appropriated borrowing of \$498 million from the Constitutional Budget Reserve Fund.

General fund revenues for FY 03 were \$4.2 billion, an increase of \$483 million compared to revenues of \$3.7 billion for FY 02. Revenues by source for FY 03 are compared to FY 02 in the following schedule (in millions):

<u>Revenue Source</u>	<u>FY 03</u>	<u>Percent</u>	<u>FY 02</u>	<u>Percent</u>
Taxes	\$ 1,032.1	24.7	\$ 989.6	26.7
Rents and Royalties	848.3	20.2	603.4	16.3
Interest & Investment Income	202.7	4.8	205.0	5.5
Federal	1,749.0	41.7	1,536.0	41.5
Miscellaneous	361.5	8.6	376.4	10.0
Total Revenue	<u>\$ 4,193.6</u>	<u>100.0</u>	<u>\$ 3,710.4</u>	<u>100.0</u>

The primary components of this revenue increase are petroleum-related taxes and royalties (\$287 million) and federal revenues (\$213 million).

Alaska Permanent Fund

The fund is an asset of the State of Alaska that is managed by the Alaska Permanent Fund Corporation, an instrumentality of the State of Alaska.

In 1976 the Alaska Constitution was amended to provide that:

At least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments, and bonuses received by the state shall be placed in a Permanent Fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for Permanent Fund investments. All income from the Permanent Fund shall be deposited in the general fund unless otherwise provided by law.

The fund is made up of two parts.

- **Reserved Net Assets:** The fund reserved net assets, or principal, consists of the contributions and appropriations, which are the main body of the trust. At June 30, 2003, this amounted to \$23.0 billion. The sources of contributions and appropriations of the fund were as follows: \$7.7 billion in dedicated mineral revenues; \$7.9 billion of fund realized earnings added to principal for inflation proofing; and \$7.4 billion in additional deposits approved by special legislative appropriation.

Unrealized appreciation on invested assets, pursuant to a recent Attorney General opinion, is also part of the reserved assets of the fund. The balance of the unrealized appreciation at the end of the fiscal year amounted to \$1.1 billion.

- **Unreserved Net Assets:** The fund unreserved net assets, which are available for legislative appropriation, consist of the realized earnings of the fund. From inception through June 30, 2003, realized earnings have amounted to \$25.2 billion. Of this amount \$12.5 billion has been paid out for dividends, \$7.9 billion has been added to principal for inflation proofing, \$4.4 billion has been added to principal by special appropriation, \$.3 billion has been paid out to the general fund, and \$100 million remains in the fund in the realized earnings account.

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget was a \$453 million increase in appropriations (or 5 percent) and can be briefly summarized as follows:

- \$54 million allocated to health and human services function
- \$115 million allocated to public protection function
- \$154 million allocated to transportation
- The balance of \$130 million allocated across several expenditure functions.

Of this increase in appropriated expenditures, \$258 million was to be funded out of an increase in charges for services, another \$236 million from interagency receipts, with the balance coming from other financing sources. During the year, however, revenues were less than budgetary estimates and although expenditures were less than budgetary estimates, the state still needed to draw a total of \$498 million from the CBRF in accordance with chapter 1, SSSLA 2002, section 94(b).

Capital Assets and Debt Administration

Capital assets. The state's investment (net of related debt) in capital assets for its governmental and business-type activities as of June 30, 2003, amounts to \$4.1 billion. The table below displays total capital assets, net of accumulated depreciation. Depreciation charges for FY 03 totaled \$68 million for governmental activities and \$21 million for business-type activities.

Capital Assets
(net of depreciation, in millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002
Land	\$ 659	\$ 649	\$ 29	28	\$ 688	\$ 677
Buildings	703	657	191	189	894	846
Equipment	280	273	14	13	294	286
Infrastructure	332	232	192	154	524	386
Construction in progress	2,142	1,916	150	89	2,292	2,005
Total capital assets	\$ 4,116	\$ 3,727	\$ 576	\$ 473	\$ 4,692	\$ 4,200

Additional information on the state's capital assets can be found in note 5 in the notes to the financial statements.

Long-term debt. At the end of the current fiscal year, the state had total bonded debt outstanding of \$1,081 million. Of this amount, \$500 million was general obligation bonds, and \$225 million comprises revenue bonds issued by the Northern Tobacco Securitization Corporation (NTSC). The general obligation bonds are secured by the full faith, credit, and resources

of the state, whereas the NTSC bonds are secured by and payable solely from Tobacco Settlement Revenues (TSRs). Neither the State of Alaska, nor the Alaska Housing Finance Corporation (of which NTSC is a subsidiary) is liable for any debt issued by NTSC. The remaining \$357 million are International Airports revenue bonds secured solely by specified revenue sources. The general obligation and NTSC bonds are reported as governmental activities debt, and the International Airports bonds are reported as business-type activities debt.

Long-term Debt
(Stated in millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002
Revenue bonds payable	\$ 225	\$ 233	\$ 357	\$ 362	\$ 582	\$ 595
General obligation debt	500	-	-	-	500	-
Notes payable	5	19	-	-	5	19
Capital leases payable	272	261	-	-	272	261
Deferred revenues & advances	179	87	4	4	183	91
Certificates of participation	16	16	-	-	16	16
Compensated absences	114	108	-	-	114	108
Claims and judgements	84	82	-	-	84	82
Other noncurrent liabilities	3	3	5	-	8	3
Total	\$ 1,398	\$ 809	\$ 366	\$ 366	\$ 1,764	\$ 1,175

The state's total debt increased by \$589 million (50 percent) during the current fiscal year. The increase was primarily due to issuing general obligation bonds.

The general obligation bonds have been rated "AAA" by Fitch, "Aaa" by Moody's, and AAA by Standard & Poor's.

Additional information of the state's long-term debt can be found in note 6 in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the State of Alaska at fiscal year end was 7.4 percent, which is identical to the rate a year ago. The United States unemployment rate at fiscal year end was 6.4 percent. The state's average unemployment rate for FY 03 was 7.7 percent, which compares favorably to the average unemployment rate for FY 02 of 7.0 percent and to the five year average (1998 to 2002) of 6.5 percent. Alaska's unemployment rate for October 2003 was 6.8 percent, as compared to a rate of 7.5 percent one-year ago, and a national unemployment rate of 5.6 percent.
- The state's major source of unrestricted revenue for the general fund is petroleum related, which makes up 39.6 percent of total revenue, with federal revenue making up another 41.7 percent, and the balance coming from other sources. As a result, the state's budget is structured around these two revenue sources. However, oil production revenues have not kept pace with appropriated spending. This has resulted in appropriated borrowing from the Constitutional Budget Reserve Fund. Although federal revenues have increased, these funds are generally restricted for use in federal programs and therefore do not provide resources for balancing the state budget.
- FY 03 crude oil and natural gas liquids production for the Alaska North Slope and Cook Inlet averaged 1.020 million barrels per day, which is a 1.3 percent decrease from FY 02 production of 1.033. FY 03 production, compared to peak production of 2.049 million barrels per day in FY 88, has dropped by 50.2 percent.

The primary factors considered in preparing the state's budget for the 2004 fiscal year is the decline in oil production. With state unrestricted revenue anticipated to be less than needed for the budget, funds were appropriated from the budget reserve fund (a subfund of the general fund) to balance the FY 04 budget.

The State of Alaska FY 03 budgeted expenditures do include certain items that are unique to Alaska, such as the Alaska Permanent Fund Dividend that is paid to each qualifying Alaskan (\$1,541/resident, total \$909 million in FY 03), state-operated Pioneer Homes, and the Longevity Bonus program.

Requests for Information

This financial report is designed to provide a general overview of the state's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the State of Alaska, Division of Finance, P.O. Box 110204, Juneau, Alaska, 99811-0204.

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BASIC
FINANCIAL STATEMENTS

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	Primary Government		Total	Component Units
	Governmental Activities	Business-type Activities		
ASSETS				
Cash and Investments	\$ 28,477,637	\$ 444,691	\$ 28,922,328	\$ 1,595,277
Accounts Receivable - Net	418,971	19,223	438,194	74,747
Interest and Dividends Receivable	119,193	30,023	149,216	39,185
Internal Balances	40,447	(40,447)	0	
Due from Primary Government			0	8,515
Due from Component Units	105,050		105,050	5,186
Due from Other Governments	385,620	2,602	388,222	7,692
Loans, Notes, and Bonds Receivable	15,863	249,288	265,151	3,896,189
Inventories	15,783		15,783	16,660
Repossessed Property		2,281	2,281	
Net Investment in Direct Financing Leases			0	314,582
Investments in Projects, Partnerships, or Corporations		8,062	8,062	86,963
Restricted Assets	13,164	218,600	231,764	2,236,895
Other Assets	24,723	1,522	26,245	78,564
Capital Assets:				
Equipment, Net of Depreciation	280,405	13,699	294,104	184,228
Buildings, Net of Depreciation	702,240	190,539	892,779	537,677
Infrastructure, Net of Depreciation	332,345	192,353	524,698	390,946
Land	658,744	29,087	687,831	58,458
Construction in Progress	2,141,836	150,178	2,292,014	297,659
Total Assets	<u>33,732,021</u>	<u>1,511,701</u>	<u>35,243,722</u>	<u>9,829,423</u>
LIABILITIES				
Accounts Payable and Accrued Liabilities	672,819	7,771	680,590	68,265
Due to Primary Government			0	112,710
Due to Component Units	6,774		6,774	1,805
Due to Other Governments	332	5,711	6,043	13
Interest Payable	5,981	4,551	10,532	43,299
Other Current Liabilities	5	258	263	185,432
Long-term Liabilities:				
Portion Due or Payable Within One Year:				
Claims, Judgements, and				
Compensated Absences	143,356		143,356	390
Unearned and Deferred Revenue	169,652	3,887	173,539	22,534
Notes, Bonds, and Leases Payable	42,090	6,580	48,670	155,890
Other Long-term Debt			0	1,281
Other Noncurrent Liabilities	2,980	5,319	8,299	27,287
Portion Due or Payable After One Year:				
Claims, Judgements, and				
Compensated Absences	54,576		54,576	
Unearned and Deferred Revenue	9,653		9,653	245,922
Notes, Bonds, and Leases Payable	975,256	349,930	1,325,186	4,263,106
Other Long-term Debt			0	23,526
Other Noncurrent Liabilities	343	154	497	34,501
Total Liabilities	<u>2,083,817</u>	<u>384,161</u>	<u>2,467,978</u>	<u>5,185,961</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	3,724,321	415,389	4,139,710	1,030,640
Restricted for:				
Permanent Funds				
Nonexpendable	24,360,657		24,360,657	
Expendable	14,182		14,182	
Education	9,227		9,227	447,815
Conservation, Environment, and Natural Resources	29,178		29,178	
Unemployment Compensation		200,157	200,157	
Debt Service	31,560	8,093	39,653	825,097
Other Purposes	28,337	203,196	231,533	942,709
Unrestricted	3,450,742	300,705	3,751,447	1,397,201
Total Net Assets	<u>\$ 31,648,204</u>	<u>\$ 1,127,540</u>	<u>\$ 32,775,744</u>	<u>\$ 4,643,462</u>

The notes to the financial statements are an integral part of this statement.

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		
		Charges for Services, Royalties, and Other Fees	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 278,972	\$ 16,142	\$ 23,618	\$ 4,150
Alaska Permanent Fund Dividend	908,676			
Education	951,790	937	149,459	1,329
University	226,729		435	
Health and Human Services	1,553,612	23,277	888,186	44,339
Law and Justice	130,408	6,201	17,961	
Public Protection	458,200	103,586	67,306	9,286
Natural Resources	206,161	1,299,097	59,933	34,180
Development	142,934	34,895	75,279	9,072
Transportation	418,463	44,882	1,048	507,936
Intergovernmental Revenue Sharing	65,364		20,057	
Debt Service	19,903			1,122
Total Governmental Activities	5,361,212	1,529,017	1,303,282	611,414
Business-type Activities:				
Loans	8,799	13,598	4,287	10,724
Unemployment Compensation	191,598	156,459	13,736	
Airports	77,892	76,753	154	42,135
Total Business-type Activities	278,289	246,810	18,177	52,859
Total Primary Government	\$ 5,639,501	\$ 1,775,827	\$ 1,321,459	\$ 664,273
Component Units:				
University of Alaska	\$ 532,192	\$ 102,272	\$ 172,854	\$ 18,235
Alaska Housing Finance Corporation	376,685	227,205	41,868	11,834
Alaska Industrial Development and Export Authority	56,822	47,112		112
Nonmajor Component Units	235,591	174,732	40,843	14,761
Total Component Units	\$ 1,201,290	\$ 551,321	\$ 255,565	\$ 44,942

General Revenues:

Taxes:

Severance Taxes
 Selective Sales/Use
 Income Taxes
 Property Taxes
 Other Taxes

Interest and Investment Earnings

Tobacco Settlement
 Net Increase (Decrease) in the Fair Value of Investments
 Payments In from Component Units
 Payments In from Primary Government
 Other Revenues

Transfers - Internal Activity

Special Items:

Alaska Science and Technology Endowment Liquidation
 Interest Earned on Grants Administered by AIDEA
 Airport's Arbitrage Rebate

Total General Revenues,
 Transfers, and Special Items

Change in Net Assets

Net Assets - Beginning of Year
 Prior Period Adjustment
 Accounting Changes
 Net Assets - End of Year

The notes to the financial statements are an integral part of this statement

STATEMENT 1.02

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (235,062)	\$	\$ (235,062)	\$
(908,676)		(908,676)	
(800,065)		(800,065)	
(226,294)		(226,294)	
(597,810)		(597,810)	
(106,246)		(106,246)	
(278,022)		(278,022)	
1,187,049		1,187,049	
(23,688)		(23,688)	
135,403		135,403	
(45,307)		(45,307)	
(18,781)		(18,781)	
<u>(1,917,499)</u>		<u>(1,917,499)</u>	
	19,810	19,810	
	(21,403)	(21,403)	
	41,150	41,150	
	<u>39,557</u>	<u>39,557</u>	
<u>(1,917,499)</u>	<u>39,557</u>	<u>(1,877,942)</u>	
			(238,831)
			(95,778)
			(9,598)
			<u>(5,255)</u>
			<u>(349,462)</u>
640,856		640,856	
156,693		156,693	
207,075		207,075	
48,741		48,741	
9,421		9,421	
1,066,238	6,567	1,072,805	117,459
25,054		25,054	
138,953		138,953	29,267
80,728		80,728	42,877
		0	229,680
7,618	419	8,037	644
2,830	(2,830)	0	
97,706		97,706	(97,706)
29,707		29,707	
	(5,453)	(5,453)	
2,511,620	(1,297)	2,510,323	322,221
594,121	38,260	632,381	(27,241)
31,034,480	1,099,934	32,134,414	4,668,945
19,603	(10,654)	8,949	137
			1,621
<u>\$ 31,648,204</u>	<u>\$ 1,127,540</u>	<u>\$ 32,775,744</u>	<u>\$ 4,643,462</u>

	General Fund	Alaska Permanent Fund	Nonmajor Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 2,826,157	\$ 24,724,104	\$ 909,558	\$ 28,459,819
Accounts Receivable - Net	180,738	214,903	6,735	402,376
Interest and Dividends Receivable	2,054	116,699	549	119,302
Due from Other Funds	736,648	49,985	2,171	788,804
Due from Component Units	103,937			103,937
Due from Other Governments	382,050			382,050
Loans, Notes, and Bonds Receivable	15,804		59	15,863
Inventories	11,916			11,916
Other Assets	17,874		40	17,914
Total Assets	\$ 4,277,178	\$ 25,105,691	\$ 919,112	\$ 30,301,981
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable and Accrued Liabilities	\$ 431,988	\$ 220,275	\$ 11,027	\$ 663,290
Due to Other Funds	56,528	690,659	3,235	750,422
Due to Component Units	4,103	423	2,248	6,774
Due to Other Governments	332			332
Unearned and Deferred Revenue	231,166		388	231,554
Other Liabilities	2,984		344	3,328
Total Liabilities	727,101	911,357	17,242	1,655,700
Fund Balances:				
Reserved:				
Encumbrances	212,546		36,737	249,283
Nonliquid Assets	5,161,740			5,161,740
Bonds			67,078	67,078
Other Purposes	26,672	24,094,334	266,323	24,387,329
Unreserved:				
General Fund	(1,850,881)			(1,850,881)
Special Revenue Funds			78,987	78,987
Capital Projects Funds			438,606	438,606
Permanent Funds		100,000	14,139	114,139
Total Fund Balances	3,550,077	24,194,334	901,870	28,646,281
Total Liabilities and Fund Balances	\$ 4,277,178	\$ 25,105,691	\$ 919,112	\$ 30,301,981

The notes to the financial statements are an integral part of this statement.

Total Fund Balances - Governmental Funds \$ 28,646,281

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. (Note 5)

These assets consist of:

Land	658,744	
Buildings, net of depreciation	666,621	
Equipment, net of depreciation	193,342	
Infrastructure, net of depreciation	332,345	
Construction in progress	<u>2,141,836</u>	3,992,888

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. (See Statement 1.21)

148,390

Some of the State's rents and royalties are not available soon enough to pay for the current period's expenditures and therefore are not reported in the funds.

10,912

Certain federal revenues are under appeal with the federal government are not available within the current period and therefore are not reported in the funds.

52,249

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 6)

Capital lease obligations	(271,171)	
Compensated absences	(110,611)	
Claims and judgements (net of federal reimbursement)	<u>(81,471)</u>	(463,253)

Long-term bonded debt is not due and payable in the current period and therefore is not reported in the funds. (Note 6)

Notes and bonds payable (net of federal reimbursement)	(739,018)	
Unamortized costs of issuance	5,715	
Accrued interest payable	<u>(5,960)</u>	(739,263)

Net Assets of Governmental Activities \$ 31,648,204

The notes to the financial statements are an integral part of this statement.

STATE OF ALASKA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003
(Stated in Thousands)

STATEMENT 1.13

	General Fund	Alaska Permanent Fund	Nonmajor Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 1,032,140	\$	\$ 30,646	\$ 1,062,786
Licenses and Permits	75,714		25,100	100,814
Charges for Services	167,165		340	167,505
Fines and Forfeitures	10,219		258	10,477
Rents and Royalties	848,288	397,642	40,772	1,286,702
Premiums and Contributions	10,015		19,794	29,809
Interest and Investment Income	202,732	859,850	15,195	1,077,777
Net Increase (Decrease) in the Fair Value of Investments		138,921	7,317	146,238
Federal Grants in Aid	1,749,007		20,137	1,769,144
Nonfederal Grants and Contracts			40	40
Payments In from Component Units	80,728			80,728
Other Revenues	17,624		20,185	37,809
Total Revenues	4,193,632	1,396,413	179,784	5,769,829
EXPENDITURES				
Current:				
General Government	240,278	36,633	1,693	278,604
Alaska Permanent Fund Dividend	908,676			908,676
Education	946,308		44,076	990,384
University	220,409		6,385	226,794
Health and Human Services	1,566,520		4,505	1,571,025
Law and Justice	131,316		43	131,359
Public Protection	459,150		171	459,321
Natural Resources	157,420		63,668	221,088
Development	136,144		9,098	145,242
Transportation	737,537		231	737,768
Intergovernmental Revenue Sharing	65,743			65,743
Debt Service:				
Principal	9,612		8,495	18,107
Interest and Other Charges	3,274		15,058	18,332
Total Expenditures	5,582,387	36,633	153,423	5,772,443
Excess (Deficiency) of Revenues Over Expenditures	(1,388,755)	1,359,780	26,361	(2,614)
OTHER FINANCING SOURCES (USES)				
Bonds Issued			461,935	461,935
Bond Issue Premium			39,310	39,310
Transfers In from Other Funds	703,985		2,522	706,507
Transfers (Out to) Other Funds	(4,839)	(690,659)		(695,498)
Total Other Financing Sources and Uses	699,146	(690,659)	503,767	512,254
SPECIAL ITEMS				
Alaska Science and Technology Endowment Liquidation	97,706			97,706
Interest Earned on Grants Administered by AIDEA	29,707			29,707
Net Change in Fund Balances	(562,196)	669,121	530,128	637,053
Fund Balances - Beginning of Year	4,121,845	23,525,213	371,723	28,018,781
Prior Period Adjustment	(9,572)		19	(9,553)
Fund Balances - End of Year	\$ 3,550,077	\$ 24,194,334	\$ 901,870	\$ 28,646,281

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Changes in Fund Balances to the Statement of Activities
 Governmental Funds
 June 30, 2003
 (Stated in Thousands)

Net Change in Fund Balances - Total Governmental Funds	\$ 627,500
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period (Note 5). See Note 3 for prior period adjustments.	
Land	9,913
Buildings, net of prior period adjustment (PPA)	51,554
Equipment	7,069
Infrastructure	99,679
Construction in progress, net of PPA	<u>225,873</u>
	394,088
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is reported in governmental activities in the Statement of Revenues, Expenses, and Changes in Fund Net Assets (Statement 1.22). See note 3 for prior period adjustments.	
Net current year revenue	5,584
Prior period adjustment	<u>(6,686)</u>
	(1,102)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund net of PPA.	
	59,990
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	
Bond proceeds	(501,245)
Accrued interest	(2,159)
Repayment of bond principal	8,495
Payments for bond agency fees	<u>1,184</u>
	(493,725)
Certain expenditures are reported in the funds. However, they either increase or decrease long-term liabilities reported on the Statement of Net Assets and have been eliminated from the Statement of Activities.	
Claims and judgements net of PPA	32,572
Compensated absences	(5,424)
Capital lease payments	(11,981)
Other long-term debt	<u>11,806</u>
	26,973
Change in Net Assets of Governmental Activities	<u>\$ 613,724</u>

The notes to the financial statements are an integral part of this statement.

	Enterprise Funds			Internal Service Funds
	International Airports	Nonmajor Enterprise Funds	Total	
ASSETS				
Current Assets:				
Cash and Investments	\$ 112,384	\$ 332,307	444,691	\$ 30,981
Accounts Receivable - Net	9,174	10,049	19,223	3,655
Interest and Dividends Receivable	207	5,416	5,623	
Due from Other Funds	2	284	286	4,588
Due from Component Units			0	1,113
Due from Other Governments	2,540	62	2,602	11
Loans, Notes, and Bonds Receivable		10,419	10,419	
Inventories			0	3,867
Other Current Assets			0	1,094
Total Current Assets	124,307	358,537	482,844	45,309
Noncurrent Assets:				
Interest and Dividends Receivable		24,400	24,400	
Loans, Notes, and Bonds Receivable		238,869	238,869	
Repossessed Property		2,281	2,281	
Investment in Projects, Partnerships, or Corporations		8,062	8,062	
Restricted Assets	218,600		218,600	
Other Noncurrent Assets		1,522	1,522	
Capital Assets:				
Equipment, Net of Depreciation	13,699		13,699	87,063
Buildings, Net of Depreciation	190,539		190,539	35,619
Infrastructure, Net of Depreciation	192,353		192,353	
Land	29,087		29,087	
Construction in Progress	150,178		150,178	
Total Noncurrent Assets	794,456	275,134	1,069,590	122,682
Total Assets	918,763	633,671	1,552,434	167,991
LIABILITIES				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	1,523	6,248	7,771	9,529
Due to Other Funds	39,433	1,300	40,733	603
Due to Other Governments		5,711	5,711	
Interest Payable	4,551		4,551	21
Claims, Judgements, and Compensated Absences			0	3,413
Unearned and Deferred Revenue	3,887		3,887	
Notes, Bonds, and Leases Payable	6,580		6,580	2,168
Other Current Liabilities	5,319	258	5,577	
Total Current Liabilities	61,293	13,517	74,810	15,734
Noncurrent Liabilities:				
Notes, Bonds, and Leases Payable	349,930		349,930	3,867
Other Noncurrent Liabilities	134	20	154	
Total Noncurrent Liabilities	350,064	20	350,084	3,867
Total Liabilities	411,357	13,537	424,894	19,601
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	415,389		415,389	116,647
Restricted for:				
Unemployment Compensation		200,157	200,157	
Debt Service	8,093		8,093	
Other Purposes	4,488	198,708	203,196	
Unrestricted	79,436	221,269	300,705	31,743
Total Net Assets	\$ 507,406	\$ 620,134	\$ 1,127,540	\$ 148,390

The notes to the financial statements are an integral part of this statement.

STATE OF ALASKA
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2003
(Stated in Thousands)

STATEMENT 1.22

	Enterprise Funds			Internal Service Funds
	International Airports	Nonmajor Enterprise Funds	Total	
OPERATING REVENUES				
Premiums and Contributions	\$	\$ 156,455	\$ 156,455	\$ 51,902
Allowance for Uncollectible Contributions		4	4	
Charges for Goods and Services	76,259	719	76,978	60,411
Interest and Investment Income		12,107	12,107	
Allowance for Uncollectible Interest		(308)	(308)	
Fines and Forfeitures		150	150	
Federal Grants in Aid		770	770	
Other Operating Revenues	494		494	88
Total Operating Revenues	<u>76,753</u>	<u>169,897</u>	<u>246,650</u>	<u>112,401</u>
OPERATING EXPENSES				
Benefits		191,598	191,598	46,576
Operating	54,686	7,553	62,239	48,966
Depreciation	21,733	90	21,823	14,952
Provision for Loan Losses and Forgiveness		943	943	
Other Operating Expenses		151	151	
Total Operating Expenses	<u>76,419</u>	<u>200,335</u>	<u>276,754</u>	<u>110,494</u>
Operating Income (Loss)	<u>334</u>	<u>(30,438)</u>	<u>(30,104)</u>	<u>1,907</u>
NONOPERATING REVENUES (EXPENSES)				
Interest and Investment Income	6,567	17,253	23,820	728
Interest and Investment Expense	(1,473)	(5)	(1,478)	(298)
Gain (Loss) on Disposal of Capital Assets			0	(203)
Other Nonoperating Revenues (Expenses)	(5,299)	1,292	(4,007)	823
Total Nonoperating Revenues (Expenses)	<u>(205)</u>	<u>18,540</u>	<u>18,335</u>	<u>1,050</u>
Income Before Capital Contributions and Transfers	<u>129</u>	<u>(11,898)</u>	<u>(11,769)</u>	<u>2,957</u>
Capital Contributions	42,135	10,724	52,859	5,205
Transfers In from Other Funds		600	600	1,711
Transfers (Out to) Other Funds		(3,430)	(3,430)	(4,289)
Change in Net Assets	42,264	(4,004)	38,260	5,584
Total Net Assets - Beginning of Year	465,142	634,792	1,099,934	149,492
Prior Period Adjustment		(10,654)	(10,654)	(6,686)
Total Net Assets - End of Year	<u>\$ 507,406</u>	<u>\$ 620,134</u>	<u>\$ 1,127,540</u>	<u>\$ 148,390</u>

The notes to the financial statements are an integral part of this statement.

	Enterprise Funds			Internal Service Funds
	International Airports	Nonmajor Enterprise Funds	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Other Governments	\$	\$ 1,165	\$ 1,165	\$ 225
Receipts from Customers	77,700	(61)	77,639	60,142
Receipt of Principal from Loan Recipients		24,331	24,331	
Receipt of Interest and Fees from Loan Recipients		11,665	11,665	
Receipts from Insured		156,782	156,782	51,888
Payments to Employees	(30,909)	(864)	(31,773)	(20,335)
Payments to Suppliers	(28,195)	(764)	(28,959)	(28,473)
Payments to Loan Recipients		(29,397)	(29,397)	
Claims Paid	16,296	(190,408)	(174,112)	(46,540)
Interfund Services Used		(6,214)	(6,214)	
Other Receipts		1,944	1,944	88
Other Payments		(1,074)	(1,074)	(2,258)
Net Cash Provided (Used) by Operating Activities	34,892	(32,895)	1,997	14,737
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating Subsidies and Transfers (Out to) Other Funds		(3,430)	(3,430)	(4,289)
Operating Subsidies and Transfers In from Other Funds		598	598	1,386
Federal Grants		10,724	10,724	
Proceeds from Issuance of Short-term Debt		2,623	2,623	
Payments on Short-term Debt		(2,623)	(2,623)	
Interest and Fees Paid on Borrowing		(5)	(5)	
Net Cash Provided (Used) by Noncapital Financing Activities	0	7,887	7,887	(2,903)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from Sale of Capital Assets			0	830
Acquisition and Construction of Capital Assets	(118,192)		(118,192)	(11,432)
Principal Paid on Capital Debt	(6,048)		(6,048)	(2,189)
Interest and Fees Paid on Capital Debt	(12,511)		(12,511)	(365)
Federal Grants	35,343		35,343	
Other Receipts (Payments)	4,590		4,590	47
Net Cash Provided (Used) by Capital and Related Financing Activities	(96,818)	0	(96,818)	(13,109)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Sales/Maturities of Investments	7,247		7,247	
Purchase of Investments	(13,145)		(13,145)	
Interest and Dividends on Investments	10,919	17,253	28,172	715
Change in Restricted Cash and Investments	58,761		58,761	
Net Cash Provided (Used) by Investing Activities	63,782	17,253	81,035	715
Net Increase (Decrease) in Cash	1,856	(7,755)	(5,899)	(560)
Cash and Cash Equivalents - Beginning of Year	19,330	340,062	359,392	31,541
Cash and Cash Equivalents - End of Year	\$ 21,186	\$ 332,307	\$ 353,493	\$ 30,981

The notes to the financial statements are an integral part of this statement.

This statement continued on next page.

	Enterprise Funds			Internal Service Funds
	International Airports	Nonmajor Enterprise Funds	Total	
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ 334	\$ (30,438)	\$ (30,104)	\$ 1,907
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation and Amortization	21,733	90	21,823	14,952
Other Reconciling Items	58	1,202	1,260	
Net Changes in Assets and Liabilities:				
Accounts Receivable - Net	890	656	1,546	(3,098)
Due from Other Funds		52	52	3,205
Due from Component Units			0	71
Due from Other Governments		396	396	50
Loans, Notes and Bonds Receivable - Net		(4,968)	(4,968)	
Repossessed Property		742	742	
Investment in Projects, Partnerships, or Corporations		(380)	(380)	
Interest and Dividends Receivable - Net		(2,873)	(2,873)	
Inventories			0	(115)
Other Assets		2,384	2,384	(170)
Due to Other Funds	16,296	(1,090)	15,206	(349)
Due to Other Governments		840	840	
Accounts Payable and Accrued Liabilities	(4,419)	488	(3,931)	(1,882)
Other Liabilities		4	4	166
Net Cash Provided (Used) by Operating Activities	<u>\$ 34,892</u>	<u>\$ (32,895)</u>	<u>\$ 1,997</u>	<u>\$ 14,737</u>
Reconciliation of Cash to the Statement of Net Assets:				
Total Cash and Investments per the Statement of Net Assets	\$ 112,384	\$ 332,307	\$ 444,691	\$ 30,981
Less: Investments not Meeting the Definition of Cash or Cash Equivalents	(91,198)		(91,198)	
Cash, End of Year	<u>\$ 21,186</u>	<u>\$ 332,307</u>	<u>\$ 353,493</u>	<u>\$ 30,981</u>
Noncash Investing, Capital, and Financing Activities:				
Contributed Capital Assets				2,969
Interfund Asset Transfers				2,236
Transfers (Out to) Other Funds (Accrual)		(338)	(338)	
Transfers In from Other Funds (Accrual)		(2)	(2)	

STATE OF ALASKA
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003
(Stated in Thousands)

STATEMENT 1.31

	Pension and Other Employee Benefit Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ 56,725	\$ 82,456
Investments	13,111,510	157,991
Investment Loss Trust Fund Assets	1,606	
Accounts Receivable - Net		1
Contributions Receivable	21,536	
Due from Other Funds	342	3,704
Other Assets	39	
Total Assets	<u>13,191,758</u>	<u>244,152</u>
LIABILITIES		
Accounts Payable and Accrued Liabilities	52,111	3,094
Trust Deposits Payable		241,036
Due to Other Funds	1,275	22
Total Liabilities	<u>53,386</u>	<u>244,152</u>
NET ASSETS		
Held in Trust for:		
Pension Benefits	8,310,364	
Postemployment Healthcare Benefits	2,904,696	
Individuals, Organizations, and Other Governments	1,923,312	
Total Net Assets	<u>\$ 13,138,372</u>	<u>\$ 0</u>

The notes to the financial statements are an integral part of this statement.

STATE OF ALASKA
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2003
(Stated in Thousands)

STATEMENT 1.32

	<u>Pension and Other Employee Benefit Trust Funds</u>
ADDITIONS	
Premiums and Contributions:	
Employer	\$ 426,367
Member	283,823
Other	475
Total Premiums and Contributions	<u>710,665</u>
Investment Income:	
Net Appreciation (Depreciation) in Fair	
Value of Investments	(143,076)
Interest	198,980
Dividends	173,265
Total Investment Income	229,169
Less Investment Expense	24,586
Net Investment Income	<u>204,583</u>
Other Additions	41
Total Additions	<u>915,289</u>
DEDUCTIONS	
Benefits Paid	1,106,094
Insurance Premiums	4,718
Refunds of Premiums and Contributions	16,865
Administrative Expenses	21,129
Total Deductions	<u>1,148,806</u>
Net Increase (Decrease) in Net Assets Held in	
Trust for:	
Pension Benefits	(70,535)
Postemployment Healthcare Benefits	(2,302)
Individuals, Organizations, and Other Governments	(160,680)
Net Assets - Beginning of the Year	13,371,889
Net Assets - End of the Year	<u>\$ 13,138,372</u>

The notes to the financial statements are an integral part of this statement.

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STATE OF ALASKA
Statement of Net Assets
Component Units
June 30, 2003
(Stated in Thousands)

STATEMENT 1.41

	University of Alaska	Alaska Housing Finance Corporation	Alaska Industrial Development and Export Authority	Nonmajor Component Units	Total
ASSETS					
Cash and Investments	\$ 23,362	\$ 371,765	\$ 370,231	\$ 829,919	\$ 1,595,277
Accounts Receivable - Net	60,833			13,914	74,747
Interest and Dividends Receivable	54	22,349	4,818	11,964	39,185
Due from Primary Government	7,032	1,048		435	8,515
Due from Component Units	4,987			199	5,186
Due from Other Governments	2,020			5,672	7,692
Loans, Notes, and Bonds Receivable	5,802	3,312,511	294,299	283,577	3,896,189
Inventories	7,644			9,016	16,660
Net Investment in Direct Financing Leases		36,165	278,417		314,582
Investments in Projects, Partnerships, or Corporations			86,963		86,963
Restricted Assets	142,109	1,168,447	113,117	813,222	2,236,895
Other Assets	27,062	38,161	11,543	1,798	78,564
Capital Assets:					
Equipment, Net of Depreciation	120,739	643		62,846	184,228
Buildings, Net of Depreciation	450,632	54,738		32,307	537,677
Infrastructure, Net of Depreciation	12,323			378,623	390,946
Land	25,949	13,873		18,636	58,458
Construction in Progress	94,212	35,811		167,636	297,659
Total Assets	984,760	5,055,511	1,159,388	2,629,764	9,829,423
LIABILITIES					
Accounts Payable and Accrued Liabilities	35,739		1,647	30,879	68,265
Due to Primary Government		7,868		104,842	112,710
Due to Component Units				1,805	1,805
Due to Other Governments				13	13
Interest Payable		15,627	5,564	22,108	43,299
Other Current Liabilities	33,173	149,995	1,700	564	185,432
Long-term Liabilities:					
Portion Due or Payable Within One Year:					
Claims, Judgements, and Compensated Absences				390	390
Unearned and Deferred Revenue			4,532	18,002	22,534
Notes, Bonds, and Leases Payable	4,354	81,376	11,665	58,495	155,890
Other Long-term Debt	1,281				1,281
Other Noncurrent Liabilities		27,287			27,287
Portion Due or Payable After One Year:					
Unearned and Deferred Revenue	14,684			231,238	245,922
Notes, Bonds, and Leases Payable	95,961	3,029,565	304,780	832,800	4,263,106
Other Long-term Debt	12,490			11,036	23,526
Other Noncurrent Liabilities	4,564	6,227	7,271	16,439	34,501
Total Liabilities	202,246	3,317,945	337,159	1,328,611	5,185,961
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	602,274	104,458	9,192	314,716	1,030,640
Restricted for:					
Education	136,122			311,693	447,815
Debt Service	3,283	776,180	2,628	43,006	825,097
Other Purposes		578,978		363,731	942,709
Unrestricted	40,835	277,950	810,409	268,007	1,397,201
Total Net Assets	\$ 782,514	\$ 1,737,566	\$ 822,229	\$ 1,301,153	\$ 4,643,462

The notes to the financial statements are an integral part of this statement.

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		
		Charges for Services, Royalties, and Other Fees	Operating Grants and Contributions	Capital Grants and Contributions
Component Units:				
University of Alaska	\$ 532,192	\$ 102,272	\$ 172,854	\$ 18,235
Alaska Housing Finance Corporation	376,685	227,205	41,868	11,834
Alaska Industrial Development and Export Authority	56,822	47,112		112
Nonmajor Component Units	235,591	174,732	40,843	14,761
Total Component Units	\$ 1,201,290	\$ 551,321	\$ 255,565	\$ 44,942

General Revenues:

Interest and Investment Earnings

Tobacco Settlement

Net Increase (Decrease) in the Fair Value of Investments

Payments In from Component Units

Payments In from Primary Government

Other Revenues

Special Items:

Alaska Science and Technology Endowment Liquidation

Total General Revenues and Special Items

Change in Net Assets

Net Assets - Beginning of Year

Prior Period Adjustment

Accounting Changes

Net Assets - End of Year

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets				
University of Alaska	Alaska Housing Finance Corporation	Alaska Industrial Development and Export Authority	Nonmajor Component Units	Total Component Units
\$ (238,831)	\$	\$	\$	\$ (238,831)
	(95,778)			(95,778)
		(9,598)		(9,598)
			(5,255)	(5,255)
<u>(238,831)</u>	<u>(95,778)</u>	<u>(9,598)</u>	<u>(5,255)</u>	<u>(349,462)</u>
13,578	57,013	16,997	29,871	117,459
578	9,877	15,241	3,571	29,267
42,877				42,877
229,680				229,680
	644			644
			(97,706)	(97,706)
286,713	67,534	32,238	(64,264)	322,221
47,882	(28,244)	22,640	(69,519)	(27,241)
734,632	1,765,810	799,589	1,368,914	4,668,945
			137	137
			1,621	1,621
<u>\$ 782,514</u>	<u>\$ 1,737,566</u>	<u>\$ 822,229</u>	<u>\$ 1,301,153</u>	<u>\$ 4,643,462</u>

**STATE OF ALASKA
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For the Fiscal Year Ended June 30, 2003**

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Alaska have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles, which are primarily set forth in GASB's Codification of Governmental Accounting and Financial Reporting Standards.

A. THE FINANCIAL REPORTING ENTITY

The State of Alaska was admitted to the Union in 1959 and is governed by an elected governor and a sixty-member elected legislature. As required by GAAP, these financial statements present all the fund types of the state which includes all agencies, boards, commissions, authorities, courts, and colleges and universities that are legally part of the state (primary government) and its component units discussed below. Component units are legally separate entities for which the primary government is financially accountable or such that their exclusion would cause the state's financial statements to be misleading or incomplete.

The following component units are included in the accompanying financial statements. Blended component units, although legally separate entities, are, in substance, part of the state's operations and provide services entirely or almost entirely to the state. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the state. Individual component unit financial reports may also be obtained from each of these organizations.

BLENDED COMPONENT UNITS

The **Alaska Permanent Fund Corporation (APFC)** is a public corporation and government instrumentality in the Department of Revenue (AS 37.13.040). A governor-appointed six-member board manages APFC. The legislature approves APFC's budget. The purpose of APFC is to manage and invest the assets of the Alaska Permanent Fund (Fund) and other funds designated by law. The Fund is a savings device, restricted as to usage, which belongs to all the people of Alaska. It was created in 1976 when the voters approved an amendment to the state constitution. The beneficiaries of the fund are all present and future generations of Alaskans. The Fund represents 85 percent of the total cash and investments and 74 percent of total government-wide net assets excluding discretely presented component units. The Fund is reported as a permanent fund (a governmental fund type), and APFC operations are included in the Fund statements. Separately issued financial statements may be obtained from the Alaska Permanent Fund Corporation, P.O. Box 25500, Juneau, AK 99802-5500.

The **Northern Tobacco Securitization Corporation (NTSC)** is a public corporation and government instrumentality of, but having a legal existence independent of and separate from, the State of Alaska. NTSC is a subsidiary of, but separate and apart from, the Alaska Housing Finance Corporation. The commissioners of the departments of Revenue, Health and Social Services, and Community and Economic Development, and two independent public members appointed by the governor comprise the NTSC board of directors.

The purpose of NTSC is to purchase future rights, title, and interest in Tobacco Settlement Revenues (TSRs) from the state under the Master Settlement Agreement and Final Judgement (MSA). The MSA resolved cigarette smoking-related litigation between the settling states and the participating manufacturers, released the manufacturers from past and present smoking-related claims, and provides for a continuing release of future smoking-related claims, in exchange for certain payments to be made to the settling states, as well as certain tobacco advertising and marketing restrictions among other things.

NTSC is authorized to issue bonds necessary to provide sufficient funds for carrying out its purpose. When NTSC's obligations with the bonds have been fulfilled, the TSRs revert back to the state under the residual certificate. Consideration paid by NTSC through AHFC to the state for TSRs consisted of a cash amount sent to the State of Alaska custodial trust accounts and a residual certificate assigned to the state.

The bonds of NTSC are asset-backed instruments secured solely by the TSRs and NTSC's right to receive TSRs is expected to produce funding for its obligations. The TSR payments are dependent on a variety of factors, some of which are: the financial capability of the participating manufacturers to pay TSRs; future cigarette consumption that impacts the TSR

payment; and future legal and legislative challenges against the tobacco manufacturers and the MSA providing for the TSRs. Pursuant to bond indentures, these adjustments could affect the amount of funds available to pay scheduled debt service payments.

NTSC is reported in the governmental fund types as special revenue and debt service funds. The revenue bond debt is reported in the government-wide statement of net assets in the governmental fund activities column. NTSC financial statements may be obtained from the Alaska Housing Finance Corporation, P.O. Box 101020, Anchorage, AK 99510-1020.

The **Public Employees' Retirement System (PERS)** was established by state statute (AS 39.35.010). The Commissioner of Administration is responsible for the administration of PERS. The governor appoints the majority of the PERS board. The board prescribes policies and regulations, hears appeals, and approves employers' rates. PERS costs, based upon actuarial valuations, are funded by the state, participating governmental employers, and participants. PERS is reported in the fiduciary fund types as a pension (and other employee benefit) trust fund. The Alaska State Pension Investment Board (ASPIB) is the fiduciary of PERS.

The **Teachers' Retirement System (TRS)** was established by state statute (AS 14.25.010). The Commissioner of Administration appoints the administrator of TRS. The administrator is responsible for the administration of TRS in accordance with state statutes. The governor appoints the majority of the TRS board. The board prescribes policies and regulations, hears appeals, and approves employers' rates. TRS costs, based upon actuarial valuations, are funded by the state, participating governmental employers, and participants. TRS is reported in the fiduciary fund types as a pension (and other employee benefit) trust fund. ASPIB is the fiduciary of TRS.

The **Judicial Retirement System (JRS)** was established by state statute (AS 22.25.048). The Commissioner of Administration is responsible for the administration of JRS. JRS costs, based upon actuarial valuations, are funded by the state and participants. JRS is reported in fiduciary fund types as a pension (and other employee benefit) trust fund. ASPIB is the fiduciary of JRS.

The **Alaska National Guard and Alaska Naval Militia Retirement System (NGNMRS)** was established by state statute (AS 26.05.222). The Commissioner of Administration is responsible for the administration of NGNMRS. NGNMRS costs, based upon actuarial valuations, are funded by the state. NGNMRS is reported in the fiduciary fund types as a pension (and other employee benefit) trust fund. ASPIB is the fiduciary of NGNMRS.

The **Supplemental Benefits System (SBS)** was established by state statute (AS 39.30.150). The Commissioner of Administration is responsible for the administration of SBS. SBS is reported in the fiduciary fund types as a pension (and other employee benefit) trust fund. ASPIB is the fiduciary of SBS.

The **Deferred Compensation Plan (DCP)** was established by state statute (AS 39.45.010). The Commissioner of Administration is responsible for the administration of DCP. DCP is reported in the fiduciary fund types as a pension (and other employee benefit) trust fund. ASPIB is the fiduciary of the DCP.

Copies of the audited financial statements for the retirement systems, and for SBS and DCP, may be obtained from the Division of Retirement and Benefits, P.O. Box 110203, Juneau, AK 99811-0203.

DISCRETELY PRESENTED COMPONENT UNITS

The **Alaska Aerospace Development Corporation (AADC)** is a public corporation of the state located for administrative purposes within the Department of Community and Economic Development (AS 14.40.821). The governor appoints the voting members of the AADC board of directors and the legislature approves AADC's budget. AADC is also affiliated with the University of Alaska but with a separate and independent legal existence. The purpose of AADC is to allow the state to take a lead role in the exploration and development of space, to enhance human and economic development, and to provide a unified direction for space-related economic growth, education and research development, and tourism related activities. AADC is also to promote the continued utilization of the Poker Flat Research Range as a launch site for launch vehicles and for scientific research. Additionally, AADC is to promote and encourage the continued utilization of Poker Flat Research

Range for the University of Alaska's polar research efforts. AADC financial statements may be obtained from the Alaska Aerospace Development Corporation, 4300 B. St., Suite 101, Anchorage, AK 99503.

The **Alaska Energy Authority (AEA)** is a public corporation of the state in the Department of Community and Economic Development but with a separate and independent legal existence (AS 44.83.020). The purpose of AEA was to promote, develop, and advance the general prosperity and economic welfare of the people of the state by providing a means of constructing, acquiring, financing, and operating power projects and facilities that recover and use waste energy.

However, chapters 18 and 19, session laws of Alaska (SLA) 1993, which became effective August 11, 1993, eliminated the ability of AEA to construct, own, and acquire energy projects, and the programs operated by AEA were transferred to the Department of Community and Regional Affairs. The corporate structure of AEA was retained but the board of directors of the Alaska Industrial Development and Export Authority (AIDEA) is now the board of directors of AEA and the Executive Director of AIDEA is also the Executive Director of AEA. It is the intent of the legislation that ongoing operation of the operating assets be assumed by the electric utility companies that use or purchase power from AEA with oversight responsibility retained by AEA. The governor appoints all members of the AEA board of directors and the legislature approves AEA's budget.

Pursuant to legislation effective July 1, 1999, rural energy programs previously administered by the former Department of Community and Regional Affairs were transferred to AEA for administration as part of a larger reorganization of state agencies. Rural energy programs were originally part of AEA prior to the reorganization that occurred in 1993. AEA financial statements may be obtained from the Alaska Industrial Development and Export Authority, 813 W. Northern Lights Blvd., Anchorage, AK 99503.

The **Alaska Housing Finance Corporation (AHFC)** is a public corporation and government instrumentality within the Department of Revenue, but having a legal existence independent of and separate from the state (AS 18.56.020). The governor appoints the board of directors of AHFC. The legislature approves AHFC's budget. AHFC assists in providing decent, safe, and sanitary housing by providing mortgage loan finance. AHFC acts as the principal source of residential financing in the state and functions as a secondary mortgage market. AHFC financial statements may be obtained from the Alaska Housing Finance Corporation, P.O. Box 101020, Anchorage, AK 99510-1020.

The **Alaska Industrial Development and Export Authority (AIDEA)** is a public corporation of the state and a political subdivision within the Department of Community and Economic Development (AS 44.88.020). The governor appoints all members of the AIDEA board of directors and the legislature approves AIDEA's budget. The purpose of AIDEA is to promote, develop, and advance the general prosperity and economic welfare of the people of Alaska; to relieve problems of unemployment; to create additional employment by providing various means of financing; and to facilitate the financing of industrial, manufacturing, export, and business enterprises within the state. AIDEA financial statements may be obtained from the Alaska Industrial Development and Export Authority, 813 W. Northern Lights Blvd., Anchorage, AK 99503.

The **Alaska Mental Health Trust Authority (AMHTA)** is established as a public corporation of the state within the Department of Revenue (AS 47.30.011). The governor appoints the AMHTA board of trustees. The legislature approves AMHTA's budget. The purpose of AMHTA is to ensure an integrated comprehensive mental health program. As provided in AS 37.14.009, AMHTA is to administer the trust established under the Alaska Mental Health Enabling Act of 1956. AMHTA financial statements are included in the Combining Fund section of this CAFR with the Nonmajor Component Units since there are no separately issued financial statements for AMHTA.

The **Alaska Municipal Bond Bank Authority (AMBBA)** is a public corporation and an instrumentality of the state within the Department of Revenue, but with a legal existence independent of and separate from the state (AS 44.85.020). The governor appoints members of the AMBBA board of directors. The legislature approves AMBBA's budget. AMBBA was created for the purpose of making available to municipalities within the state moneys to finance their capital projects or for other authorized purposes by means of issuance of bonds by AMBBA and use of proceeds from such bonds to purchase from the municipalities their general obligation and revenue bonds. AMBBA commenced operations in August 1975. AMBBA financial statements may be obtained from the Alaska Municipal Bond Bank Authority, P.O. Box 110405, Juneau, AK 99811-0405.

The **Alaska Railroad Corporation (ARRC)** is a public corporation and instrumentality of the state within the Department of Community and Economic Development (AS 42.40.010). ARRC has a legal existence independent of and separate from the state. The powers of ARRC are vested in the board of directors. All members of the board of directors of ARRC are

appointed by and serve at the pleasure of the governor. ARRC was created by the State of Alaska legislature to own and operate the railroad and manage its rail, industrial, port, and other properties. The ARRC commenced operations on January 6, 1985. ARRC financial statements may be obtained from the Alaska Railroad Corporation, P.O. Box 107500, Anchorage, AK 99510-7500.

The **Alaska Science and Technology Foundation (ASTF)** is established as a public corporation in the Department of Community and Economic Development (AS 37.17.010). ASTF is governed and administered by a board of directors appointed by the governor. ASTF's budget is approved by the legislature. The purpose of ASTF is to promote and enhance through basic and applied research: economic development and technological innovation in Alaska, public health, telecommunication, and sustained growth and development of Alaskan scientific and engineering capabilities.

In order to support ASTF, the Alaska Science and Technology Endowment (ASTE) was established. ASTF also administered the International Trade and Business Endowment (ITBE) under AS 37.17.440. Income earned by the ITBE was appropriated to support programs for the development of international trade and business in the state. Both the ASTE and ITBE were held and invested by the Alaska Permanent Fund Corporation on behalf of the State of Alaska.

A BIDCO (AS 37.17.210) loan fund was created in ASTF in FY 95 to assist in the formation, capitalization, and operation of corporations that are licensed under AS 10.13. In accordance with statute, the BIDCO earned sufficient capitalization loan credits to retire a FY 97 loan, effective December 31, 2002.

During the legislative session held in 2003, the balance as of June 30, 2003 of the ASTE was appropriated to the general fund (Chapter 82, SLA 2003) and the balance of ITBE (Chapter 83, SLA 2003) was appropriated to the Alaska debt retirement fund. The legislation mandating these transfers for ASTE was effective on June 30, 2003 and ITBE was effective on July 1, 2003. Both endowments were fully liquidated and transferred to the respective funds in July 2003.

ASTF financial statements are included in the Combining Fund section of this CAFR with the Nonmajor Component Units since there are no separately issued financial statements for ASTF.

The **Alaska Student Loan Corporation (ASLC)** is a public corporation and government instrumentality within the Department of Education and Early Development but having a legal existence independent of and separate from the state (AS 14.42.100). ASLC is governed by a board of directors appointed by the governor. The legislature approves ASLC's budget. The purpose of ASLC is to improve higher educational opportunities for residents of the state. ASLC financial statements may be obtained from the Postsecondary Education Commission, 3030 Vintage Blvd., Juneau, AK 99801-7100.

The **University of Alaska** is established as a corporation and is an instrumentality of the state (AS 14.40.040). A board of regents appointed by the governor and confirmed by the legislature governs the university. The legislature approves the university's budget. The university is created and acts for the benefit of the state and the public in providing education in accordance with an express mandate of the constitution. The university's financial statements may be obtained from the University of Alaska, Statewide Fund Accounting, 209 Butrovich Building, P.O. Box 756540, Fairbanks, AK 99775-6540.

The **Alaska Seafood Marketing Institute (ASMI)** is a public corporation of the state (AS 16.51.010). It is an instrumentality of the state with a legal existence independent of and separate from the state. ASMI is governed by a board of directors appointed by the governor, and its budget is approved by the legislature. The purpose of ASMI is to promote all species of seafood and their by-products harvested in Alaska for sale, and to develop market-oriented quality specifications. Exercise of the powers conferred by statute to ASMI is an essential governmental function. Although ASMI has been determined to be a component unit required to be discretely presented, it is reported in the general fund within the Department of Community and Economic Development because its financial activities, which are immaterial, are currently accounted for in the state's general fund. The ASMI fiscal year 2003 budget was approximately \$11.2 million.

B. BASIC FINANCIAL STATEMENTS

The basic financial statements include government-wide financial statements and fund financial statements (as well as these notes to the financial statements). The previous financial reporting model emphasized fund types (the total of all funds of a particular type), while the new financial reporting model focus is on either the state as a whole (government-wide statements), or on major individual funds (fund financial statements). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type.

The government-wide financial statements (statement of net assets and statement of activities) report information of all nonfiduciary activities of the state and its component units. For the most part, the effect of interfund activity has been removed from these government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. Likewise, the primary government is reported separately from the component units for which the primary government is financially accountable.

The statement of net assets presents the reporting entity's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- ◆ **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- ◆ **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- ◆ **Unrestricted net assets** consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated to indicate that management does not consider them available for general operations (see note 1.F.). Unrestricted net assets often have constraints on resources that are imposed by management, but can be modified or removed.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, segment, or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the fiduciary funds are excluded from the government-wide statements. The fund financial statements are, in substance, very similar to the previous financial reporting model's financial statements. However, the new model emphasis is on major funds (of which the state has three, the general fund and the Alaska Permanent Fund, both of which are governmental funds, and the International Airports Fund, which is an enterprise fund). All nonmajor funds are summarized into a single column on the respective funds statements: governmental; proprietary, which includes enterprise and internal service fund types; and fiduciary, which includes pension (and other employee benefit) trust funds, and agency funds. The State of Alaska does not have any fiduciary private-purpose trust funds.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide financial statements are reported using the economic resource management focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available to finance operations during the current year or to liquidate liabilities existing at the end of the year (collected within 60 days of fiscal year end). Major revenues that are determined to be susceptible to accrual include federal, charges for services, investment income, and petroleum related taxes and royalties.

Expenditures are recognized when a liability is incurred. However, expenditures related to debt service, compensated absences, and claims and judgements are recorded only when payment is due and payable.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The state has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are reported as nonoperating.

When both restricted and unrestricted resources are available for use, it is the state's policy to use restricted resources first, then unrestricted resources as they are needed.

D. FINANCIAL STATEMENT PRESENTATION

The State of Alaska reports three major funds, the general fund and the Alaska Permanent Fund, both of which are governmental funds, and the International Airports Fund, which is a proprietary enterprise fund. The general fund is the state's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund. The Alaska Permanent Fund was created in 1976 to save a portion of the state's one-time oil wealth to produce income to benefit current and future generations. The International Airports Fund was created in 1961 to equip, finance, maintain and operate two international airports located in Anchorage and Fairbanks. In addition, the state reports the following fund types:

GOVERNMENTAL FUND TYPES

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital project funds account for the acquisition or construction of major capital facilities financed by bond proceeds.

Permanent funds are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizenry. In addition to the Alaska Permanent Fund (major fund), the state has one other permanent fund, the Public School Trust Fund.

PROPRIETARY FUND TYPES

Enterprise funds are used to report any activity for which a fee is charged to external users for goods and services.

Internal service funds are used to report any activity that provides goods or services primarily to other funds or agencies of the state, rather than to the general public.

FIDUCIARY FUND TYPES

Pension (and other employee benefits) trust funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, and other postemployment benefit plans.

Agency funds are used to report resources held by the state purely in a custodial capacity (assets equal liabilities).

E. FISCAL YEAR-ENDS

All funds and discretely presented component units of the State of Alaska are reported using fiscal years which end on June 30 except the Alaska Railroad Corporation and Deferred Compensation Fund fiscal years end on December 31, and the Alaska Supplemental Benefits System fiscal year ends on January 31.

F. ASSETS, LIABILITIES, AND NET ASSETS/FUND BALANCE

CASH AND INVESTMENTS, CASH AND CASH EQUIVALENTS

The amounts shown on the statements of net assets and the balance sheets as Cash and Investments represent cash on deposit in banks, petty cash, cash invested in various short-term instruments, and other investments of the state and its component units. In accordance with GASB Statement No. 31, investments are stated at fair value, which approximates market value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Fixed income securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the mid-point between the bid and asked price or at prices for securities of comparable maturity, quality, and type. The noninterest bearing investments and the Tobacco Revenue Fixed Income Investments are reported at cost, which approximates fair value.

The assets of the Non-retirement Domestic Equity Pool are comprised of shares in the Russell 3000 Index Common Trust Fund (Trust), a passively managed commingled index fund. The underlying securities in this Trust are valued each business day in good faith and pursuant to procedures established by the Trustee.

Domestic and international equity securities are valued each business day using prices obtained from a pricing service or prices quoted by one or more independent brokers. Equity securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates or, in the absence of a sale, at the last reported bid price.

Emerging markets securities are valued on the last business day of each month. Equity securities are valued using the last reported sale price on the exchange on which the securities are traded or, in the absence of a sale, at the last reported bid price. Fixed income securities are valued using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the mid-point between the bid and asked price or at prices for securities of comparable maturity, quality and type. Securities for which representative market quotations are not readily available are valued in good faith under policies approved by the commingled equity fund's board of directors.

Private equity securities are valued quarterly by the general partners and investment sponsors. The private equity oversight manager is held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments.

Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing market rates. Forward currency contracts are valued at the mid-point of representative quoted bid and asked prices.

Real estate investments are valued quarterly using public market quotations, where a quoted market exists, or by independent appraisers, and are periodically adjusted by trustees of the investments when market conditions change. Mortgage loans are valued at their principal balance (cost) less an allowance for loan loss, the net result of which approximates fair value.

The statement of cash flows for the enterprise funds shows changes in cash and cash equivalents. For the purpose of the statement of cash flows, all highly liquid debt instruments with original maturities of three months or less are considered cash

and cash equivalents. In addition, because the state's Short-term Fixed Income Pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. At June 30, 2003, the assets of the pool were comprised of money market instruments, U.S. treasuries, U.S. government agency debt, mortgage and asset-backed securities, and corporate debt.

RECEIVABLES

Receivables have been established and offset with proper provisions for estimated uncollectible accounts where applicable. The amount of noncurrent receivables is included in the fund balance reserve, which indicates they do not constitute expendable available financial resources and therefore are not available for appropriation.

Practically all accounts receivable of governmental funds are due from oil companies and governmental entities, primarily the federal government, and are considered collectible. Accounts receivable in other funds have arisen in the ordinary course of business.

INTER/INTRAFUND TRANSACTIONS

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

INVENTORIES

Inventories reported for the internal service funds and the general fund consist mainly of consumable materials and supplies. Inventories are carried at cost (average cost for Highway Equipment Working Capital; first in first out (FIFO) for other internal service funds and the general fund), and are accounted for on the consumption method. However, the majority of materials and supplies for state agencies are accounted for as expenditures at the time of purchase. Inventory of the University of Alaska is carried at the lower of cost or market.

CAPITAL ASSETS

Capital assets are reported in the Statement of Net Assets at cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the time of donation including Statehood entitlement land that is carried at an estimated value of \$1 per acre.

Capital assets are depreciated on the straight-line method over the estimated useful lives of the related assets.

Public domain infrastructure acquired beginning in FY 02, such as highways and bridges, is capitalized. By fiscal year 2006, infrastructure acquired prior to FY 02 will be inventoried and included in total infrastructure assets.

The state possesses certain capital assets that have not been capitalized and depreciated because the assets cannot be reasonably valued and/or the assets have inexhaustible useful lives. These assets include the state's art collections, library reserve collections, and museum and historical collections. These assets are: held for public exhibition, education, or research rather than financial gain; protected, kept unencumbered, cared for, and preserved; and proceeds from the sale of collection items are used to acquire other items for collections.

Additional disclosures related to capital assets are provided in Note 5.

COMPENSATED ABSENCES

Regulations governing annual/personal leave (vacation pay) provide that state employees will receive time off, or pay, for hours accumulated. Consequently, a liability exists with respect to accumulated annual/personal leave at any given time. As of June 30, 2003, this liability is recognized and reported in the government-wide and proprietary fund financial statements. The state's estimated liability for compensated absences, as reported in the statement of net assets, is \$114.0 million. A liability for compensated absences is reported in the governmental funds' statements only for the current portion of accumulated unpaid annual or personal leave, which as of June 30, 2003, is \$4.8 million. There is no liability in the accompanying financial statements for unpaid accumulated sick leave. See Note 12 for disclosure of the amount of the sick leave contingency.

The cost of compensated absences (annual/personal leave and sick leave) for state employees is charged against agency appropriations when leave is used rather than when leave is earned, except for the payment of the accumulated annual/personal leave balance for an employee terminating from state service. That amount is charged to a terminal leave liability account rather than the individual agency appropriation. This liability account is funded by a charge to each agency's operating budget.

NET ASSETS/FUND BALANCE

The difference between fund assets and liabilities is "net assets" on the government-wide, proprietary, and fiduciary fund statements, and is "fund balance" on the governmental fund statements.

FUND BALANCE RESERVES/DESIGNATIONS

The governmental fund financial statements present reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative plans for future use of financial resources.

The following shows the composition of the fund balance of the governmental funds for the fiscal year ending June 30, 2003 (in thousands).

	General	Permanent	Special Revenue	Debt Service	Capital Projects
Reserved					
Encumbrances	\$ 212,546	\$ 43	\$18,479	\$ -	\$ 18,215
Nonliquid Assets	5,161,740	-	-	-	-
Bonds	-	-	-	67,078	-
Other	26,672	24,360,657	-	-	-
Total Reserved	<u>5,400,958</u>	<u>24,360,700</u>	<u>18,479</u>	<u>67,078</u>	<u>18,215</u>
Unreserved					
Designated					
Continuing Appropriations	257,772	556	15,993	-	438,694
Other	962,976	100,000	401	-	-
Undesignated	<u>(3,071,629)</u>	<u>13,583</u>	<u>62,593</u>	<u>-</u>	<u>(88)</u>
Total Unreserved	<u>(1,850,881)</u>	<u>114,139</u>	<u>78,987</u>	<u>-</u>	<u>438,606</u>
Total Fund Balance	<u>\$3,550,077</u>	<u>\$24,474,839</u>	<u>\$97,466</u>	<u>\$67,078</u>	<u>\$456,821</u>

RESTRICTED NET ASSETS

Restricted net assets for permanent funds are required to be identified as expendable or nonexpendable. All of the Alaska Permanent Fund restricted net assets (\$24,094 million) and \$266 million of the Public School Trust Fund net assets are nonexpendable. The remaining \$14 million (five percent) of the Public School Trust Fund restricted net assets are expendable.

NOTE 2 – BUDGETING, BUDGETARY CONTROL, AND LEGAL COMPLIANCE

Once money received is deposited in the state treasury, it may not be withdrawn from the treasury except in accordance with an appropriation made by law. Those amounts received by component units are disbursed in accordance with their particular statutory authority.

The budgetary process is used to establish a balancing of estimated revenues coming into a fund with requested appropriations for that fund. Except for capital project funds, which prepare only project-length budgets, annual operating (and project-length) budgets are prepared for practically every fund and are submitted to the legislature for the enactment of appropriations. An appropriation is an authorization to spend money and to incur obligations. Each appropriation is limited as to purpose, time, and amount, and each of these limitations is legally binding. The legal level of budgetary control is maintained at the appropriation level as specified in the enabling legislation, which is generally at the program level within a department.

Appropriations as enacted by the legislature and signed by the governor are entered into the accounting records. The balance of an appropriation is reduced when funds are expended or encumbered. Appropriations are encumbered for anticipated expenditures in the form of purchase orders, contracts, and other obligations. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities. Unencumbered balances of annual appropriations lapse at the end of the fiscal year.

Expenditures of funds are made only upon properly approved requests for payment. The total of expenditures and encumbrances (obligations) may not exceed the appropriations to which they pertain. Transfers between appropriations are not authorized. Agencies faced with potential overexpenditure of appropriations must (1) reduce the rate of expenditures, (2) seek relief through supplemental appropriations, or (3) request necessary approvals to receive and expend additional funds. In order to provide sufficient funding for several programs during FY 03, supplemental appropriations of \$187.0 million were required, of which \$94.4 million were appropriations from the general fund.

The state issues a separate legal basis budgetary report, which demonstrates legal compliance with the budget. A copy of this report may be obtained by contacting the State of Alaska, Department of Administration, Division of Finance, P.O. Box 110204, Juneau, AK 99801-0204, or may be viewed online at http://fin.admin.state.ak.us/dof/financial_reports/index.jsp, the Division of Finance web page under Financial Reports.

SPENDING LIMITS

In 1982, the voters of Alaska approved an amendment to the Alaska Constitution to control state spending. Article IX, section 16, establishes an annual appropriation limit of \$2.5 billion plus adjustments for changes in population and inflation since July 1, 1981. Within this limit, one-third is reserved for capital projects and loan appropriations. For FY 03, the Office of Management and Budget estimated the limit to be approximately \$6.6 billion. The FY 03 budget passed by the legislature was \$2.5 billion (unrestricted general fund revenues only), or \$4.1 billion less than the constitutional spending limit.

CONSTITUTIONAL BUDGET RESERVE FUND

In 1990, the voters of Alaska approved an amendment to the Alaska Constitution to establish a budget reserve fund (CBRF). Article IX, section 17, states, in part, "...Except for money deposited into the permanent fund under Section 15 of this article, all money received by the State after July 1, 1990, as a result of the termination, through settlement or otherwise, of an administrative proceeding or of litigation in a State or federal court involving mineral lease bonuses, rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments or bonuses, or involving taxes imposed on mineral income, production, or property, shall be deposited in the budget reserve fund. ..."

The fund was established to enhance budget stability by depositing certain monies into the budget reserve fund (where they could not be easily spent) rather than into the general fund (where they would be readily available for appropriation for expenditure). Money may be appropriated from the fund in accordance with the provisions of section 17(b) and (c). To date, the only appropriations from the fund have been made under the provisions of section 17(c), which states "An appropriation

from the budget reserve fund may be made for any public purpose upon affirmative vote of three-fourths of the members of each house of the legislature.”

The constitution further provides that all money appropriated from the fund must be repaid to the fund. Section 17(d) states “If an appropriation is made from the budget reserve fund, until the amount appropriated is repaid, the amount of money in the general fund available for appropriation at the end of each succeeding fiscal year shall be deposited in the budget reserve fund. The legislature shall implement this subsection by law.”

The following is a schedule of amounts appropriated from the CBRF, and the amounts transferred back to the CBRF from the general fund as provided in section 17(d). As can be seen from this schedule, the amount appropriated and not yet repaid has grown to over \$5 billion. The paragraphs following the schedule provide an explanation of the entries.

Chapter 14, SLA 1994, section 7	\$ 1,006,038,474
Chapter 14, SLA 1994, section 8	49,608,135
Chapter 14, SLA 1994, section 9	368,581,990
Subtotal FY 94	<u>1,424,228,599</u>
Chapter 3, FSSLA 1994, section 39(c)	22,417,986
Chapter 3, FSSLA 1994, section 40	68,738,958
Chapter 3, FSSLA 1994, section 22(a)	11,250,000
Chapter 6, FSSLA 1994, section 1	130,300,000
Article IX, section 17(d) Alaska Constitution (FY 95)	(95,506,853)
Subtotal FY 95	<u>137,200,091</u>
Chapter 94, SLA 1995, section 43(a)	95,506,853
Chapter 94, SLA 1995, miscellaneous operating appropriation	8,356,516
Chapter 94, SLA 1995, section 43(b)	284,873,567
Article IX, section 17(d) Alaska Constitution (FY 96)	(74,352,026)
Subtotal FY 96	<u>314,384,910</u>
Chapter 94, SLA 1995, miscellaneous operating appropriation	8,316,412
Chapter 5, FSSLA 1996, section 1(a)	74,352,026
Article IX, section 17(d) Alaska Constitution (FY 97)	(166,019,445)
Subtotal FY 97	<u>(83,351,007)</u>
Chapter 98, SLA 1997, section 35(a)	166,019,445
Chapter 98, SLA 1997, page 47, line 3	529,258
Chapter 98, SLA 1997, section 35(b)	423,319,190
Article IX, section 17(d) Alaska Constitution (FY 98)	(89,264,067)
Subtotal FY 98	<u>500,603,826</u>
Chapter 139, SLA 1998, section 42(a)	89,264,067
Chapter 2, SLA 1999, section 16(c)	446,949
Chapter 27, SLA 1999, section 2(a), Y2K appropriations	2,336,290
Chapter 2, FSSLA 1999, section 21(a)	1,042,014,840
Article IX, section 17(d) Alaska Constitution (FY 99)	(94,632,453)
Subtotal FY 99	<u>1,039,429,693</u>
Chapter 2, SLA 1999, section 16(c)	13,051
Chapter 27, SLA 1999, section 2(a), Y2K appropriations	5,594,185
Chapter 84, SLA 1999, section 35(a)	94,632,453
Chapter 2, FSSLA 1999, section 21(b)	295,898,497
Chapter 8, SLA 2000, section 8(a)	3,227,666
Chapter 75, SLA 2000, section 1(b)	100,000,000
Article IX, section 17(d) Alaska Constitution (FY 00)	(111,438,806)
Subtotal FY 00	<u>387,927,046</u>

Chapter 133, SLA 2000, section 11(a)	111,438,806
Chapter 75, SLA 2000, section 1(c)	500,000
Chapter 135, SLA 2000, section 18(c)	121,672
Article IX, section 17(d) Alaska Constitution (FY 01)	<u>(115,416,319)</u>
Subtotal FY 01	<u>(3,355,841)</u>
Chapter 61, SLA 2001, section 93(a)	101,947,305
Chapter 61, SLA 2001, section 93(b)	884,311,765
Chapter 61, SLA 2001, section 93(c)	125,000
Article IX, section 17(d) Alaska Constitution (FY 02)	<u>(130,695,249)</u>
Subtotal FY 02	<u>855,688,821</u>
Chapter 1, SSSLA 2002, section 94(a)	130,695,249
Chapter 1, SSSLA 2002, section 94(b)	498,120,073
Chapter 1, SSSLA 2002, section 94(c)	121,425
Article IX, section 17(d) Alaska Constitution (FY 03)	<u>(88,755,533)</u>
Subtotal FY 03	<u>540,181,214</u>
Total appropriated from the CBRF	<u>\$ 5,112,937,352</u>

The amounts appropriated in chapter 14, SLA 1994, sections 7 and 8 are equal to the amounts appropriated from the general fund to the CBRF to comply with court orders. In FY 91 through FY 94, the state deposited revenue into the general fund that several parties contended should have been deposited into the CBRF. The Alaska Superior Court and Supreme Court agreed that these monies should have been deposited in the CBRF and the state was ordered to restore the CBRF, including interest earnings, retroactive to July 1, 1990. Chapter 14, SLA 1994, was enacted into law to comply with the courts' orders and sections 2, 3, and 4 of the law appropriated \$1,006,038,474, plus \$49,608,135 in interest which would have been earned on the money after June 30, 1990, from the general fund to the CBRF effective April 15, 1994.

Chapter 14, SLA 1994, section 9, chapter 3 FSSLA 1994, section 39(c), chapter 94 SLA 1995, section 43(b), chapter 98 SLA 1997, section 35(b), chapter 2 FSSLA 1999, section 21(a) and (b), chapter 61 SLA 2001, section 93(b), and chapter 1, SSSLA 2002, section 94(b) appropriated additional amounts from the CBRF to the general fund to fund any shortfalls between state revenue and general fund appropriations for fiscal years 1994, 1995, 1996, 1998, 1999, 2000, 2002, and 2003 respectively.

Chapter 3, FSSLA 1994, section 40, appropriated an amount to cover the share of the state's actual expenditures for oil and gas litigation from July 1, 1990, through February 15, 1994, that is attributable to the CBRF. The appropriation in section 22(a) of chapter 3 was to cover costs related to legal proceedings and audit activity involving oil and gas revenue due or paid to the state or state title to oil and gas land, for the fiscal year ending June 30, 1995.

Chapter 6, FSSLA 1994, section 1, was passed by the Alaska legislature to resolve the long-standing issue of reconstitution of the Alaska Mental Health Trust (AMHT). CBRF funds were appropriated to capitalize the AMHT.

This schedule shows the effect of article IX, section 17(d), of the Alaska Constitution, which provides that the amount of money in the general fund available for appropriation at the end of each succeeding fiscal year shall be deposited in the budget reserve fund until the amount appropriated is repaid. As of June 30, 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, and 2003, amounts in various subfunds and accounts of the general fund that were identified as available for appropriation were used to repay a part of the liability to the CBRF. The amounts for FY 95, FY 96, FY 97, FY 98, FY 99, FY 00, FY 01, and FY 02 were transferred to the CBRF during FY 96, FY 97, FY 98, FY 99, FY 00, FY 01, FY 02, and FY 03 respectively. The amount for FY 03 will be transferred to the CBRF during FY 04.

The amounts transferred under article IX, section 17(d), were appropriated back to the funds from which transferred under chapter 94, SLA 1995, section 43(a) for FY 95, chapter 5, FSSLA 1996, section 1(a) for FY 96, chapter 98, SLA 1997, section 35(a) for FY 97, chapter 139, SLA 1998, section 42(a) for FY 98, chapter 84, SLA 1999, section 35(a) for FY 99, chapter 133, SLA 2000, section 11(a) for FY 00, chapter 61, SLA 2001, section 93(a) for FY 01, and chapter 1, SSSLA 2002, section 94(a) for FY 02.

Chapter 94, SLA 1995, appropriated amounts from the CBRF to fund miscellaneous operating appropriations.

Chapter 98, SLA 1997, Page 47, line 3, chapter 2, SLA 1999, section 16(c), chapter 135, SLA 2000, section 18(c), chapter 61, SLA 2001, section 93(c) and chapter 1, SSSLA 2002, section 94(c) appropriated amounts from the CBRF for treasury management of CBRF investments in FY 98, FY 99, FY 01, FY 02, and FY 03 respectively.

Chapter 27, SLA 1999, section 2(a) appropriated funds from the CBRF for year 2000 (Y2K) assessment, compliance, and remediation projects.

Chapter 8, SLA 2000, section 8(a), repealed and reappropriated the unexpended and unobligated balances of the CBRF appropriations made in section 2(a), chapter 27, SLA 1999, page 2, line 3, page 3, line 31, page 4, line 17, and page 4, line 20, to the longevity bonus grant program.

Chapter 75, SLA 2000, section 1(b), appropriated funds from the CBRF to the power cost equalization endowment fund, which is within the Alaska Energy Authority. Chapter 75, SLA 2000, section 1(c), also appropriated funds from the CBRF to the Alaska Energy Authority to cover the costs of completing the sale of the four dam pool hydroelectric project and of establishing and managing the power cost equalization endowment fund for FY 01.

NOTE 3 – ACCOUNTING CHANGES AND BEGINNING FUND BALANCE/NET ASSETS ADJUSTMENTS

Effective for the year ended June 30, 2003, the Alaska Student Loan Corporation, a component unit of the state, changed its method of amortizing bond issuance costs from the effective interest method to the straight-line method. The cumulative effect of the change in accounting method is \$1,620,730.

The following table summarizes changes to fund balance/net assets as previously reported to beginning fund balance/net assets, as restated, as a result of reclassification of funds for the Fiscal Year Ended June 30, 2003

	June 30, 2002 As Previously Reported	Fund Reclassification	June 30, 2002 As Restated
GOVERNMENTAL FUNDS & ACTIVITIES			
General Fund	\$ 4,117,395	\$ -	\$ 4,117,395
Previously reported as Private-purpose Trust Fund:			
Memorial Education Revolving Loan	-	4,325	4,325
Alaska Veterans' Memorial Endowment	-	125	125
Total General Fund	<u>4,117,395</u>	<u>4,450</u>	<u>4,121,845</u>
FIDUCIARY FUNDS			
Private-purpose Trust Fund			
Memorial Education Revolving Loan	4,325	(4,325)	-
Alaska Veterans' Memorial Endowment	125	(125)	-
Total Private-purpose Trust Funds	<u>4,450</u>	<u>(4,450)</u>	<u>-</u>
Totals for fund reclassifications during FY 2003	<u>\$ 4,121,845</u>	<u>\$ -</u>	<u>\$ 4,121,845</u>

Other material changes displayed as prior period adjustments in the fund financial statements are listed below.

- \$1,473 increase to the general fund reflects cash proceeds of Certificates of Participation that were not reported in the financial statements for previous years.
- \$11,139 decrease to the general fund removes federal revenues that were previously reported, but are not available to meet current obligations. This adjustment is not made to the government-wide financial statements, which are reported on an accrual basis.

- \$10,647 decrease to nonmajor enterprise funds is to correct treatment of deferred interest in the Fisheries Enhancement Revolving Loan Fund.
- \$6,686 decrease to internal service funds is to correct the building valuations in the Alaska Public Building Fund and correct other miscellaneous errors in that fund, the Information Services Fund, and the Highway Equipment Working Capital Fund.

Additional prior period adjustments affecting the government-wide financial statements are listed below:

- \$8,917 decrease to capital assets to correct the amount reported for buildings, software development, and other construction in progress.
- \$33,620 decrease to claims and judgements to comply with GASB Statement Number 10, which requires public entities to use “expected” amounts to value liabilities for the financial statements.

A prior period adjustment affected the beginning cash balance on the Combining Statement of Cash Flows for enterprise funds. Prior to fiscal year 2003, the Alaska Clean Water and Alaska Drinking Water netted Warrants Outstanding against

Cash and Investments for their Statement of Net Assets. In fiscal year 2003, these accounts are reported separately as a liability and an asset. As a result, the Cash and Equivalents at the beginning of the year on the Statements of Cash Flows, Alaska Drinking Water's Cash and Equivalents-Beginning of Year is \$302 thousand higher than that stated at the end of last year, and Alaska Drinking Water's is \$90 thousand higher.

NOTE 4 – DEPOSITS AND INVESTMENTS

GASB Statement No. 3 requires disclosure regarding custodial credit risk to indicate the chance of loss in the event a financial institution or third party holding the deposits or securities fails. Deposits are classified into three categories of credit risk: Category 1 – Insured or collateralized with securities held by the State or its custodian in the State's name; Category 2 – Collateralized with securities held by the counterparty's trust department (if a bank) or agent in the State's name; and Category 3 – Uncollateralized. Investments represented by specific, identifiable securities are classified into three categories of credit risk: Category 1 - Insured or registered, or securities held by the State or its custodian in the State's name; Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department (if a bank) or agent in the State's name; and Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department (if a bank) or agent, but not in the State's name. Category 1 is the highest level of safekeeping as defined by GASB for both deposits and investments.

A. DEPOSITS AND INVESTMENTS UNDER THE CONTROL OF THE COMMISSIONER OF REVENUE

By law, all deposits and investments are under the control of the Commissioner of the Department of Revenue (Commissioner) except where the legislature has delegated that responsibility to other entities or boards responsible for separate subdivisions or component units of the State. Those agencies and component units that manage their own cash and investments are: Alaska Permanent Fund Corporation, Alaska Energy Authority, Alaska Housing Finance Corporation, Alaska Industrial Development and Export Authority, Alaska Municipal Bond Bank Authority, Alaska Railroad Corporation, Alaska Mental Health Trust Authority, Alaska Science and Technology Foundation, Alaska Student Loan Corporation, Alaska State Pension Investment Board, Exxon Valdez Oil Spill Trustee Council, and the University of Alaska.

Invested assets under the fiduciary responsibility of the Commissioner are comprised of the General Fund and Other Nonsegregated Investments, Constitutional Budget Reserve Fund, International Airports Fund, Retiree Health Fund, Power Cost Equalization Endowment Fund, General Obligation Bond Fund as well as the Public School, Alaska Children's, Investment Loss, and Supplemental Benefits System (SBS) trust funds (all collectively, Funds).

As the fiduciary, the Commissioner has the statutory authority (AS 37.10.070 - 37.10.071) to invest the assets under the Prudent Investor Rule which requires that investments shall be made with the judgement and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion, and intelligence exercises in managing large investment portfolios.

With the exception of tobacco revenue investments, investments are managed in a pooled environment. Actual investing is performed by investment officers in the Department of Revenue, Treasury Division or by contracted external investment managers. External management companies manage international equities, domestic equities and some domestic fixed income. Treasury Division staff act as oversight manager for all externally managed investments. The Short-term Fixed Income Pool, Intermediate-term Fixed Income Pool and the Broad Market Fixed Income Pool are internally managed. Information related to the various pools and investments is disclosed in the financial schedules issued by the Department of Revenue, Treasury Division.

Investments are recorded at fair value as defined by GASB Statement No. 31, except for tobacco revenue fixed income investments, which are valued at their principal balance (cost) which approximates fair value.

Certain types of investments are not subject to the custodial credit risk disclosure requirements in GASB Statement No. 3. The Non-retirement Domestic Fixed Income Pool and the Non-retirement Domestic Equity Pool cannot be categorized because the amounts reported represent interests in open-ended mutual fund-like pools rather than ownership of specific, identifiable securities. The Government Short-term Investment Fund is an institutional investment fund and, as such, cannot be categorized because the amounts reported represent interests in the fund rather than ownership of specific, identifiable

securities. The tobacco revenue fixed income investments are not transferable financial instruments (securities) and therefore cannot be categorized with regard to credit risk.

Trade date accounting is used for investment activity. Unsettled purchase transactions do not present credit risk as the State and its custodian do not hold a deposit or margin account against unsettled purchases. Unsettled purchases and unsettled sale transactions related to mortgage-backed security pools yet to be announced do not present custodial risk because the State has not taken possession of specific securities. These unsettled investment transactions cannot be categorized.

Deposits and investments at June 30, 2003, are summarized as follows (in thousands):

<u>Deposits</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value</u>
Noninterest bearing	\$ 18,484	\$ -	\$ 6,960	\$ 25,444
Interest bearing	-	-	34,219	34,219
Total deposits	<u>\$ 18,484</u>	<u>\$ -</u>	<u>\$ 41,179</u>	<u>\$ 59,663</u>
<u>Investments</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value</u>
Cash equivalents:				
U.S. Government	\$ 167,529	\$ -	\$ -	\$ 167,529
Federal agency debt	104,860	-	-	104,860
Commercial paper	532,187	-	-	532,187
Marketable debt securities:				
U.S. Government and municipal debt	786,068	-	-	786,068
Federal agency debt	243,047	-	-	243,047
Corporate debt	1,188,429	-	-	1,188,429
Yankees	70,888	-	-	70,888
Asset backed securities	652,981	-	-	652,981
Mortgage backed securities	690,654	-	-	690,654
Equity securities:				
International equities – common stock	123,877	-	-	123,877
Total categorized investments	<u>\$ 4,560,520</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,560,520</u>
Not categorized:				
Nonretirement Domestic Fixed Income Pool				\$ 11,271
Nonretirement Domestic Equity Pool				452,983
Government Short-term Investment Fund				2,493
Tobacco Revenue Fixed income				59,493
Unsettled investment transactions				223
Interest and dividends receivable				27,317
Total not categorized				<u>553,780</u>
Investments under the control of others:				
Alaska State Pension Investment Board				(331,280)
Exxon Valdez Oil Spill Trustee Council				(157,991)
University of Alaska				<u>(36,370)</u>
Deposits and Investments under the control of the Commissioner of Revenue				<u>\$ 4,648,322</u>

Additional investment information may be obtained from the Department of Revenue, Treasury Division, P.O. Box 110405, Juneau, Alaska 99811-0405.

Securities Lending

Alaska Statute 37.10.071 authorizes the Commissioner to lend assets, under an agreement and for a fee, against deposited collateral of equivalent market value. In January 2001, the Commissioner entered into an agreement with State Street Corporation (the Bank) to lend fixed income and equity securities. The Bank, acting as the Commissioner's agent under the agreement, transfers securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

At June 30, 2003, the fair value of securities on loan totaled \$665,654,865 which is attributable on a pro rata basis to the funds whose assets are under the fiduciary responsibility of the Commissioner. There is no limit to the amount that can be loaned and the Commissioner is able to sell securities on loan. International equity security loans are fully collateralized at not less than 105 percent of their fair value. All other security loans are fully collateralized at not less than 102 percent of their fair value. The Bank invests the collateral in a commingled investment pool; maturities of these investments generally did not match the maturities of the loaned securities because the lending agreements are terminable at will. The Bank may pledge or sell collateral upon borrower default. Since the Commissioner does not have the ability to pledge or sell the collateral unless the borrower defaults, no assets or liabilities are recorded on the financial statements. There is limited credit risk associated with the lending transactions since the Commissioner is indemnified by the Bank against any loss resulting from counterparty failure or default on a loaned security subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank. The Bank and the borrower receive a fee from earnings on invested collateral.

For the year ended June 30, 2003, there were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities.

Foreign Exchange Contracts and Off-Balance Sheet Risk

The SOA International Equity Pool includes foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions in these currencies. The maturity period for the contract outstanding at June 30, 2003, was five days.

At June 30, 2003, the Fund had a sale contract outstanding totaling \$10,183. The fair value of this contract, using the forward rate at June 30, 2003, was \$10,265. This resulted in a net unrealized gain of \$82 at June 30, 2003.

The counterparty to the foreign currency forward contract consisted of a single brokerage firm. Credit risk exposure exists to the extent of non-performance by this counterparty; however, the risk of default is considered to be remote. The market risk is limited to the difference between contractual rates and forward rates at the balance sheet date.

B. DEPOSITS AND INVESTMENTS UNDER CONTROL OF THE ALASKA STATE PENSION INVESTMENT BOARD

Invested assets of the pension (and other employee benefit) trust funds (Public Employees', Teachers', Judicial, and the Alaska National Guard and Naval Militia Retirement Systems) as well as the Supplemental Benefits System and Deferred Compensation Plans are under the fiduciary responsibility of the Alaska State Pension Investment Board (ASPIB).

PENSION FUNDS

ASPIB has statutory responsibility for the pension (and other employee benefit) trust funds' investments. As the fiduciary, ASPIB has the statutory authority to invest the assets under the Prudent Investor Rule. Alaska Statute provides that investments shall be made with the judgement and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion, and intelligence exercises in managing large investment portfolios.

Investments are managed in a pooled environment. Actual investing is performed by investment officers in the Department of Revenue, Treasury Division or by contracted external investment managers. External management companies manage the External Domestic Fixed Income Pool, International Fixed Income Pool, Domestic Equity Pool, International Equity Pool, emerging Markets Equity Pool, Real Estate Pool, and Private Equity Pool investments. In addition to acting as oversight

manager for all externally managed investments, Treasury Division staff manage the Alaska Retirement Fixed Income Investment Pool, all mortgage-related assets and cash holdings of certain external domestic equity managers. Information related to the various pools and investments is disclosed in the financial schedules issued by the Department of Revenue, Treasury Division.

Investments are recorded at fair value as defined by GASB Statement No. 31, except for mortgage-related assets, which are valued at their principal balance (cost) less an allowance for loan loss, the result of which approximates fair value.

Certain types of investments are not subject to the custodial credit risk disclosure requirements in GASB Statement No. 3. The Short-term Fixed Income Pool contains assets of other participants outside the control of ASPIB and, as such, cannot be categorized because the amounts reported represent interests in the pool rather than ownership of specific, identifiable securities. The Government Short-term Investment Fund is an institutional investment pool and, as such, cannot be categorized because the amounts reported represent interests in the fund rather than ownership of specific, identifiable securities. The private equity, real estate and mortgage related assets are not transferable financial instruments and therefore cannot be categorized with regard to custodial credit risk.

Trade date accounting is used for investment activity. Unsettled purchase transactions do not present credit risk as ASPIB and its custodian do not hold a deposit or margin account against unsettled purchases. Unsettled purchase and unsettled sale transactions related to mortgage-backed security pools yet to be announced do not present custodial risk because ASPIB has not taken possession of specific securities. These unsettled investment transactions cannot be categorized.

Deposits and investments at June 30, 2003 are summarized as follows (in thousands):

<u>Deposits</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value</u>
Interest bearing	\$ -	\$ -	\$ 22,067	\$ 22,067
<u>Investments</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value</u>
Cash equivalents:				
U.S. Government	\$ 160,260	\$ -	\$ -	\$ 160,260
Federal agency debt	206,893	-	-	206,893
Marketable debt securities:				
U.S. Government and municipal debt	386,454	-	-	386,454
Federal agency debt	180,346	-	-	180,346
Corporate debt	817,736	-	-	817,736
Yankees	34,122	-	-	34,122
Convertible bonds	5,587	-	-	5,587
Asset backed securities	147,903	-	-	147,903
Mortgage backed securities	997,573	-	-	997,573
International fixed income - government	309,236	-	-	309,236
International fixed income - corporate	88,990	-	-	88,990
Equity securities:				
Domestic equities - common	4,397,778	-	-	4,397,778
Domestic equities - preferred	730	-	-	730
Emerging market equities	-	114,661	-	114,661
International equities - common	1,688,123	-	-	1,688,123
Total categorized investments	<u>\$ 9,421,731</u>	<u>\$ 114,661</u>	<u>\$ -</u>	<u>\$ 9,536,392</u>
Not categorized				
Short-term Fixed Income Pool				331,280
Government Short-term Investment Fund				26,765
Private equity				321,021
Real estate equity				773,664
Mortgage-related assets				215
Unsettled investment transactions				10,175
Interest and dividends receivable				43,179
Total not categorized				<u>1,506,299</u>
Total investments				<u>11,042,691</u>
Total deposits and investments				<u>\$ 11,064,758</u>

Additional investment information may be obtained from the Department of Revenue, Treasury Division, P.O. Box 110405, Juneau, AK 99811-0405.

Participant's Ownership in Pooled Investments

Public Employees' Trust Fund	\$ 7,389,406
Teachers' Trust Fund	3,599,112
Judicial Trust Fund	63,508
Alaska National Guard and Alaska Naval Militia Retirement Fund	12,732
Total	<u>\$ 11,064,758</u>

Securities Lending

Alaska Statute 37.10.071 authorizes the ASPIB to lend assets, under an agreement and for a fee, against deposited collateral of equivalent market value. In January 2001, the ASPIB entered into an agreement with State Street Corporation (the Bank) to lend fixed income, domestic equity and international equity securities. The Bank, acting as the ASPIB's agent under the agreement, transfers securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

At June 30, 2003 the fair value of securities on loan allocable to the Pension Funds Invested Assets totaled \$935,479,000. There is no limit to the amount that can be loaned and the ASPIB is able to sell securities on loan. International equity security loans are fully collateralized at not less than 105 percent of their fair value. All other security loans are fully collateralized at not less than 102 percent of their fair value. The Bank invests the collateral in a commingled investment pool; maturities of these investments generally did not match the maturities of the loaned securities because the lending agreements are terminable at will. The Bank may pledge or sell collateral upon borrower default. Since ASPIB does not have the ability to pledge or sell the collateral unless the borrower defaults, no assets or liabilities are recorded on the financial statements. There is limited credit risk associated with the lending transactions since the ASPIB is indemnified by the Bank against any loss resulting from counterparty failure or default on a loaned security subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank. The Bank and the borrower receive a fee from earnings on invested collateral.

For the year ended June 30, 2003 there were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities.

Foreign Exchange Contracts and Off-Balance Sheet Risk

The International Equity Pool includes foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions. The maturity periods for these contracts range from one to three months. The Fund had net unrealized gains with respect to such contracts, calculated using forward rates at June 30, as follows:

Net contract sales	\$ 1,443,000
Less: fair value	1,424,491
Net unrealized gains on contracts	<u>\$ 18,509</u>

The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. Credit risk exposure exists to the extent of non-performance by these counterparties; however, the risk of default is considered to be remote. The market risk is limited to the difference between contractual rates and forward rates at the balance sheet date.

Commitments and Contingencies

The Board entered into agreements through external investment managers to provide capital funding for limited and general partnerships as it continues to build a private equity portfolio. At June 30, 2003, the Pension Funds had unfunded commitments totaled \$395,082,860 to be paid through the year 2008.

DEFERRED COMPENSATION

The State's Internal Revenue Code Section 457 deferred compensation plan holds investments in an Interest Income Fund and several collective investment funds: the International Equity Fund, Citizens Core Growth Fund, Small Cap Stock Fund, S&P 500 Index Fund, Tactical Asset Allocation Fund, Global Balanced Fund, Government/Credit Bond Fund, and the Intermediate Bond Fund. As of December 31, 2002, deferred compensation plan investments totaled \$346.9 million.

The Interest Income Fund is increased by contributions and earnings, and decreased by investment expenses and participant withdrawals paid to terminated members. The Interest Income Fund holds fully benefit responsive investment contracts (\$113.1 million) and shares in the Short-term Investment Fund (\$6.7 million) comprised of cash and cash equivalents. The investment contracts are stated at contract values, which approximate fair value. The investment contracts cannot be categorized into one of the three risk categories because they do not represent transferable financial instruments. Residual cash is held by the custodian in the Short-term Investment Fund in the State's name. Assets in the Short-term Investment Fund are comprised of short-term debt instruments with maturities not to exceed 13 months and are valued at fair value. The Short-term Investment Fund is a commingled investment fund and, as such, cannot be categorized into one of the three risk

categories because the amounts reported represent interests in the fund rather than ownership of specific, identifiable securities.

Investments in collective investment funds (\$227.1 million), held in trust, are stated at fair value based on the unit value as reported by the trustees multiplied by the number of units held. The unit value is determined by the trustees based on the fair

market value of the underlying assets. Purchases and sales of assets within the collective investment funds are recorded on a trade-date basis. Investments in collective investment funds cannot be categorized into one of the three risk categories because they represent interests (shares) in funds rather than ownership of specific, identifiable securities.

SUPPLEMENTAL BENEFITS SYSTEM

Supplemental Benefits System (SBS) holds shares in the following participant-directed investment options: Alaska Balanced Fund, Alaska Target 2005 Fund, Alaska Target 2010 Fund, Alaska Target 2015 Fund, Alaska Target 2020 Fund, Long Term Balanced Fund, Small Cap Stock Trust Fund, International Equity Fund, S&P 500 Stock Index Fund, Tactical Asset Allocation Fund, Global Balanced Fund, Daily Government/Corporate Bond Fund, Citizens Core Growth Fund, and the Short-term Investment Fund. SBS also holds shares in the State’s internally managed Short-term Fixed Income Pool. At January 31, 2003, SBS investments totaled \$1.57 billion (fair value). All assets are held in trust.

SBS investments in the Alaska Balanced Fund, Long Term Balanced Fund and the four Target 2000-series investment options are formed through combinations of six wholly-owned pooled investment funds: the GNMA (fixed income) Pool, Government/Corporate (fixed income) Pool, Cash Pool, Large Cap Equity Pool, Small Cap Equity Pool, and the International Equity Pool. Purchases and sales of underlying securities within the six investment pools are recorded on a trade-date basis, and all assets are recorded at fair value. The state’s custodian bank holds the underlying securities in the state’s name. Each pool’s residual cash is held in the Short-term Investment Fund, a commingled investment fund.

SBS investments in the S&P 500 Stock Index Fund, Tactical Asset Allocation Fund, Global Balanced Fund, Daily Government/Corporate Bond Fund, Short-term Investment Fund, Citizens Core Growth Fund, Small Cap Stock Trust Fund, and the International Equity Fund are represented by shares in collective investment funds. All assets are stated at fair value based on the unit value as reported by the trustees multiplied by the number of units held by each of the respective collective investment funds. Unit value is determined by the trustees based on the fair value of the underlying assets. Purchases and sales of units are recorded on a trade-date basis.

Cash and cash equivalents consist of holdings in an institutional Short-term Investment Fund that cannot be categorized because it represents an interest (shares) in a fund rather than ownership of specific, identifiable securities. The collective investment funds cannot be categorized as they represent interests in funds rather than ownership of specific securities.

Investments at January 31, 2003, are summarized as follows (in thousands):

<u>Investments</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value</u>
Pooled investment funds	\$ 1,058,133	\$ -	\$ -	\$ 1,058,133
Not categorized				
Cash and cash equivalents				50,160
Collective investment funds				461,485
Total				<u>\$ 1,569,778</u>

Additional investment information is disclosed in the financial statements issued by the State’s Supplemental Benefits System.

C. DEPOSITS AND INVESTMENTS MAINTAINED BY COMPONENT UNITS WHOSE ACCOUNTS ARE OUTSIDE OF THE STATE TREASURY

ALASKA PERMANENT FUND CORPORATION

Alaska Permanent Fund Corporation deposits and investments subject to classification according GASB Statement No. 3 are within risk category 1, the lowest risk category. The deposits and investments not subject to classification include cash and money market funds, non-domestic equity emerging markets fund, real estate equity investments, and mortgages and property notes receivable.

CASH AND TEMPORARY INVESTMENTS

All cash and temporary investments bear interest at competitive rates, and are summarized as follows at June 30, 2003 (in thousands):

Cash (a)	\$ 106,720
U.S. agencies (b)	104,067
Treasury bills (b)	11,026
Commercial paper (c)	415,939
Total	<u>\$ 637,752</u>

- (a) Share ownership in a money market fund, payable on demand. Collateralized by underlying securities held by the money market fund in the name of the custodian.
- (b) Debt obligation guaranteed by the U.S. government held by the custodian in the name of the Fund.
- (c) Commercial paper rated investment grade, held by the custodian in the name of the Fund.

MARKETABLE DEBT SECURITIES

The Corporation is authorized by statute to invest Fund assets in (i) corporate bonds rated investment grade, (ii) obligations of the U.S. Treasury, its agencies and instrumentalities, and (iii) foreign obligations of comparable quality. All marketable debt securities are held by custodian banks in the name of the Fund. Marketable debt securities at June 30, 2003, are summarized as follows (in thousands):

	Cost	Market	Unrealized Gains/(Losses)
Treasury notes/bonds	\$ 3,349,451	\$ 3,405,231	\$ 55,780
Mortgage-backed securities	1,974,779	2,032,847	58,068
Other federal agencies	264,219	294,994	30,775
Corporate bonds	2,067,496	2,261,038	193,542
Nondomestic bonds	1,003,793	1,088,047	84,254
Total	<u>\$ 8,659,738</u>	<u>\$ 9,082,157</u>	<u>\$ 422,419</u>

PREFERRED AND COMMON STOCK

The Corporation is authorized by statute to invest Fund assets in the preferred and common stock of United States and nondomestic corporations. All preferred and common stock investments are held by custodian banks in the name of the Fund.

The Corporation may invest Fund assets in (i) equity securities up to 55 percent of total Fund investments, and (ii) other investments, which meet the test of prudence, including those currently authorized by law, up to 5 percent of total Fund investments.

Preferred and common stock at June 30, 2003, are summarized as follows (in thousands):

	Cost	Market	Unrealized Gains/(Losses)
Domestic	\$ 8,348,089	\$ 9,000,820	\$ 652,731
Nondomestic bonds	3,850,868	3,749,469	(101,399)
Total	<u>\$ 12,198,957</u>	<u>\$ 12,750,289</u>	<u>\$ 551,332</u>

ALASKA CERTIFICATES OF DEPOSIT

The Corporation is authorized by statute to invest Fund assets in certificates of deposit or the equivalent instruments of banks, savings and loan associations, mutual savings banks, and credit unions doing business in Alaska. Collateral, primarily in the form of letters of credit from the Federal Home Loan Bank or U.S. government securities, secure these investments.

REAL ESTATE

The Corporation is authorized by statute to invest Fund assets in real estate improved by substantially rented buildings located in the United States. Real estate investments may take the form of direct equity interests, real estate title-holding entities, real estate investment trusts, real estate operating companies, or other entities whose assets consist primarily of real property, debt obligations secured by real property, or similar entities. The Fund invests in direct real estate through its ownership of interests in corporations, limited liability companies and partnerships that own title to the real estate.

All real estate investments are held by the Corporation in its own name on behalf of the Fund, and are managed by professional real estate management firms. Real estate investment trusts and commercial mortgage-backed securities are held by custodian banks in the name of the Fund.

During the fiscal year ended June 30, 2003, the Corporation analyzed its real estate investments for permanent impairment. This review indicated that three assets were impaired, and consequently the carrying values of these assets were written down to their market values. The total charge to the asset carrying value and operating income was \$63,799,000. The statement of revenues, expenditures and changes in fund balances includes this amount in the net increase (decrease) in the fair value of investments – real estate.

The carrying value of real estate at June 30, 2003, was \$2,057,104,000. Direct real estate investments, commingled funds, property notes receivable, and commercial and residential mortgages are recorded in the financial statements using the equity method, which consists of the asset's historical cost plus the Fund's share of undistributed earnings from the asset. Real estate investment trusts and commercial mortgage-backed securities are recorded in the financial statements at their market value.

In the ordinary course of business, the Corporation has made commitments related to real estate investments. In the opinion of management, meeting these commitments will not have a material adverse effect on the Corporation's financial position, results of operation, or liquidity.

Real estate investments at June 30, 2003, are summarized as follows (in thousands):

	Cost/Equity Value	Market Value	Unrealized Gains/(Losses)	Carrying Value
Commingled funds	\$ 436	\$ 1,091	\$ 655	\$ 436
Real estate investment trusts	616,894	742,344	125,450	742,344
Alaska residential mortgages	96	96	-	96
Property note receivable	3,198	3,198	-	3,198
Direct investments:				
Retail	346,491	370,840	24,349	346,491
Office	491,042	520,574	29,532	491,042
Industrial	158,299	174,214	15,915	158,299
Residential	315,198	348,605	33,407	315,198
Total	<u>\$ 1,931,654</u>	<u>\$ 2,160,962</u>	<u>\$ 229,308</u>	<u>\$ 2,057,104</u>

NORTHERN TOBACCO SECURITIZATION CORPORATION

Bank investments agreements and other investments are categorized below (in thousands):

<u>INVESTMENTS</u>	Category 1	Category 2	Category 3	Fair Value
Bank investment agreements	\$ -	\$ -	\$ 17,785	\$ 17,785
U.S. agency securities	11,089	-	-	11,089
Total categorized investments	<u>\$ 11,089</u>	<u>\$ -</u>	<u>\$ 17,785</u>	28,874
Not Categorized:				
Money market funds				313
Total				<u>\$ 29,187</u>

DISCRETELY PRESENTED COMPONENT UNITS

At June 30, 2003, the discretely presented component units' investments by risk category were (in thousands):

<u>INVESTMENTS</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value</u>
U.S. Treasury securities	\$ 289,423	\$ 26,399	\$ -	\$ 315,822
U.S. Government agency securities	407,624	112,959	-	520,583
Corporate securities	538,978	316,587	258,060	1,113,625
Total categorized investments	<u>\$ 1,236,025</u>	<u>\$ 455,945</u>	<u>\$ 258,060</u>	\$ 1,950,030
Not categorized				
Equity in State treasury				242,084
Equity in Permanent Fund Corporation investments				416,240
Other				561,460
Total				<u>\$ 3,169,814</u>

NOTE 5 – CAPITAL ASSETS

PRIMARY GOVERNMENT

Capital assets, which include property, plant, equipment, and infrastructure items (highways, bridges, and similar items) are reported in the applicable governmental and business-type activity columns of the government-wide financial statements.

Capitalization policy and useful lives for capital assets are as follows:

<u>Capital Asset</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Capitalize at Value</u>	<u>Useful Life</u>	<u>Capitalize at Value</u>	<u>Useful Life</u>
Land	All	Indefinite	All	Indefinite
Infrastructure	\$1,000,000	15-75	\$100,000	5-40
Buildings	\$1,000,000	50	\$100,000	10-40
Equipment/software	\$100,000	3-60	\$5,000	5-10

State of Alaska art, library reserve, and museum collections that are considered inexhaustible, in that their value does not diminish over time, are not capitalized. These assets are: held for public exhibition, education, or research rather than financial gain; protected, kept unencumbered, cared for, and preserved; and proceeds from the sale of collection items are used to acquire other items for collections.

Capital asset activities for the fiscal year ended June 30, 2003, were as follows (in millions).

<u>Governmental Activities</u>	<u>Beginning Balance (restated)</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 649	\$ 11	\$ (1)	\$ 659
Construction in progress	1,914	385	(157)	2,142
Total capital assets not being depreciated	<u>2,563</u>	<u>396</u>	<u>(158)</u>	<u>2,801</u>
Capital assets being depreciated:				
Buildings	1,045	115	(42)	1,118
Equipment	544	38	(12)	570
Infrastructure	249	127	(2)	374
Total Capital assets being depreciated	<u>1,838</u>	<u>280</u>	<u>(56)</u>	<u>2,062</u>
Less accumulated depreciation for:				
Buildings	(395)	(20)	-	(415)
Equipment	(272)	(26)	8	(290)
Infrastructure	(17)	(25)	-	(42)
Total accumulated depreciation	<u>(684)</u>	<u>(71)</u>	<u>8</u>	<u>(747)</u>
Total capital assets being depreciated, net	<u>1,154</u>	<u>209</u>	<u>(48)</u>	<u>1,315</u>
Capital assets, net	<u>\$ 3,717</u>	<u>\$ 605</u>	<u>\$ (206)</u>	<u>\$ 4,116</u>

For some internal service funds, see note 3 for additional information on restated beginning balances due to prior period adjustments.

Business-type Activities	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 28	\$ 1	\$ -	\$ 29
Construction in progress	89	61	-	150
Total capital assets not being depreciated	<u>117</u>	<u>62</u>	<u>-</u>	<u>179</u>
Capital assets being depreciated:				
Buildings	288	10	-	298
Equipment	40	3	-	43
Infrastructure	332	49	-	381
Total Capital assets being depreciated	<u>660</u>	<u>62</u>	<u>-</u>	<u>722</u>
Less accumulated depreciation for:				
Buildings	(99)	(8)	-	(107)
Equipment	(27)	(2)	-	(29)
Infrastructure	(178)	(11)	-	(189)
Total accumulated depreciation	<u>(304)</u>	<u>(21)</u>	<u>-</u>	<u>(325)</u>
Total capital assets being depreciated, net	<u>356</u>	<u>41</u>	<u>-</u>	<u>397</u>
Capital assets, net	<u>\$ 473</u>	<u>\$ 103</u>	<u>\$ -</u>	<u>\$ 576</u>

The following relates to the land owned by the state:

- ◆ The total state entitlement amounts to approximately 105.7 million acres, 102.5 million of which was received through the Statehood Act. In accordance with the Alaska Statehood Act section 6(g), Alaska Native Claims Settlement Act, and the Alaska National Interest Lands Conservation Act, section 906(c), 90.1 million acres have been patented or “tentatively approved.”
- ◆ The state disposes of various land parcels through several programs. However, the state generally retains the subsurface rights of the land upon disposal.

Depreciation expense was charged to the functions of the primary government as follows (in millions):

Governmental Activities	<u>Amount</u>
General Government	\$ 2
Education	6
Health and Human Services	3
Law and Justice	3
Natural Resources	1
Public Protection	4
Transportation	34
Depreciation on capital assets held by the state's internal service funds is charged to the various functions based on their use of the assets.	<u>15</u>
Total Depreciation Expense – Governmental Activities	<u>\$ 68</u>
Business-type Activities	
Enterprise	<u>\$ 21</u>

DISCRETELY PRESENTED COMPONENT UNITS

The estimated useful lives of capital assets range from 4 to 50 years. The following table summarizes net capital assets reported by the discretely presented component units at June 30, 2003 (in millions):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 57	\$ 2	\$ -	\$ 59
Library, media, and museum collections	46	2	-	48
Construction in progress	180	163	(45)	298
Infrastructure	9	24	(1)	32
Total capital assets not being depreciated	<u>292</u>	<u>191</u>	<u>(46)</u>	<u>437</u>
Capital assets being depreciated:				
Buildings	879	46	-	925
Equipment	286	29	(10)	305
Infrastructure	668	2	(2)	668
Total Capital assets being depreciated	<u>1,833</u>	<u>77</u>	<u>(12)</u>	<u>1,898</u>
Less accumulated depreciation for:				
Buildings	(340)	(48)	-	(388)
Equipment	(151)	(24)	9	(166)
Infrastructure	(208)	(20)	-	(228)
Total accumulated depreciation	<u>(699)</u>	<u>(92)</u>	<u>9</u>	<u>(782)</u>
Total capital assets being depreciated, net	<u>1,134</u>	<u>(15)</u>	<u>(3)</u>	<u>1,116</u>
Capital assets, net	<u>\$ 1,426</u>	<u>\$ 176</u>	<u>\$ (49)</u>	<u>\$ 1,553</u>

Capital assets for the Alaska Industrial Development and Export Authority (\$84.6 million), which are included in the table above as infrastructure, are reported as investments in projects, partnerships, or corporations in the Statement of Net Assets. Also, University of Alaska art, library, and museum collections, which are capitalized but not depreciated, are reported in the

statement of net assets as equipment. These assets are: held for public exhibition, education, or research rather than financial gain; protected, kept unencumbered, cared for, and preserved; and proceeds from the sale of collection items are used to acquire other items for collections.

NOTE 6 – BONDS PAYABLE AND OTHER LONG-TERM OBLIGATIONS

A. SUMMARY OF CHANGES

The following table summarizes changes in long-term liabilities for the fiscal year ended June 30, 2003 (in thousands):

Governmental Activities	Beginning Balance (restated)	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Revenue bonds payable	\$ 232,863	\$ 231	\$ 8,495	\$ 224,599	\$ -
General obligation debt	-	501,245	1,704	499,541	6,814
Notes payable	18,728	-	13,995	4,733	1,317
Capital leases payable	261,280	57,521	46,328	272,473	33,959
Unearned & deferred revenue	86,414	165,357	72,466	179,305	169,652
Certificates of participation	16,000	-	-	16,000	-
Compensated Absences	108,424	104,727	99,127	114,024	114,024
Claims and judgements	81,933	34,252	32,277	83,908	29,332
Other noncurrent liabilities	3,318	3,004	2,999	3,323	2,980
Total	<u>\$ 808,960</u>	<u>\$ 866,337</u>	<u>\$ 277,391</u>	<u>\$ 1,397,906</u>	<u>\$ 358,078</u>

Business-type Activities	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Revenue Bonds Payable	\$ 362,374	\$ -	\$ 5,864	\$ 356,510	\$ 6,580
Unearned & deferred revenue	3,829	58	-	3,887	3,887
Other noncurrent liabilities	25	5,453	5	5,473	5,319
Total	<u>\$ 366,228</u>	<u>\$ 5,511</u>	<u>\$ 5,869</u>	<u>\$ 365,870</u>	<u>\$ 15,786</u>

B. GENERAL OBLIGATION BONDS, NORTHERN TOBACCO SECURITIZATION REVENUE BONDS, AND INTERNATIONAL AIRPORTS REVENUE BONDS

GENERAL OBLIGATION BONDS

The full faith, credit, and resources of the state are pledged to secure payment of general obligation bonds. As of June 30, 2003, the following were the general obligation bond debt outstanding (in millions):

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ -	\$ 19.4	\$ 19.4
2005	23.6	22.9	46.5
2006	24.1	21.5	45.6
2007	24.7	20.3	45.0
2008	25.4	19.0	44.4
2009-2013	141.0	73.8	214.8
2014-2018	119.4	38.6	158.0
2019-2023	86.3	13.3	99.6
2024	17.4	0.4	17.8
Total debt service requirements	461.9	<u>\$ 229.2</u>	<u>\$ 691.1</u>
Unamortized bond premium	37.6		
Total principal outstanding	<u>\$ 499.5</u>		

The legislature authorized the issuance of general obligation bonds within chapter 114, SLA 2002 and chapter 2, SSSLA 2002 for a total of \$463,524,941. As of the end of FY 2003, \$461,935,000 had been issued, leaving a remaining authorization of \$1,589,941.

NORTHERN TOBACCO SECURITIZATION CORPORATION BONDS

The Northern Tobacco Securitization Corporation (NTSC) bonds were issued to purchase Tobacco Settlement Revenues (TSRs) from the State of Alaska. These revenue bonds are secured by and payable solely from the TSRs and investment earnings pledged under the Bond Indenture. Neither Alaska Housing Finance Corporation nor the State of Alaska is liable for any debt issued by NTSC. This debt is reported in the Governmental Activities column of the Government-wide Statement of Net Assets. Debt service requirements for NTSC are (in millions):

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ -	\$ 12.9	\$ 12.9
2005	-	12.9	12.9
2006	\$ -	\$ 12.9	\$ 12.9
2007	-	12.9	12.9
2008	6.2	12.9	19.1
2009-2013	45.1	50.1	95.2
2014-2018	47.5	23.2	70.7
2019-2023	42.9	16.7	59.6
2024-2028	58.8	9.5	68.3
2029-2031	26.4	1.4	27.8
Total debt service requirements	226.9	<u>165.4</u>	<u>392.3</u>
Unamortized bond discounts	(2.3)		
Total principal outstanding	<u>224.6</u>		

INTERNATIONAL AIRPORTS REVENUE BONDS

Gross revenues derived from the operation of the international airports at Anchorage and Fairbanks are pledged to secure the payment of principal and interest on International Airports revenue bonds. All bonds authorized by the Alaska legislature have been issued. This debt is reported in the Business-type Activities column of the Government-wide Statement of Net Assets. Debt service requirements are (in millions):

Year Ending June 30	Principal	Interest	Total
2004	\$ 6.6	\$ 18.4	\$ 25.0
2005	10.0	18.0	28.0
2006	10.5	17.6	28.1
2007	10.9	17.2	28.1
2008	11.8	16.6	28.4
2009-2013	65.8	74.0	139.8
2014-2018	79.5	54.5	134.0
2019-2023	93.6	31.9	125.5
2024-2028	73.2	7.6	80.8
Total debt service requirements	361.9	255.8	617.7
Unamortized bond issuance costs and discounts	(5.4)		
Total principal outstanding	\$ 356.5		

C. CAPITAL AND OPERATING LEASES

A summary of noncancelable operating and capital leases commitments to maturity are (in millions):

<u>Governmental Activities</u> Year Ending June 30	Operating Leases	Capital Leases		
		Principal	Interest	Total
2004	\$ 9.0	\$ 884.2	\$ 98.7	\$ 982.9
2005	7.0	480.6	29.2	509.8
2006	6.3	28.8	10.4	39.2
2007	6.2	25.0	8.9	33.9
2008	4.3	23.9	7.7	31.6
2009-2013	11.5	79.6	24.4	104.0
2014-2018	3.7	37.7	9.5	47.2
2019-2023	0.1	13.3	1.3	14.6
Total	\$ 48.1	\$ 1,573.1	\$ 190.1	\$ 1,763.2

D. CERTIFICATES OF PARTICIPATION

The state has lease purchase agreements funded through certificates of participation (COPs). These leases are for the purchase of buildings. Third-party leasing companies assigned their interest in the lease to underwriters, which issued certificates for the funding of these obligations. The COPs represent an ownership interest of the certificate holder in a lease purchase agreement. While the state is liable for lease payments to the underwriters, the state is not liable for payments to holders of the certificates.

The following schedule presents future minimum payments as of June 30, 2003 (expressed in millions):

<u>Governmental Activities</u> Year Ending June 30	<u>Certificates of Participation</u>		
	Principal	Interest	Total
2004	\$ -	\$ 0.7	\$ 0.7
2005	1.0	0.7	1.7
2006	1.0	0.6	1.6
2007	1.0	0.6	1.6
2008	1.1	0.6	1.7
2009-2013	6.0	2.1	8.1
2014-2018	5.9	0.6	6.5
2019-2023	-	-	-
Total	<u>\$ 16.0</u>	<u>\$ 5.9</u>	<u>\$ 21.9</u>

E. DISCRETELY PRESENTED COMPONENT UNITS

Debt service requirements are (in millions):

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 155.9	\$ 213.1	\$ 369.0
2005	180.4	204.6	385.0
2006	164.9	196.2	361.1
2007	137.1	189.0	326.1
2008	120.7	182.8	303.5
2009-2013	674.8	817.8	1,492.6
2014-2018	654.1	681.5	1,335.6
2018-2023	711.3	513.7	1,225.0
2024-2028	561.5	366.4	927.9
2029-2033	512.0	228.9	740.9
2034-2038	396.8	126.4	523.2
2039-2043	94.2	32.2	126.4
2044-2048	56.4	13.2	69.6
2049-2053	12.3	0.6	12.9
2054-2058	-	-	-
Total debt service requirements	<u>\$ 4,432.4</u>	<u>\$ 3,766.4</u>	<u>\$ 8,198.8</u>
Unamortized discounts, unexpended bond proceeds, accrued interest, & deferred amount on refunding	(2.3)		
Total principal outstanding	<u>\$ 4,430.1</u>		

The preceding table does not include \$604,000 of Alaska Energy Authority arbitrage interest payable.

F. AHFC DERIVATIVES

SWAP OBJECTIVES

In order to both reduce the Corporation's overall cost of borrowing long-term capital and protect against the potential of rising interest rates, AHFC entered into six separate pay-fixed, receive-variable interest rate swap agreements at a cost anticipated to be less than what the Corporation would have paid to issue conventional fixed-rate debt.

SWAP PAYMENTS AND ASSOCIATED DEBT

As of June 30, 2003, debt service requirements of the Corporation's outstanding variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term are displayed in the following schedule (in thousands). As interest rates vary, variable-rate bond interest payments and net swap payments will also vary.

Year Ending June 30	Outstanding Variable-Rate Debt Principal	Outstanding Variable-Rate Debt Interest	Swap Net Payment	Total Payment
2004	\$ 3,360	\$ 4,294	\$ 13,859	\$ 21,513
2005	3,505	4,243	13,744	21,492
2006	3,640	4,214	13,623	21,477
2007	3,795	4,176	13,498	21,469
2008	4,640	4,142	13,364	22,146
2009-2013	36,030	19,789	64,058	119,877
2014-2018	72,920	16,889	54,889	144,698
2019-2023	91,280	12,750	41,485	145,515
2024-2028	86,560	7,964	25,850	120,374
2029-2033	66,895	3,730	12,095	82,720
2034-2037	36,430	819	2,668	39,917
Total	\$ 409,055	\$ 83,010	\$ 269,133	\$ 761,198

SIGNIFICANT TERMS

The terms, fair values and credit ratings of the Corporation's outstanding swaps as of June 30, 2003, are included in the following schedule (in thousands). The notional amounts of the swaps match the principal amounts of the associated debt. These notional amounts amortize over a time period that approximates the payments the Corporation would experience with a fixed-rate, level debt service schedule and are expected to follow scheduled or anticipated reductions in the associated bonds outstanding.

Related Bond Issue	Notional Amounts	Fair Values	Effective Dates	Fixed Rate Paid	Variable Rate Received	Termination Date	Counterparty Credit Rating ⁶
GP01A ¹	\$ 73,920	\$ (9,978)	8/2/2001	4.1427%	67% of LIBOR ⁴	12/1/2030	A/A2
GP01B ¹	90,330	(12,295)	8/2/2001	4.1427%	67% of LIBOR ⁴	12/1/2030	A+/Aa3
E021A1 ²	50,000	(6,648)	5/16/2002	4.1030%	68% of LIBOR ⁴	6/1/2032	AAA/Aaa
E021A2 ²	120,000	(15,544)	5/16/2002	4.3430%	68% of LIBOR ⁴	12/1/2036	AAA/Aaa
SC02B ³	14,555	(946)	12/5/2002	3.7700%	70% of LIBOR ⁴	7/1/2024	AAA/Aaa
SC02C ³	60,250	(4,217)	12/5/2002	4.3030%	BMA ⁵ +0.115%	7/1/2022	AAA/Aaa
Total	\$ 409,055	\$ (49,628)					

¹ Governmental Purpose Bonds

² Home Mortgage Revenue Bonds

³ State Capital Project Bonds

⁴ London Interbank Offered Rate

⁵ The Bond Market Association Municipal Swap Index

⁶ Standard & Poors/Moodys

FAIR VALUE

Because interest rates have declined sharply since the agreements became effective, all of the Corporation's interest rate swaps had a negative fair value as of June 30, 2003. The negative fair values may be countered by reductions in total interest payments required under the variable-rate bonds. Given that coupons on the Corporation's variable-rate bonds adjust to changing interest rates, the associated debt does not have corresponding increases in fair value. The fair value amounts, obtained from Mark to Market statements from the respective counterparties, represent mid-market valuations that approximate the current economic value using market averages, reference rates, and/or mathematical models. Actual trade prices may vary significantly from these estimates as a result of various factors, which may include (but are not limited to) portfolio composition, current trading intentions, prevailing credit spreads, market liquidity, hedging costs and risk, position size, transaction and financing costs, and use of capital profit. If a swap is terminated, fair value represents the current price to settle swap liabilities in the marketplace.

RISKS

- ◆ **Credit Risk.** As of June 30, 2003, the Corporation was not exposed to credit risk on any of its outstanding swaps because they all had negative fair values. If interest rates rise and the fair values of the swaps become positive, the Corporation would be exposed to credit risk in the amount of the swap's fair value. The swap agreements contain varying collateral agreements with the counterparties and require full collateralization of the fair value amount of the swap should the counterparty's rating fall below specific levels. The Corporation currently has swap agreements with four separate counterparties. Approximately 60% of the notional amount of swaps outstanding is held with two separate counterparties, both of whom are rated AAA/Aaa. Of the remaining swaps, the Corporation holds one agreement with another counterparty, rated A+/Aa2, approximating 22% of the outstanding notional value, and one agreement with another counterparty, rated A/A2, approximating 18% of the outstanding notional value.
- ◆ **Basis Risk.** The Corporation's variable-rate bond coupon payments are based on the BMA index rate. Therefore, the Corporation is exposed to basis risk on the swaps where the variable payment received is based on a LIBOR index rather than a BMA index. As of June 30, 2003, the BMA rate was 0.98%, whereas LIBOR was 1.11375%. Since the spread between LIBOR and BMA has narrowed, the expected cost savings from the swaps, which is subject to future changes, may not be as large as originally anticipated.
- ◆ **Rollover Risk.** Rollover risk occurs when there is a mismatch in the amortization of the swap versus the amortization of the floating rate bonds. The Corporation has structured the swaps to amortize at the same rate as scheduled or anticipated reductions in the associated floating rate bonds outstanding. As the swaps amortize, the bonds will be redeemed to match the remaining notional amounts. In addition, the swaps covering the 2001 Government Purpose Bonds cover only a portion of the debt issuance, allowing any increase in the speed of mortgage prepayments to be directed at the unswapped portion of the debt. The swap agreements associated with the 2002 Home Mortgage Revenue Bonds were structured around several tranches, allowing the Corporation to cancel individual tranches of the swap to match special redemptions of the bonds. The result of these swap structures is a decrease in rollover risk usually caused by rapid mortgage prepayments.
- ◆ **Termination Risk.** If any of the swaps are terminated, the associated floating rate bonds would no longer carry synthetic interest rates and, thus, would be exposed to interest rate risk. This risk is mitigated by the fact that the termination payment could be used to enter into an identical swap at the termination date of the existing swap. Furthermore, if any of the swaps have a negative fair value at termination, the Corporation would be liable to the counterparty for payments equal to the swaps' fair value. The Corporation or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the agreement. As of June 30, 2003, the Corporation is not exposed to any additional termination risk on its interest rate swap agreements.

NOTE 7 – DEFINED BENEFIT PENSION PLANS

A. STATE ADMINISTERED PLANS

DESCRIPTION OF PLANS

THE PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (PERS)

PERS is a defined benefit, agent, multiple-employer public employee retirement system established and administered by the state to provide pension and postemployment healthcare benefits for eligible state and local government employees. Benefit and contribution provisions are established by Chapter 35 of Alaska Statute Title 39, and may be amended only by the state legislature. PERS provides for normal pension benefits, as well as death, disability, and postemployment healthcare benefits.

PERS is considered a component unit of the state financial reporting entity. PERS issues a separate stand-alone financial report that includes financial statements and required supplementary information. PERS is also reported as a pension (and other employee benefit) trust fund by the state. Copies of the audited financial statements may be obtained from the Division of Retirement and Benefits, P.O. Box 110203, Juneau, AK 99811-0203.

At June 30, 2003, the number of participating employers was:

State of Alaska	1
Municipalities	78
School Districts	53
Other	<u>28</u>
Total employers	<u>160</u>

Current employee contribution rates are 6.75 percent of compensation (7.5 percent for peace officers and firefighters and 9.6 percent for some school district employees). The employee contributions are deducted before federal income tax is withheld. The PERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual-covered payroll, are adequate to accumulate sufficient assets to pay both pension and postemployment health care benefits when due. Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. The employer rate for the State of Alaska for the year ended June 30, 2003, was 7.2 percent of compensation (7.1 for peace officers and firefighters).

The Schedule of Funding Progress for the State of Alaska for pension benefits follows (in thousands):

Actuarial Valuation Year Ended June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1999	\$3,064,962	\$2,902,304	\$(162,658)	105.6%	\$727,953	(22.3%)
2001	3,486,365	3,462,943	(23,422)	100.7%	781,286	(3.0%)
2002	2,864,058	3,854,165	990,107	74.3%	818,543	121.0%

Postemployment healthcare benefits are provided to retirees without cost for all employees first hired before July 1, 1986, and employees who are disabled or age sixty-five or older, regardless of initial hire dates. Employees first hired after June 30, 1986, with five years of credited service (or ten years of credited service for those first hired after July 1, 1996) must pay the full monthly premium if they are under age sixty, and receive benefits at no premium cost if they are over age sixty or are receiving disability benefits. Police and fire employees with 25 years of membership service also receive benefits at no premium cost.

Prior to July 1, 1997, postemployment healthcare benefits were provided by the payment of premiums to an insurance company. Beginning July 1, 1997, the Retiree Health Fund (RHF), a pension trust fund of the state, was established. The RHF is self-funded and provides major medical coverage to retirees. Retirees of three other state plans also participate in the RHF. The retirement plans retain the risk of loss of allowable claims. The RHF issues a financial report that may be obtained from the Division of Retirement and Benefits, P.O. Box 110203, Juneau, AK 99811-0203.

The Schedule of Funding Progress for the State of Alaska for postemployment healthcare benefits follows (in thousands):

Actuarial Valuation Year Ended June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1999	\$1,242,503	\$1,176,563	\$(65,940)	105.6%	\$727,953	(9.1%)
2001	1,476,115	1,466,201	(9,914)	100.7%	781,286	(1.3%)
2002	1,740,149	2,341,721	601,572	74.3%	818,543	73.5%

The state's annual required contributions for pension and postemployment healthcare benefits for the fiscal years ended June 30, 2003, 2002, and 2001 were \$53.1, \$50.5, and \$53.4 million respectively. The state contributed 100 percent for each of those years resulting in no net pension obligation (NPO).

THE TEACHERS' RETIREMENT SYSTEM (TRS)

TRS is a defined benefit, cost-sharing, multiple-employer public employee retirement plan established to provide pension and postemployment healthcare benefits for teachers and other eligible participants.

At June 30, 2003, the number of participating employers was:

State of Alaska	1
School Districts	53
Other	3
Total employers	<u>57</u>

TRS is considered a component unit of the state financial reporting entity. TRS issues a separate stand-alone financial report that includes financial statements and required supplementary information. TRS is also reported as a pension (and other employee benefit) trust fund by the state. Copies of the audited financial statements may be obtained from the Division of Retirement and Benefits, P.O. Box 110203, Juneau, AK 99811-0203.

Benefit and contribution provisions are established by Chapter 25 of Alaska Statute Title 14 and may be amended only by the state legislature. TRS provides for normal pension benefits, as well as death, disability, and postemployment healthcare benefits.

Plan members contribute 8.65 percent of their base salary, as required by statute. The employee contributions are deducted before federal income tax is withheld. Eligible employees contribute an additional 1 percent of their salary under the supplemental contribution provision. The TRS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual-covered payroll, are adequate to accumulate sufficient assets to pay benefits when due. Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. The employer rate for the State of Alaska for the year ended June 30, 2003, was 11 percent of compensation.

Postemployment healthcare benefits are provided without cost to all employees first hired before July 1, 1990, and employees who are disabled or age sixty-five or older, regardless of initial hire dates. Employees first hired after June 30, 1990, may receive postemployment healthcare benefits prior to age sixty by paying premiums.

Prior to July 1, 1997, postemployment healthcare benefits were provided by the payment of premiums to an insurance company. Beginning July 1, 1997, the Retiree Health Fund (RHF), a pension trust fund of the state, was established. The RHF is self-funded and provides major medical coverage to retirees. Retirees of three other state plans also participate in the RHF.

The retirement plans retain the risk of loss of allowable claims. The RHF issues a financial report that may be obtained from the Division of Retirement and Benefits, P.O. Box 110203, Juneau, AK 99811-0203.

The state's contributions to TRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$652,507, \$666,539, and \$641,569 respectively, equal to the required contributions for each year.

THE JUDICIAL RETIREMENT SYSTEM (JRS)

JRS is a defined benefit, single-employer retirement system established to provide pension and postemployment healthcare benefits for eligible state judges and justices.

JRS is considered a component unit of the state financial reporting entity. JRS issues a separate stand-alone financial report that includes financial statements and required supplementary information. JRS is also reported as a pension (and other employee benefit) trust fund by the state. Copies of the audited financial statements may be obtained from the Division of Retirement and Benefits, P.O. Box 110203, Juneau, AK 99811-0203.

Benefit and contribution provisions are established by Chapter 25 of Alaska Statute Title 22 and may be amended only by the state legislature. JRS provides for normal pension benefits, as well as death, disability, and postemployment healthcare benefits.

Members contribute 7 percent of their compensation to JRS. The contributions are deducted after federal income tax is withheld. Contributions are not required after members have made contributions for fifteen years, or from members first appointed before July 1, 1978. The JRS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual-covered payroll, are adequate to accumulate sufficient assets to pay benefits when due. Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. The employer rate for the State of Alaska for the year ended June 30, 2003, was 28.28 percent of compensation.

The Schedule of Funding Progress for pension benefits follows (in thousands):

Actuarial Valuation Year Ended June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liabilities (AAL)	Funding Excess (FE)/(Unfunded Actuarial Accrued Liabilities) (UAAL)	Funded Ratio	Covered Payroll	FE/(UAAL) as a Percentage of Covered Payroll
1998	\$60,794	\$57,780	\$3,014	105.2%	\$5,716	52.7%
2000	68,116	68,888	(772)	98.9%	5,702	(13.5%)
2002	56,705	63,970	(7,265)	88.6%	5,942	(122.3%)

Prior to July 1, 1997, postemployment healthcare benefits were provided by the payment of premiums to an insurance company. Beginning July 1, 1997, the Retiree Health Fund (RHF), a pension trust fund of the state, was established. The RHF is self-funded and provides major medical coverage to retirees. Retirees of two other state plans also participate in the RHF. The retirement plans retain the risk of loss of allowable claims.

Postemployment healthcare benefits are provided without cost to retired JRS members. The Schedule of Funding Progress for postemployment healthcare benefits follows (in thousands):

Actuarial Valuation Year Ended June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liabilities (AAL)	Funding Excess (FE)/(Unfunded Actuarial Accrued Liabilities) (UAAL)	Funded Ratio	Covered Payroll	FE/(UAAL) as a Percentage of Covered Payroll
1998	\$3,896	\$3,703	\$193	105.2%	\$5,716	3.4%
2000	4,545	4,596	(51)	98.9%	5,702	(0.9%)
2002	6,979	7,873	(894)	88.6%	5,942	(15.0%)

The annual required contributions for pension and postemployment healthcare benefits for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,746,251, \$1,005,968, and \$984,011. The state contributed 100 percent for each of those years resulting in no net pension obligation (NPO).

THE ALASKA NATIONAL GUARD AND ALASKA NAVAL MILITIA RETIREMENT SYSTEM (NGNMRS)

NGNMRS is a defined benefit, single-employer retirement system established and administered by the state to provide pension benefits for eligible members of the Alaska National Guard and Alaska Naval Militia.

NGNMRS is considered a component unit of the state financial reporting entity. NGNMRS issues a separate stand-alone financial report that includes financial statements and required supplementary information. The plan is also reported as a pension (and other employee benefit) trust fund by the state. Copies of the audited financial statements may be obtained from the Division of Retirement and Benefits, P.O. Box 110203, Juneau, AK 99811-0203.

Benefit and contribution provisions are established by Chapter 5 of Alaska Statute Title 26 and may be amended only by the state legislature. NGNMRS provides for normal pension benefits and death benefits. Postemployment healthcare benefits are not provided.

No contributions are required from plan members. NGNMRS's funding policy provides for periodic contributions by Alaska Department of Military and Veterans' Affairs at actuarially determined amounts that are adequate to accumulate sufficient assets to pay benefits when due. State contributions are determined using the projected unit credit actuarial funding method.

The Schedule of Funding Progress for pension benefits follows (in thousands):

Actuarial Valuation Year Ended June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio
1998	\$12,671	\$14,252	(\$1,581)	88.9%
2000	13,734	17,967	(4,233)	76.4%
2002	12,114	20,545	(8,431)	59.0%

The annual required contributions for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,322,500, \$879,800, and \$879,800. The percentage contributed for each year was 100 percent.

THE ELECTED PUBLIC OFFICERS RETIREMENT SYSTEM (EPORS)

EPORS is a defined benefit retirement plan covering the governor, the lieutenant governor, and all legislators that participated in the System between January 1, 1976, and October 14, 1976. EPORS is funded by both employee contributions and an annual appropriation from the state general fund. Retirement benefits are based on the member's years of service and the current salary for the position from which they retired or an average of the three highest consecutive years' salaries. The pension benefit is equal to 5 percent for each year of service as governor, lieutenant governor, or a legislator, plus 2 percent for other covered service, not to exceed 75 percent (AS 39.37.050). The plan also provides death and disability benefits.

Plan members contribute 7 percent of their compensation to EPORS. Employee contributions earn interest at 4.5 percent per annum, compounded semiannually. The remaining amount required to pay EPORS benefits is funded by legislative appropriation. The FY 03 cost to the state for EPORS was \$1.4 million, and the contributions received from employees totaled \$30,683. No separate financial statement is issued for EPORS.

ASSET VALUATION

See Note 4 for information on pension funds' deposits and investments risk categories. The table below discloses the fair value of each pension plan's cash and investments. All amounts are in thousands.

<u>Systems</u>	<u>Fair Value</u>
Public Employees' Retirement System	\$7,389,406
Teachers' Retirement System	3,599,113
Judicial Retirement System	63,508
Alaska National Guard and Alaska Naval Militia Retirement System	12,732

PLAN MEMBERSHIPS

The table below includes the plan membership counts. With the exception of EPORS, the counts are as of the actuarial valuation report date. The plan membership count for EPORS is based upon membership as of 6/30/03.

	<u>PERS</u>	<u>TRS</u>	<u>JRS</u>	<u>NGNMRS</u>	<u>EPORS</u>
	6/30/02	6/30/02	6/30/02	6/30/02	6/30/03
Retirees & beneficiaries receiving benefits & terminated members with future benefits	22,917	8,587	82	1,143	37
Current active employees:					
Vested	18,659	5,224	43	*	4
Nonvested	14,583	4,466	13	3,538	-
Total	<u>56,159</u>	<u>18,277</u>	<u>138</u>	<u>4,681</u>	<u>41</u>

* A breakdown of active employees between vested and nonvested was not available for NGNMRS.

FUNDING STATUS AND PROGRESS

ACTUARIAL METHOD AND ASSUMPTIONS

All systems use the "projected unit credit" method. The unfunded accrued benefit liability or funding surplus is amortized over a rolling 25 years (NGNMRS is 20 years).

The objective under this method is to fund each participant's benefits under the plan as they accrue. Thus, each participant's total pension projected to retirement with salary scale is broken down into units, each associated with a year of past or future service. The principle underlying the method is that each unit is funded in the year for which it is credited. Typically, when the method is introduced there will be an initial liability for benefits credited for service prior to that date. To the extent that this liability is not covered by assets of the plan there is an unfunded liability to be funded over a chosen period in accordance with an amortization schedule.

The following main assumptions were used in the actuarial valuation.

System	Investment Return Compounded Annually	Salary Scale Increase	Health Cost Inflation	Consumer Price Index Inflation	Valuation Date
PERS	8.25%	6.0% first 5 years - Police & Firefighters, first 10 Years - all others 5.5% thereafter	FY 03 - 05- 12.0%; FY 06 – 11.5%; FY 07 – 11.0%; FY 08 – 10.5%; FY 09–10.0%; FY 10 – 9.5%, FY 11 – 9.0%, FY 12 – 8.5%, FY 13 – 8.0%, FY 14 – 7.5%, FY 15 – 7.0%, FY 16 - 6.0%, and FY 17 and later – 5.0%	3.5%	6/30/02
TRS	8.25%	5.5% first 5 years	FY 03 – 05 - 12.0%; FY 06 – 11.5%; FY 07 – 11.0%, FY 08 - 10.5%; FY 09 – 10.0%, FY 10 – 9.5%, FY 11 – 9.0%; FY 12 – 8.5% FY 13 – 8.0%; FY 14 - 7.5%, FY 15 – 7.0%, FY 16 – 6.0%, and FY 17 and later – 5.0%	3.5%	6/30/02
JRS	8.25%	4.0% per year	FY 03 – 05 - 12.0%; FY 06 – 11.5%; FY 07 – 11.0%, FY 08 10.5%; FY 09 – 10.0%, FY 10 – 9.5%, FY 11 – 9.0%; FY 12 – 8.5% FY 13 – 8.0%; FY 14 - 7.5%, FY 15 – 7.0%, FY 16 – 6.0%, and FY 17 and later – 5.0%	3.5%	6/30/02
NGNMRS	8.25%	-	-	-	6/30/02
EPORS	9.0%	6.0 % per year	9.0% per year	-	6/30/86

All assets are at fair value, with 20 percent of the investment gains or losses recognized in each of the current and preceding four years. Valuation assets cannot be outside a range of 80 to 120 percent of the fair value of assets.

B. NON-STATE ADMINISTERED PLANS

THE MARINE ENGINEERS’ BENEFICIAL ASSOCIATION (MEBA) PENSION PLAN

The MEBA plan is a defined benefit pension plan administered by MEBA for its members. Engineer Officers of the Alaska Marine Highway System participate in this program and the state contributes an amount (set by union contract) for each employee. The state assumes no liability for this pension plan or its participants other than the payment of required contributions. The state contributed \$481.6 thousand in FY 03.

NOTE 8 – DEFINED CONTRIBUTION PENSION PLANS

A. STATE ADMINISTERED PLANS

SUPPLEMENTAL BENEFITS SYSTEM

In addition to the pension plans (Note 7) and deferred compensation plan (Note 9), all state employees, as well as employees of political subdivisions, who have elected to participate in the program, are covered under the Alaska Supplemental Benefits

System (SBS). SBS is comprised of the Supplemental Annuity Plan and the Supplemental Benefits Plan. The Supplemental Annuity Plan is a defined contribution plan that was created under Alaska statutes effective January 1, 1980, to provide benefits in lieu of those provided by the Federal Social Security System (Social Security). All state employees, who would have participated in Social Security if the state had not withdrawn, participate in SBS. Other employers whose employees participate in the state Public Employees' Retirement System and meet other requirements are eligible to have their employees participate in SBS as provided by Alaska Statute. As of January 31, 2003, there were fifteen other employers participating in SBS. There were approximately 31,000 participants in the Plan.

The Division of Retirement and Benefits is responsible for administration and record keeping. The Alaska State Pension Investment Board is responsible for the specific investment of moneys in SBS.

SBS is considered a component unit of the state financial reporting entity. SBS issues a separate stand-alone financial report that includes financial statements and required supplementary information, and SBS is also reported as a pension (and other employee benefit) trust fund by the state. Copies of the audited financial statements may be obtained from the Division of Retirement and Benefits, P.O. Box 110203, Juneau, AK 99811-0203.

Mandatory contributions are made to the Supplemental Annuity Plan and voluntary contributions to the Supplemental Benefits Plan. Participating employees are vested at all times. Supplemental Annuity Plan contributions are made in lieu of contributions to Social Security. The state is required to contribute 12.26 percent of an employee's wages up to the taxable wage base in effect under Social Security regulations. Each employee is considered to have agreed to a wage reduction equal to one-half the contribution made on the employee's behalf. The state's mandatory contributions for the year ending January 31, 2003, were \$95.1 million. The state's covered payroll was approximately \$775.4 million.

Supplemental Benefit Plan contributions are voluntary based upon the optional benefits elected by each employee enrolled in SBS. Each employee agrees to a wage reduction based upon the benefit options selected. The benefit amounts are deducted from each employee's wages and remitted by the employer to SBS on the employee's behalf. State employee voluntary contributions for the year ending January 31, 2003, were approximately \$4.6 million.

Employees are eligible to withdraw from the Supplemental Annuity Plan sixty days after termination. Benefits are payable in the form of a lump sum annuity or one of various continuing annuities purchased from an insurance carrier. The SBS administrator issues lump-sum payments through its contracted record keeper.

Benefits available under the Supplemental Benefits Plan include supplemental health, death, disability, survivor benefits, and dependent care reimbursement. Selection of these benefits is at the discretion of the employee, with certain restrictions and may be amended and/or changed on an annual basis or in conjunction with an employee change in status. The state maintains a separate self-insurance fund to provide for health benefits. All other supplemental benefits, except dependent care reimbursement, are provided through insurance policies. The state administers the dependent care reimbursement plan.

Supplemental annuity contributions were deposited with investment managers under contract with SBS for the year ended January 31, 2003. The amounts credited to each participant account include the appreciation or depreciation in the unit values of the investment funds, in addition to participant contributions received during the year and deduction for administrative fees.

Participant accounts under the Supplemental Annuity Plan are self-directed with respect to investment options. Each participant designates how contributions are allocated among the investment options. Each participant's account is credited with the contributions and the increase or decrease in unit value for the investment funds.

B. NON-STATE ADMINISTERED PLANS

THE NORTHWEST MARINE RETIREMENT TRUST (NMRT)

NMRT is an agent multiple-employer pension plan with defined contributions and is administered by the Pacific Northwest Marine Retirement Trust. The state assumes no liability for this pension plan or its participants other than the payment of required contributions. The state contributed \$638.2 thousand in FY 03.

NOTE 9 – DEFERRED COMPENSATION PLAN

The State of Alaska Deferred Compensation Plan (Plan) was created by Alaska statutes. It is a deferred compensation plan under section 457 of the Internal Revenue Code and is available to all permanent employees or elected officials of the state (and with the April 1, 2003 amendment all long term non-permanent employees) who have completed a full pay period of employment. Participants authorize the state to reduce their current salary so that they can receive the amount deferred at a later date. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency, within the definition allowed by the applicable Internal Revenue Codes. As of December 31, 2002, the Plan had approximately 7,700 participants.

As a result of the passage of The Small Business Job Protection Act of 1996 (SBJPA), all amounts deferred, including amounts deferred before the effective date of the new law, under an eligible 457 plan must be held in a trust for the exclusive benefit of employees and beneficiaries. This new law repealed the requirement that a section 457 plan sponsored by a government be solely the property of the employer, subject only to the claims of the employer's general creditors. The trust requirement generally applies to assets and income held by a plan on and after the date of enactment of the SBJPA. The Plan Document for the State of Alaska Deferred Compensation Plan was amended to recognize and establish the Trust requirement for the Plan.

The Division of Retirement and Benefits is responsible for Plan administration and recordkeeping. The Alaska State Pension Investment Board is responsible for the specific investment of moneys in the plan.

Participant accounts are self-directed with respect to investment options. Each participant designates how his or her contribution is to be allocated among the investment options. Each participant's account is credited with the participant's contributions and the increase or decrease in unit value for the investment funds.

Deferred compensation net assets as of December 31, 2002, were \$348.3 million. Deferred compensation is reported in the accompanying financial statements as a pension (and other employee benefit) trust fund.

NOTE 10 – INTERFUND TRANSACTIONS

The following schedules summarize individual interfund and component unit receivable and payable balances at June 30, 2003, and interfund transfers for the year then ended (in thousands):

RECEIVABLES

Fund or Component Unit	Interfund	Primary Government	Component Units	Total
Primary Government:				
General Fund	\$ 736,648	-	\$ 103,937	\$ 840,585
Alaska Permanent Fund	49,985	-	-	49,985
Nonmajor Governmental Funds	2,171	-	-	2,171
Internal Service Funds	4,588	-	1,113	5,701
International Airports	2	-	-	2
Nonmajor Enterprise Funds	284	-	-	284
Fiduciary Funds	4,046	-	-	4,046
Component Units:				
University of Alaska	-	7,032	4,987	12,019
Alaska Housing Finance Corporation	-	1,048	-	1,048
Nonmajor Component Units	-	435	199	634
Other*	366	2,527	9,526	12,419
Total	\$ 798,090	\$ 11,042	\$ 119,762	\$ 928,894

PAYABLES

Fund or Component Unit	Interfund	Primary Government	Component Units	Total
Primary Government:				
General Fund	\$ 56,528	\$ -	\$ 4,103	\$ 60,631
Alaska Permanent Fund	690,659	-	423	691,082
Nonmajor Governmental Funds	3,235	-	2,248	5,483
Internal Service Funds	603	-	-	603
International Airports	39,433	-	-	39,433
Nonmajor Enterprise Funds	1,300	-	-	1,300
Fiduciary Funds	1,297	-	-	1,297
Component Units:				
Alaska Housing Finance Corporation	-	7,868	-	7,868
Nonmajor Component Units	-	104,842	1,805	106,647
Other*	5,035	66	9,449	14,550
Total	\$ 798,090	\$ 112,776	\$ 18,028	\$ 928,894

INTERFUND TRANSFERS

<u>Transferred From</u>	<u>Transferred To</u>				<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>	
General Fund	\$ -	\$ 2,522	\$ 600	\$ 1,711	\$ 4,833
Permanent Fund	690,659	-	-	-	690,659
Enterprise Funds	3,430	-	-	-	3,430
Int Svc Funds	4,289	-	-	-	4,289
Other	5,607	-	-	-	5,607
Total	\$ 703,985	\$ 2,522	\$ 600	\$ 1,711	\$708,818

* The "Other" category is a combination (net) of various items that are not consistently reported in the three classifications identified above. This inconsistency results from: (1) a difference in the basis of accounting such as College and Universities are not on the same basis as the general fund and enterprise funds, enterprise funds are on the full accrual accounting basis while the governmental funds are on the modified accrual basis; (2) timing differences due to differing fiscal year ends; and (3) some inconsistent classifications as a result of the nature of the operation.

NOTE 11 – SEGMENT INFORMATION - ENTERPRISE FUNDS

The State of Alaska International Airport System (a major enterprise fund) was created to equip, finance, maintain, and operate the two international airports located at Anchorage and Fairbanks, Alaska. The airports are under the administration of the Alaska Department of Transportation and Public Facilities. The following schedule presents summary financial information for the International Airport System for the fiscal year ended June 30, 2003 (stated in thousands).

CONDENSED STATEMENT OF NET ASSETS

Assets:	
Current assets	\$ 124,307
Restricted assets	218,600
Capital assets, net	575,856
Total assets	918,763
Liabilities:	
Current liabilities	21,860
Due to other funds	39,433
Noncurrent liabilities	350,064
Total liabilities	411,357
Net assets:	
Invested in capital assets, net of related debt	415,389
Restricted	12,581
Unrestricted	79,436
Total net assets	\$ 507,406

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS	
Airfield operations revenue	\$ 51,000
Other operating revenue	25,753
Depreciation expense	(21,733)
Other operating expense	(54,686)
Operating Income	334
Nonoperating revenues (expenses):	
Investment earnings	6,567
Interest expense	(1,473)
Other nonoperating revenue (expenses) - net	(5,299)
Capital contributions	42,135
Change in net assets	42,264
Beginning net assets	465,142
Ending net assets	\$ 507,406

CONDENSED STATEMENT OF CASH FLOWS	
Net cash provided (used) by:	
Operating activities	\$ 34,892
Capital and related financing activities	(96,818)
Investing activities	63,782
Net increase (decrease)	1,856
Beginning cash and cash equivalents	19,330
Ending cash and cash equivalents	\$ 21,186

NOTE 12 – COMMITMENTS AND CONTINGENCIES

A. SICK LEAVE

The cost of state employee sick leave is charged against agency appropriations when leave is used rather than when leave is earned. There is no recorded liability for sick leave in the financial records of the state. Accordingly, the statements in this report do not include an estimate of this obligation as either a liability or a reserve.

Accumulated sick leave may be used only for actual illness. When an employee separates from state service, any sick leave balance to their credit is reduced to zero without additional compensation to the employee.

The estimated amount of unused accumulated sick leave as of June 30, 2003, is \$44 million. This amount was calculated using the base pay on file for each employee as of June 30, 2003. It does not include an estimate of the cost of fringe benefits (supplemental benefits, retirement, group insurance, etc.) which can vary from 5 percent to 28 percent of gross pay depending on the status of the employee when leave is taken.

B. SCHOOL DEBT

Under a program enacted in 1970 (AS 14.11.100), the state may reimburse municipalities up to 80, 90, or 100 percent of debt service on bonds issued to finance school construction. The percentage depends on the year in which the costs are incurred. The 80 percent limitation, enacted in 1985, applies to fiscal years after June 30, 1983. The higher percentages apply to earlier years.

Although the statute provides that the state may reimburse school districts 80, 90, or 100 percent of construction costs, the actual funding for the program is dependent on annual legislative appropriations to the school construction account. When amounts in the account are insufficient, the available funds are allocated pro rata among the eligible school districts. There is no contractual commitment by the state to make these payments. The amount for FY 03 expended for school debt was \$52.0 million, which was 100 percent of the entitlement. The total debt requirement assuming the state makes full payment of its

share of school debt service would be approximately \$727.0 million. The state has in the past and may in the future appropriate less than the full amount to which the municipalities are entitled under statute.

C. RISK MANAGEMENT AND SELF-INSURANCE

The state maintains a risk management program that is administered by the Department of Administration, Division of Risk Management. The Division of Risk Management's objective is to protect the financial assets and operations of the State of Alaska from accidental loss through a comprehensive self-insurance program for normal and expected property and casualty claims of high frequency and low severity, combined with high-limit, broad-form excess insurance protection for catastrophic loss exposures.

Risk Management acts as the insurance carrier for each state agency, funding all sudden and accidental property and casualty claims. The annual premiums allocated by Risk Management are the maximum each agency is called upon to pay. This planning for known and catastrophic losses forestalls the need for the affected agency to seek supplemental appropriation or disrupt vital state services after a major property loss, adverse civil jury award, or significant workers' compensation claim.

By effectively managing the state's property and liability exposures through a comprehensive self-insurance program, Risk Management expends fewer public funds than would be paid to private insurance companies at the same time providing streamlined claims services utilizing professional adjusting firms located throughout Alaska.

Property insurance with all-risk (including earthquake and flood) coverage is provided on a replacement cost basis for all state-owned or leased property; buildings (including contents, museum fine arts, etc.), aircraft, watercraft (Alaska Marine Highway System ferries and other agency vessels), large highway bridges, and hydroelectric power dams.

Casualty coverages protect each state agency and their personnel from third-party civil (tort) liability claims alleged to have arisen from combined liability - general (premises/operations), automobile, professional (errors and omissions), medical malpractice, aviation (aircraft and airport), or marine (crew and passenger injuries).

Additional specialty coverages include blanket public employee faithful performance and custom bonding, accidental death and disability (including medical expenses) for volunteers, computer fraud and foreign liability, etc. These insurance programs continually evolve, responding to new activities and special projects undertaken by each state agency. There has been no significant reduction in insurance coverage from previous years and the state has not incurred a loss in excess of its insurance program.

In FY 03, the state completely self-insured all statutory workers' compensation claims, general (premises and operations) and professional liability, and automobile liability. We had Self-Insured Retention (SIR) levels of \$1 million for property and marine risks, and \$250,000 per incident for airport and aviation liability exposures. Limits of excess insurance vary by risk, reaching up to \$250 million per occurrence for marine and \$500 million for aviation.

Both domestic and international insurance companies and various Lloyd's of London underwriting syndicates participate in the State of Alaska's excess insurance program. Marketing is provided by independent brokers. The state obtains an annual independent actuarial assessment of the state insurance program as required by AS 37.05.287(b).

An unconstrained audit of the State of Alaska's overall property and casualty insurance program performed by an independent risk management consultant found the retention levels and excess insurance coverage purchased are appropriate.

Risk Management's budget is funded entirely through interagency receipts annually billed each agency through a "Cost of Risk" premium allocation system. The Risk Management information system generates the annual cost of risk allocation to each agency, reflecting their proportionate share of the state's overall cost of risk. Designed to achieve equitable distribution of the self-insurance program costs, it factors exposure values subject to loss and considers the past five years actual claims experience incurred by each department.

For most cost of risk allocations, 80 percent of the premium billing is based on the average of the past five years actual claims experience. This provides a direct fiscal incentive to each agency to reduce or control their claim costs.

The program compiles a property inventory schedule of all owned or leased buildings used or occupied by state agencies, listing age and type of building construction, occupancy, fire protection services and sprinkler systems, and projected

replacement cost value. Individual premiums are then determined and, in cases of multiple occupancy, allocated to each department on the basis of their square foot use.

The “Cost of Risk” premium is collected through two methods from individual state agency operating budgets. Reimbursable Services Agreements (RSAs) are used for all categories of insurance other than Workers’ Compensation and Combined Liability (general, auto, and professional), which are assessed on a rate per \$100 payroll applied monthly to each agency’s actual payroll until the allocated premium is paid.

The table below presents changes in policy claim liabilities for the fiscal years ending June 30, 2002 and June 30, 2003. The state records its related liability using discounted amounts provided by actuaries. The amount of unpaid claim liabilities for Risk Management are presented at their present value using a 5 percent discount interest rate for FY 02 and a 3 percent discount interest rate for FY 03.

Fiscal Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
2002	\$ 62,836,971	\$ 37,419,096	\$ (21,652,389)	\$ 78,603,678
2003	\$ 78,603,678	\$ 32,297,924	\$ (32,277,129)	\$ 78,624,473

D. LITIGATION

The state is involved in a number of legal actions. The Department of Law estimates the probable maximum liability for the cases associated with the governmental fund types to be approximately \$5.3 million, with an additional possible liability of \$78.6 million. The probable loss amount has been reported as long-term debt obligations.

In October 2000, a complaint was filed in the Superior Court for the State of Alaska, Third Judicial District (Myers v. State of Alaska, Alaska Housing Finance Corporation and Northern Tobacco Securitization Corporation), seeking a declaratory judgment determining that the sale of the 2000 Tobacco Settlement Revenues (TSRs) by the state to AHFC or NTSC is a dedication of state funds for a special purpose, in violation of Section 7, Article IX of the Alaska Constitution. On October 30, 2000, Superior Court Judge Hensley ruled that such sale of the 2000 TSRs did not violate the Alaska Constitution. Plaintiff thereafter appealed to the Alaska Supreme Court.

On April 18, 2003 the Alaska Supreme Court rendered its decision. The court affirmed the superior court decision which was rendered on October 30, 2000. In affirming the superior court decision, the Alaska Supreme Court concluded that the securitization of the revenue stream of funds from the tobacco lawsuit settlement did not violate the anti-dedication provisions of the Alaska Constitution.

In March 2003, a major participating member (PM) was found liable of fraud in its marketing of “light” cigarettes, and plaintiffs in the class-action suit were awarded \$10.1 billion in damages in an Illinois court. Because there is no cap on bonding requirements for appeals in Illinois, the bond-posting requirement allowing the PM to seek an appeal of the trial court’s decision was set at \$12 billion. This requirement was later reduced to approximately \$6 billion on appeal to the Illinois Supreme Court. In its decision, the Illinois Supreme Court also agreed to hear the PM’s appeal of the original judgement.

The PM had previously stated that if the original \$12 billion bonding requirement was not reduced, it might not have been able to meet its obligations under the Master Settlement Agreement. Although the PM has prevailed in its attempt to reduce the bonding requirement, there is still the possibility of an adverse outcome on its appeal of the original judgment, with \$10.1 billion potentially due should such an appeal be unsuccessful. Arguments have not yet been heard by the Illinois Supreme Court.

Such litigation risk is not limited to a single PM. Other PMs face similar allegations in suits filed against them. Any adverse outcome in these suits could materially affect the ability of the PMs to meet their obligations under the Master Settlement Agreement.

E. FEDERAL GRANTS

The state has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, it is believed that any required reimbursements will not be material.

F. DISASTER RELIEF FUND

The state may be liable to reimburse communities for expenditures related to disasters in excess of the amount allocated by the state.

G. DISCRETELY PRESENTED COMPONENT UNITS

At June 30, 2003, AIDEA had extended commitments for loans of \$14,466,000 and loan guarantees of \$1,566,000.

NOTE 13 – SUBSEQUENT EVENTS

A. ALASKA MUNICIPAL BOND BANK AUTHORITY

The Alaska Municipal Bond Bank Authority issued four bond series subsequent to June 30, 2003.

1. Revenue Bonds, 2003 Series C in the face amount of \$1,015,000 with interest rates ranging from 2.00% to 3.00% over maturities of January 1, 2005 through January 1, 2009.
2. General Obligation Bonds, 2003 Series D in the face amount of \$15,065,000 with interest rates ranging from 4.00% to 6.00% over maturities of June 1, 2004 through June 1, 2023.
3. General Obligation Bonds, 2003 Series E in the face amount of \$32,020,000 with interest rates ranging from 2.00% to 5.25% over maturities of December 1, 2004 through December 1, 2028.
4. General Obligation Bonds, 2003 Series F in the face amount of \$3,320,000 with interest rates ranging from 2.00% to 3.5% over maturities of December 1, 2003 through December 1, 2011.

B. ALASKA STUDENT LOAN CORPORATION

On June 5, 2003, the Alaska Student Loan Corporation issued \$47,000,000 in education loan revenue bonds, of which \$15,885,000 was for the purpose of refunding the outstanding Series 1993A bonds at par. The refunding will occur on July 1, 2003.

C. INTERNATIONAL AIRPORTS FUND

Plans are in place to issue International Airport Revenue Bonds totaling \$76,600,000. Although this transaction has not yet been finalized, the issuance of the bonds is imminent. The borrowing is to be secured by gross revenues derived by the State of Alaska from the ownership, lease, use, and operation of the airports, and of all the facilities of them, and any other money that may be appropriated for the purpose, excepting only proceeds of any customer facility charge set by the commissioner of the Department of Transportation and Public Facilities.

D. ALASKA CLEAN WATER FUND

Plans are in place to issue Series A Revenue Bond Anticipation Notes totaling \$1,621,840 for fiscal year 2004. Although this transaction has not yet been finalized, the issuance of the bonds is imminent. The borrowing is to be secured by interest earnings of the Alaska Clean Water Fund.

E. ALASKA DRINKING WATER FUND

Plans are in place to issue Series B Revenue Bond Anticipation Notes totaling \$1,021,158 for fiscal year 2004. Although this transaction has not yet been finalized, the issuance of the bonds is imminent. The borrowing is to be secured by interest earnings of the Alaska Drinking Water Fund.

F. CERTIFICATES OF PARTICIPATION

On August 19, 2003, the State of Alaska issued Certificates of Participation totaling \$14,145,000 for the purpose of financing a seafood and food safety laboratory facility to be operated by the Department of Environmental Conservation. Repayment of this debt is subject to annual appropriation by the legislature.

NOTE 14 – SPECIAL ITEMS

As a result of an Attorney General's Opinion dated April 3, 2003, the interest earned since August 11, 1993 on the intertie grant monies being held by AIDEA are subject to appropriation and should be returned to the general fund. The special item identified on the statement is interest income earned on those funds as of June 30, 2003 that was returned or expected to be returned by AIDEA in the near future. Potentially future interest income earned on these funds will be remitted to the general fund.

The Alaska Science and Technology Foundation (ASTF) was established in statute as a public corporation within the Department of Community and Economic Development. To provide support to ASTF and its programs, two endowment funds were established, the Alaska Science and Technology Endowment (ASTE) and the International Trade and Business Endowment (ITBE). During the 23rd Alaska Legislative Session, the balance as of June 30, 2003 of the ASTE was appropriated to the general fund (Chapter 82, SLA 2003). The financial impact of this legislative action for the ASTE liquidation is reflected in the financial statements as a special item.

REQUIRED

SUPPLEMENTARY INFORMATION

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Unrestricted:				
Taxes	\$ 838,183	\$ 857,389	\$ 1,039,775	\$ (182,386)
Licenses and Permits	85,049	179,576	75,714	103,862
Charges for Services	441,264	698,915	459,342	239,573
Fines and Forfeitures	12,027	12,085	10,219	1,866
Rents and Royalties	584,977	582,710	835,233	(252,523)
Premiums and Contributions	295	295	10,015	(9,720)
Interest and Investment Income	50,852	51,375	213,035	(161,660)
Payments In from Component Units	34,759	34,759	34,759	0
Other Revenues	40,667	43,995	22,600	21,395
Restricted:				
Federal Grants in Aid	4,404,604	4,500,539	1,699,382	2,801,157
Interagency	445,732	681,522	421,242	260,280
Payments In from Component Units	136,589	136,671	45,969	90,702
Other Revenues	16,518	16,768	2,005	14,763
Total Revenues	7,091,516	7,796,599	4,869,290	2,927,309
EXPENDITURES				
Current:				
General Government	582,911	611,297	568,040	43,257
Alaska Permanent Fund Dividend	902,974	912,861	908,676	4,185
Education	1,080,520	1,088,545	1,063,475	25,070
University	236,070	236,086	220,421	15,665
Health and Human Services	2,022,649	2,076,855	1,840,305	236,550
Law and Justice	144,414	164,113	151,388	12,725
Public Protection	592,207	707,517	555,591	151,926
Natural Resources	384,977	410,376	269,774	140,602
Development	285,283	322,977	215,702	107,275
Transportation	3,084,723	3,238,388	1,280,448	1,957,940
Intergovernmental Revenue Sharing	68,952	69,455	67,477	1,978
Debt Service:				
Principal	10,798	10,798	9,612	1,186
Interest and Other Charges	3,274	3,274	3,274	0
Total Expenditures	9,399,752	9,852,542	7,154,183	2,698,359
Excess (Deficiency) of Revenues Over Expenditures	(2,308,236)	(2,055,943)	(2,284,893)	228,950
OTHER FINANCING SOURCES (USES)				
Transfers In from Other Funds	784,512	784,512	779,786	4,726
Transfers (Out to) Other Funds	(86,621)	(86,621)	(86,621)	0
Total Other Financing Sources and Uses	697,891	697,891	693,165	4,726
SPECIAL ITEMS				
Alaska Science and Technology Endowment Liquidation		97,706	97,706	0
Interest Earned on Grants Administered by AIDEA			29,707	(29,707)
Excess (Deficiency) of Revenues, Other Financing Sources, Special Items, Over (Under) Expenditures, Other Financing Uses and Special Items, Budgetary Basis				
	\$ (1,610,345)	\$ (1,260,346)	(1,464,315)	\$ 203,969
Reconciliation of Budgetary/ GAAP Reporting:				
Adjust Expenditures for Encumbrances			933,146	
Basis Difference			9,273	
Perspective Difference			(40,300)	
Excess (Deficiency) of Revenues, Other Financing Sources, Special Items, Over (Under) Expenditures, Other Financing Uses GAAP Basis				
			(562,196)	
Fund Balances - Beginning of Year				
			4,121,845	
Prior Period Adjustment				
			(9,572)	
Fund Balances - End of Year				
			<u>\$ 3,550,077</u>	

**Note to Required Supplementary Information – Budgetary Reporting
For the Fiscal Year Ended June 30, 2003**

The Budgetary Comparison Schedule – General Fund presents comparisons of the original and final adopted budget with actual data on a budgetary basis.

The legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The reconciliation of the budgetary basis to GAAP is shown directly on the Budgetary Comparison Schedule – General Fund. Both the annual operating budget and the net continuing total budget are included.

The types of differences are as follows:

- Encumbrances are included for total authorized expenditures although for GAAP purposes they are excluded.
- There was certain financial activity related to reimbursable services agreements (RSA) and certain interfund transactions that were recorded both in the general fund and in other funds. For budgetary purposes, that activity was left in the general fund, but for GAAP purposes it was eliminated from the general fund.
- Basis differences arise when the budgetary basis of accounting differs from the basis of accounting applicable to fund type when reporting on operations in accordance with GAAP. This difference is comprised of the following in the general fund (in thousands):

Petroleum severance taxes and royalties	\$ 7,217
Medical Assistance Program	2,987
Working Reserve	(653)
Tobacco tax	(106)
Alcohol tax	(172)
Total general fund basis difference	<u>9,273</u>

- Perspective differences result from the structure of financial information for budgetary purposes. The Group Health and Life Benefits Fund (Group Health and Life, and Retiree Health) and the Alaska Public Building Fund are established by statute as accounts within the general fund, but must be reported as internal service funds to conform to GAAP. The federal receipts/disbursements for PL 103-382, Title VIII (previously PL 81-874) are budgeted in the general fund but are accounted for as an agency fund.

Group Health and Life	\$ (38,765)
Alaska Public Building Fund	(1,548)
Federal receipts for PL 103-382 (Impact Aid)	13
Total general fund perspective difference	<u>(40,300)</u>

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INTRODUCTION

The recommendations and questioned costs have been organized by department. The specific status of prior year recommendations is presented in the introduction of each department.

Generally, the status of prior year recommendations falls into one of three categories:

- Implemented by the department.
- Not fully implemented by the department and reiterated with its current status in this report.
- Not fully implemented by the department, yet the current year effects were not a significant audit issue, therefore it is not reiterated in this report.

Other audit reports issued separately that have recommendations which are relevant to the FY 03 statewide single audit objectives are:

1. *A Report on the Department of Administration, Application Controls Over the Alaska State Payroll System From Implementation (May 29, 1990) through June 30, 1991.* Audit Control Number 02-1389-92.
2. *A Report on the Department of Administration, Application Controls Over the Alaska Statewide Accounting System, August 10, 2001.* Audit Control Number 02-10002-01.
3. *A Report on the Department of Administration, Chargeback Review, December 10, 1999.* Audit Control Number 02-4610-01.
4. *A Report on the Department of Revenue, Division of Treasury Revenue Division of Treasury, Treasury Revenue Management System, June 19, 2002.* Audit Control Number 04-10004-02.
5. *A Report on the Department of Health and Social Services, Division of Medical Assistance, Internal Control Over Medicaid Payments, January 31, 2003.* Audit Control Number 06-30018-03.
6. *Department of Health and Social Services, Division of Family and Youth Services, Travel Issues, March 4, 2003.* Audit Control Number 06-30019-03.
7. *A Report on the Department of Community and Economic Development, Division of Investments, Commercial Fishing Revolving Loan Fund, March 18, 2003.* Audit Control Number 08-30022-03.
8. *A Report on the Department of Environmental Conservation, Village Safe Water Program, Selected Projects, November 19, 2003.* Audit Control Number 18-30028-04.

In addition to recommendations in the Component Units section, management letters of State corporations and the University of Alaska may have recommendations which are relevant to the FY 03 statewide single audit objectives. Copies of the management letters may be obtained directly from the State corporations and the University of Alaska.

SUMMARY OF RECOMMENDATIONS
For FY 03

—————Internal Control Weakness—————

<i>State Department</i>	<i>Material to Basic Financial Statements</i>	<i>Material to Federal Program</i>	<i>Reportable Condition – Financial Statements</i>	<i>Reportable Condition – Federal</i>	<i>Federal Compliance</i>	<i>Other State Issues</i>
OG						1
DOA			2			
DEED				3, 5, 6, 7, 8, 9 10	4, 5, 7, 8, 9, 10	9, 10, 11, 12
DHSS		24		13, 14, 17, 18, 20, 22, 23, 25, 27, 28	13, 14, 17, 18, 19, 20, 21, 22, 25, 26, 27, 28	15, 16
DLWD						29
DNR				30	30	
DPS				31		
DEC			33	34, 35	34, 35	32
DOTPF			36			
Component Units					37, 38, 39, 40, 41, 42	

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Findings and Recommendations

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OFFICE OF THE GOVERNOR

One recommendation was made to the Office of the Governor in the *State of Alaska, Single Audit for the Fiscal Year Ended June 30, 2002*. Prior year Recommendation No. 1 was implemented by the Office of the Governor and is considered resolved.

One new recommendation is included as Recommendation No. 1.

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Recommendation No. 1

Alaska's Office of Management and Budget (AOMB) should submit only those revised programs that meet criteria in AS 37.07.080(h) to the Legislative Budget and Audit Committee for approval.

AOMB submitted to the Legislative Budget and Audit (LBA) Committee a series of revised programs¹ for approval in FY 04, presumably supported by “excess” federal receipts. However, there were actually no excess federal receipts at the end of FY 03 to be appropriated in FY 04.

In June 2003, the State received \$25 million from the U.S. Treasury as payment under the Jobs Growth Tax Relief Reconciliation Act (JGTRRA) of 2002. Under that Act the funds could be used to provide for essential government services or cover the cost of unfunded or under-funded federal mandates². The limitation was that the State may use the funds for types of expenditures permitted under the most recently approved budget for the State³.

The very wide latitude for which the JGTRRA funds could be used makes these funds very different from the typical federal money received by the State. Typically, money received by the federal government is restricted to specific programs or purposes. The wide latitude for the JGTRRA funds is consistent with the purpose of the Act, which was to provide temporary fiscal relief to states. A variety of other states which have the same fiscal year as Alaska, have reported using JGTRRA funds to support expenditures in FY 03.

The combination of 1) the timing of the receipt of JGTRRA funds, 2) the absence of typical restrictions on the use of the federal funds, and 3) the State of Alaska's statutory⁴ and constitutional requirements⁵ governing appropriations, and defining funds available for appropriation, should have resulted in these monies funding FY 03 expenditures.

¹ Alaska Statute 37.07.080(h)

² That act required that “a State shall use the funds provided under a payment made under this section for a fiscal year to –

(A) provide essential government services; or cover the costs to the State of complying with any Federal intergovernmental mandate (as defined in section 421(5) of the Congressional Budget Act of 1974) to the extent that the mandate applies to the State, and the Federal Government has not provided funds to cover the costs.”

³ The Act's limitation is that “A State may only use funds provided under a payment made under this section for types of expenditures permitted under the most recently approved budget for the State.”

⁴ Chapter 1, Second Special Session 2002, states in part

*If the **unrestricted state revenue available for appropriation** in fiscal year 2003 is insufficient to cover the general fund appropriations made for fiscal year 2003 the amount necessary to balance revenue and general fund appropriations is appropriated to the general fund from the budget reserve fund... [emphasis added]*

⁵ Article IX Sec 17(d) of the Alaska Constitution states

*If an appropriation is made from the budget reserve fund, until the amount appropriated is repaid, the **amount of money in the general fund available for appropriation at the end of each succeeding fiscal year** shall be deposited in the budget reserve fund. [emphasis added]*

However, the Department of Administration's Division of Finance reported JGTRRA as deferred revenues and AOMB sought authorization from the Legislative Budget and Audit Committee to fund additional expenditures in FY 04.

The result of deferring the revenues and seeking to use the funds in FY 04, is that at the end of FY 03, an excess of \$25 million was borrowed from the Constitutional Budget Reserve Fund to cover FY 03 appropriations.

AOBM should seek a supplemental appropriation from the legislature recognizing a funding source change from federal funds to general funds for the revised programs which were supported by the \$25 million collected in FY 03.

Agency Response – Office of the Governor

OMB agrees with your recommendation. We believe, however, that our action in submitting two revised programs with funding from the Jobs Growth Tax Relief Reconciliation Act (JGTRRA) of 2003 for consideration by the Legislative Budget and Audit Committee at their July 9, 2003 meeting was entirely appropriate.

Governor Murkowski, in his June 12, 2003, operating budget letter to Speaker Kott and President Therriault, specifically identified how the yet-to-be-received \$25 million would be used: \$10 million for assistance to low-income seniors and \$15 million for communities. The federal funds were received by the state on June 25, 2003. The Department of Administration, Division of Finance then correctly deferred the \$25 million for the Governor's stated purposes.

OMB does not plan to seek a supplemental appropriation from the legislature to change the fund source of that \$25 million from federal funds to general funds.

*Contact Person: Cheryl Frasca, Director
Telephone: 907-465-4660*

Legislative Audit's Additional Comments

We have read the Office of the Governor's response to this recommendation and nothing contained in the response has provided sufficient information to persuade us to change this recommendation.

While communications between the Administration and the Legislature is critical, this communication does not alleviate the need for proper financial reporting or adherence to the various legal provisions of the appropriation process.

DEPARTMENT OF ADMINISTRATION

Four recommendations were made to the Department of Administration (DOA) in the *State of Alaska, Single Audit for the Fiscal Year Ended June 30, 2002*. DOA has not implemented prior year Recommendation No. 2. It is reiterated as Recommendation No. 2. Prior year Recommendation No. 3 has been resolved. Prior year Recommendation Nos. 4 and 5 have not been fully implemented by the department, yet the current year effects are not significant audit issues. Therefore, they are not reiterated in this report.

No new recommendations have been made during the FY 03 statewide single audit.

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Recommendation No. 2

The Division of Finance (DOF) director should continue to seek resolution of internal control weaknesses identified for time and attendance records in the payroll system, AKPAY.

Prior Finding

The internal controls for time and attendance records have a significant weakness in their design. An individual with the ability to make changes to time and attendance records may input and certify their own payroll time records. This includes the ability to override pay rates and number of hours. A significant internal control weakness exists without a system-generated control either (1) preventing input and certification of an employee's own records, or (2) requiring input by one individual and certification by another. Additionally, DOF does not produce a report that shows specifically when an override of the pay rate, hours, or total amount has occurred.

DOF relies on each department's management to review warrant registers to detect any errors. However, the warrant register does not specifically indicate when a payroll amount has been overridden. Assigning different people the responsibilities for authorizing transactions, recording transactions, and overseeing custody of assets is intended to reduce the opportunities that allow any person to be in a position of, both, perpetrating and concealing errors or irregularities in the normal course of his or her duties. *Control Objectives for Information and Related Technology* states that:

The organization should establish procedures for the processing of transactions that ensure separation of duties is maintained and that the work performed is routinely verified.

We see the ability of one individual to input and certify an override rate, hours, or amount for themselves as a critical flaw in the control process, especially without DOF providing a usable audit trail report identifying the amount or data overridden.

Legislative Audit's Current Position

Internal control weaknesses in the segregation of duties continue to exist for time and attendance records. The long-term solution for many of the system weaknesses is the replacement of AKPAY.

Currently, DOF is initiating steps to replace AKPAY by formally analyzing the systematic needs of the State and issuing a management decision which is awaiting approval.

Until a new system is implemented we continue to recommend that DOF programmers develop reports, or regularly-used audit trail software, to isolate those situations where pay has been overridden; and, specifically, if pay has been overridden for an individual with input and certification abilities in the time and attendance function.

Agency Response – Department of Administration

The Department of Administration recognizes the importance of duty segregation for time and attendance records. Policies governing segregation of time and attendance duties are outlined in section 260.060 of the Alaska Administrative Manual. Procedures for implementing the policies are contained in Section 3 of the Payroll Procedures Manual published by the Division of Finance.

This recommendation points out a design flaw in our current payroll system, AKPAY. It does not enforce duty segregation with edits or reports. This is not the only problem with this software, nor does it pose the most risk. Our backlog of fixes and enhancement requests is substantial, characteristic of a software product nearing the end of its useful life. We are constantly striving to keep it operational and current within vendor maintenance requirements.

Our long-term solution is to replace AKPAY with current integrated software. During fiscal year 2003, the department led a statewide effort to evaluate replacement options for payroll and other administrative systems used to support state government. The resulting business case, published in August 2003, provides some basis for executive decisions in setting future direction in this strategic area. Any new systems implemented by the state will meet current standards related to accounting controls, including addressing the weakness identified with this finding.

*Contact Person: Kim Garnero, Director
 Telephone: 907-465-3435*

DEPARTMENT OF LAW

One recommendation was made to the Department of Law (DOL) in the *State of Alaska, Single Audit for the Fiscal Year Ended June 30, 2002*. Prior year Recommendation No. 6 is considered resolved.

No new recommendations have been made during the FY 03 statewide single audit.

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DEPARTMENT OF REVENUE

Two recommendations were made to the Department of Revenue (DOR) in the *State of Alaska, Single Audit for the Fiscal Year Ended June 30, 2002*. Prior year Recommendation Nos. 7 and 8 are considered resolved in FY 03.

No new recommendations have been made during the FY 03 statewide single audit.

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DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT

Nine recommendations were made to the Department of Education and Early Development (DEED) in the *State of Alaska, Single Audit for the Fiscal Year Ended June 30, 2002*. Prior year Recommendation Nos. 9, 10, 11, 12, 13, 15, 16, and 17 are considered resolved. Prior year Recommendation No. 14 has not been resolved and is reiterated in this report as Recommendation No. 12.

Nine new recommendations have been made and are included as Recommendation Nos. 3 through 11. Additionally, Recommendation No. 25, in Department of Health and Social Services is also addressed to DEED.

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Recommendation No. 3

The Division of Education Support Services (ESS) assistant director should ensure that the schedule of expenditures of federal awards (federal schedule) is prepared in accordance with state and federal requirements.

The federal schedule submitted to Department of Administration, Division of Finance (DOF) was not accurate. Federal expenditures and amounts provided to subrecipients were overstated. DOF provides instructions for the preparation of the departmental federal schedule in compliance with Office of Management and Budget (OMB) Circular A-133. The primary discrepancies found in DEED's federal schedule include the following:

- Federal expenditures totaling \$9 million were misreported between seven federal programs as a result of errors in the state accounting system.
- Expenditures for intra-agency activity resulted in an overstatement in the federal schedule in the amount of \$1.7 million. DEED does not have procedures in place to identify and exclude this duplicate activity from the federal expenditure amount reported in the federal schedule. We estimate an unadjusted misstatement less than \$480,000 over multiple federal programs remains in the federal schedule.
- Amounts provided to subrecipients were overstated by more than \$51.6 million due to inclusion of payments for services to entities and individuals that did not meet the definition of a subrecipient as defined by OMB Circular A-133 Subpart A §__.105.

Although the department made recommended changes to the federal schedule, the enormity of the initial reporting error identifies weaknesses in the reporting of federal expenditures due to the methodology used to prepare the federal schedule.

We recommend the ESS assistant director correct the methodology used to accumulate and report federal expenditure and subrecipient pass-through data on the federal schedule. Further, we recommend: (1) reported amounts be supported by accurate accounting records, (2) pass-through amounts reflect only amounts provided to subrecipients, and (3) management enhance the quality of review of the federal schedule.

CFDA: Various
Questioned Costs: None

Federal Agency: USDA
USDOE
NFAH
USDHHS

Agency Response – Department of Education and Early Development

The department agrees with recommendation No. 3 and is currently drafting departmental procedures with supporting exhibits for the federal schedule process. The department will

review methodology, documentation, and the review process to ensure that the federal schedule is prepared in accordance with state and federal requirements.

*Contact Person: Elizabeth Sweeney, Internal Auditor
Telephone: 907-465-8685*

Recommendation No. 4

The Teacher and Learning Services (TLS) director should ensure record management and retention procedures are adequate for compliance with federal regulations.

DEED staff did not retain all applications submitted by prospective subgrantees of the Improving Teacher Quality State Grants (ITQSG) program. For applicants that did not receive an award, the application and review documentation were discarded after the expiration of the award appeal process period. Without adequate documentation, we are unable to verify compliance with the ITQSG federal requirement that Eligible Partnerships grants be awarded competitively.

U.S. Department of Education federal regulation 34 CFR 80.42 requires that all financial and programmatic records, supporting documents, and other records of grantees and subgrantees which are reasonably considered as pertinent to program regulations or the grant agreement be retained for three years.

We recommend the TLS director fully implement current policy and procedures, relating to record management, to ensure that documentation necessary for verifying compliance with program regulations is retained and available for review.

CFDA: 84.367

Federal Agency: USDOE

Questioned Costs: None

Agency Response – Department of Education and Early Development

The department agrees with Recommendation No. 4 and will notify all division staff that all financial and programmatic information be retained for three years.

*Contact Person: Elizabeth Sweeney, Internal Auditor
Telephone: 907-465-8685*

Recommendation No. 5

The TLS director should establish procedures to ensure that eligibility determinations for subgrantees are consistently applied.

TLS staff inconsistently applied poverty data to establish high-need Local Education Agencies⁶ (LEAs) qualifying for the ITQSG Eligible Partnerships.⁷ Without obtaining federal approval, TLS staff arbitrarily excluded secondary school data for one school district to enable participation as a high-need district. This resulted in funds being distributed to school districts using differing high-need eligibility criteria.

The Elementary and Secondary Education Act (ESEA) Section 2102 defines a high-need LEA, in part, as a district having not fewer than 10,000 children from families with incomes below the poverty line or for which not less than 20% of the children are from families with incomes below the poverty line. The district in question did not meet the definition of a high-need district without eliminating a portion of the district data. The inconsistent application of poverty data results in questioned costs to the State.

We recommend the director of TLS consistently apply statistical data when determining high-need districts for ITQSG Eligible Partnership awards.

CFDA: 84.367

Federal Agency: USDOE

Questioned Costs: \$42,361

Agency Response – Department of Education and Early Development

The department does not agree with the findings of the audit pertaining to Recommendation No. 5 for the following reasons:

- Federal approval was given for the continuation of 2-year higher education grants, authorized under the Improving America’s Schools Act, but carrying over into No Child Left Behind (NCLB) under Title II A, Subpart 3, In order to continue, the partnerships had to adhere to the new regulations of NCLB, which went into effect on July 1, 2002.*
- NCLB did not provide any regulations or guidance for methods to be used to determine the 20% poverty threshold. The department used its best judgment and expertise to determine what data to use to determine the 20% poverty threshold for continuance of the two-year grants. The department issued no grants that were out of compliance with the NCLB statutes.*

⁶ In the State of Alaska, an LEA is a school district.

⁷ Eligible partnerships must include: (1) a private or State Institution of Higher Education that prepares teachers and principals; (2) a school of arts and sciences; (3) a “high-need LEA.” The purpose of which is to increase the academic achievement of all students by helping to: (1) improve teacher and principal quality and (2) ensure that all teachers are highly qualified.

- *Legislative Audit’s assertion that the district in question did not meet the definition of “high need district” without eliminating a portion of the district’s data would have required that NCLB had provided the department with a specific methodology by which to determine the 20% poverty threshold. This was not the case.*
- *NCLB did not include a requirement that the department had to use only one method for determining the poverty data. NCLB stipulates that a partnership must contain a high-need LEA. A high-need LEA is defined as one having not fewer than 10,000 children from families with incomes below the poverty line or for which not less than 20% of the children are from families with incomes below the poverty line. Since Juneau does not have 10,000 children, the issue in this case was having not less than 20% from families with incomes below the poverty line. The NCLB act does not indicate what standard should be used to determine the 20% mark. When questioned about their poverty data, the curriculum coordinator of the Juneau School District (JSD) said that they use free and reduced lunch data. JSD estimated the poverty level to be 21.5% because that was the average of all the elementary schools. When asked why they don’t consider the data from secondary schools she said that the data is unreliable because although the program exists in those schools, the students do not sign up. In order to get their lunches the students have to go to the nurse’s office and the lunches are not very appealing. Since many of the students in the high school are siblings of those in elementary school the Juneau School District uses the 21.5%.*
- *Based on the poverty data available and the lack of accurate secondary poverty data provided to the department and the district’s estimate that the districts overall poverty level was over 20%, the department applied the 21.5% poverty rate for this grant process.*

The State of Alaska has worked in earnest to implement all provisions of NCLB since it became law. The act is over 1,000 pages. Department staff, as well as U. S. Department of Education staff, focused on Title I and Assessment and Accountability sections of NCLB first, as they changed the most from previous law and had the most consequences attached to them. This Title II A, Subpart 3 grant, while not of the magnitude of Title I, was also implemented with careful consideration. Our implementation of this grant program corresponds in every way with the NCLB law.

*Contact Person: Elizabeth Sweeney, Internal Auditor
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Legislative Audit’s Additional Comments

We have read DEED’s response to this recommendation and nothing contained in the response has provided sufficient information to persuade us to remove or revise this recommendation.

Recommendation No. 6

The TLS director should ensure that subrecipient monitoring activities are adequately documented.

Monitoring activities performed to verify subrecipient compliance with ITQSG program requirements were inadequately documented. During FY 03, the agency conducted five on-site visits that included monitoring districts providing ITQSG funded services. In four of those five visits the agency report does not document the extent of the review performed, nor the districts compliance with program requirements.

U.S. Department of Education federal regulation 34 CFR 80.40 states that grantees are responsible for monitoring grant and subgrant supported activities to ensure compliance with applicable federal requirements. Grantee monitoring must cover each program, function, or activity. The agency cannot provide assurance that subgrantees are compliant with federal requirements when adequate documentation of monitoring activities are not maintained.

We recommend the TLS director improve procedures for documenting monitoring activities performed on subrecipients to provide greater assurance that federal funds are expended in accordance with program requirements.

CFDA: 84.367

Federal Agency: USDOE

Questioned Costs: None

Agency Response – Department of Education and Early Development

The department agrees that some of the districts' monitoring documents were incomplete, even though the monitoring visits occurred and letters to the district superintendents documented compliance or non/partial compliance with No Child Left Behind programs. The Director of Teaching and Learning Support (TLS) will work with the Title I/No Child Left Behind Administrator and the Deputy Director of TLS to ensure that all monitoring documents, letters and other supporting information are filed properly and accessible within the department for federal and audit purposes.

*Contact Person: Elizabeth Sweeney, Internal Auditor
Telephone: 907-465-8685*

Recommendation No. 7

The TLS director should establish procedures to ensure that private school participation in ITQSG services is provided in accordance with program requirements.

The TLS division procedures, to ensure ITQSG program activities are conducted in accordance with federal requirements and grant agreements, are not complete. Specifically, there is no verification that private school participation in ITQSG activities occurred as planned. The State requires LEAs to report the extent of planned private school participation in their yearly application to the State. In the application, LEAs indicate the activities they plan to provide to private schools, the specific federal programs supporting the activities, and anticipated per pupil expenditure data. However, neither the reimbursement approval process nor monitoring activities at DEED include steps for verifying that planned ITQSG services were provided in accordance with regulation. This, in effect, results in potential misappropriation of funds at the subgrantee level and potential failure to meet private school needs.

Under ESEA Section 9501, private school educational personnel are eligible to participate in ITQSG professional development activities. Further, ESEA requires LEAs to provide private school personnel with services on an equitable basis and in a timely manner.

We recommend the TLS director establish procedures to verify that private school participation in ITQSG activities was provided in accordance with federal regulation.

CFDA: 84.367

Federal Agency: USDOE

Questioned Costs: None

Agency Response – Department of Education and Early Development

The department agrees with the need for procedures that ensure that private school participation in ITQSG services is provided in accordance with program requirements.

The No Child Left Behind statute is complex and over 1,000 pages in length. Subsequent regulations and guidance documents are at least 500 pages. The audit finding relates to one NCLB requirement for the Title II A Teacher Quality program that was not addressed in the district monitoring process.

The department will ensure that a process is established for future monitoring visits that verifies Title II A private school participation, which is the requirement in question. The Deputy Director, Title I/NCLB Administrator, the Grants Administrator for Title II A, and the Program Manager for Title II A will ensure this requirement is met.

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Recommendation No. 8

The deputy commissioner should develop and implement procedures to ensure that timely management decisions are issued to subrecipients for all audit findings.

Federal regulation 34 CFR 80.26(b)(3) requires:

“...that appropriate corrective action is taken within six months after receipt of the audit report in instance of noncompliance with Federal laws and regulations.”

Further, 34 CFR 80.26(b)(4) reads:

“Consider whether subgrantee audits necessitate adjustment of the grantee’s own records...”

Finally, OMB Circular A-133 Subpart D §__.405(a) in part reads:

“The management decision shall clearly state whether or not the audit is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action.”

DEED has not totally fulfilled their duties as a pass-through entity by failing to issue management decisions on subrecipient audit findings. Based on follow-up of subrecipient audit findings, we determined that DEED does not have procedures to ensure written management decisions are issued within six months as required. Although audit findings are discussed with pertinent staff, the discussion is not documented nor is a formal management decision issued.

In one instance, we determined DEED contacted a subrecipient regarding questionable management practices; however, the correspondence did not address questioned costs of \$33,000. To date this issue remains outstanding; ten months after receipt of the audit report.

The deputy commissioner should develop and implement procedures to ensure management decisions are issued timely and questioned costs are resolved for all subrecipient federal audit findings.

CFDA 93.575/93.596

Federal Agency: USDHHS

Questioned Costs: \$33,000

Agency Response – Department of Education and Early Development

The department agrees with the need for updated subrecipient procedures and practices, but the department disagrees that this issue with \$33,000 in questioned costs creates a federal single audit recommendation and \$33,000 in questioned cost to USDHSS.

The department agrees that the subrecipient monitoring program needs updated procedures and implementation. The department will review the subrecipient requirements, develop written procedures and documentation requirements, and implement procedures to ensure management decisions are issued timely and questioned costs are resolved for all subrecipient federal audit findings.

- *During the interim, while EED is drafting formal procedures, EED will immediately implement the following procedure:*
- *Within 30 days after receipt of a subrecipient audit, EED will list each subrecipient audit received and identify any recommendations or questioned costs in a spreadsheet.*
- *EED will issue a management decision, as defined in A-133 on any applicable subrecipient recommendations or questioned costs within 6 months from receipt of audit.*
- *In addition EED will continue ongoing subrecipient monitoring practices while new procedures are developed and implemented.*

The department agrees that the item identified was not resolved within 6 months of receipt of audit. However, the department disagrees that this item constitutes questioned costs on EED's federal audit. In accordance with A-133 Subpart C 315 (4) the audit findings on the subrecipient's audit are still valid and the auditee has not been relieved of their responsibility for the questioned costs. The department communicated with both the independent auditor and the auditee and the December 31, 2003 audit due to the department in the near future includes on the schedule of prior audit findings the \$33,000 as outstanding.

The department sent a formal letter to the subrecipient on April 8, 2004. The auditee responded that they did not agree with the full dollar amount of questioned costs. The department has contacted the program manager, now in another department, and will ask the auditee to present documentation and then EED will collaborate with the program manager to determine the amount of disallowed costs. The department is currently working on resolution of this item with the sub-recipient.

*Contact Person: Elizabeth Sweeney, Internal Auditor
Telephone: 907-465-8685*

Legislative Audit's Additional Comments

We have read DEED's response to this recommendation and nothing contained in the response has provided sufficient information to persuade us to remove or revise this recommendation. However, we offer the following comments.

The Federal awarding agency, not the Division of Legislative Audit (DLA), determines the allowability of questioned costs. It is DLA's responsibility to determine whether state agencies have fulfilled their subrecipient monitoring responsibilities.

It appears that DEED is taking steps to resolve this audit finding. DLA will follow up on actions taken by DEED to resolve this finding during the FY 04 Statewide Single Audit.

We reaffirm our finding and recommendation.

Recommendation No. 9

The ESS assistant director should ensure equipment management procedures meet state and federal requirements.

Three computer equipment purchases totaling \$65,384 were not recorded in the state property control system (SPCS). Although identifying tags were placed on the items; the tag numbers and equipment descriptions were not recorded in the SPCS. These equipment purchases were funded by the Child Care Development Fund (CCDF) federal program. Further, an annual physical inventory of the SPCS was not performed by DEED.

OMB Circular A-102, Common Rule, Subpart C §____.32(b) requires states to:

"...use, manage and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures."

Alaska Administrative Code 2 AAC 12.590(b) reads:

"Inventory records must be based on a physical inventory and adjusted for subsequent purchases, property traded in, transferred to another state agency, salvaged, or disposed of."

Additionally, Alaska Statute 37.05.160 reads:

"the accuracy of the property record shall be verified periodically by actual inspection of the property by the department. The state agencies may be required to take physical inventory of properties annually and at other times as the department directs."

Failure to record the property into the State system was due in part to reassignment of duties and lack of documented procedures. The responsibility for tagging and recording data into the property management system changed hands several times during the audit year. Specifically, three individuals were tasked with these duties throughout the year. The repeated reassignment of duties coupled with no documented procedures resulted in the items

not being recorded in the SPCS. The weak control environment increases the risk of misappropriation of property assets, exclusion of property items from the database, and potential understatement of physical assets in the State's financial records.

We recommend DEED implement State policy and procedures to ensure program staff properly tag and record property into the SPCS. Further, periodic physical inventories should be completed to ensure property records are accurate.

CFDA 93.575/93.596

Federal Agency: USDHHS

Questioned Costs: None

Agency Response – Department of Education and Early Development

The department agrees with this recommendation is developing equipment management procedures that meet state and federal requirements.

*Contact Person: Elizabeth Sweeney, Internal Auditor
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Recommendation No. 10

The ESS assistant director should ensure sufficient supporting documentation exists for the transfer of expenditures between legal appropriations.

Adjusting journal entries (AJEs) lacked sufficient supporting documentation to substantiate the transfer of expenditures. Of seven adjusting journal transactions tested, four lacked sufficient supporting documentation. Expenditures in question, transferred between legal appropriations, total \$230,640. Specifically, we identified:

- An unsupported transfer of \$119,483 from Alaska Vocational Technical Centers (AVTEC) operating appropriation (AR 17860-03) to AVTECs deferred maintenance capital appropriation (AR 21250-07).
- Overstated adjustment of \$40,000 to the ESS/Alaska Commission on Postsecondary Education's Administrative Services Oversight appropriation (AR 18503-03). The journal entry included an allocation spreadsheet; however, it did not support the amounts adjusted. Also, this adjustment allowed the collection of an interagency receipt for the same amount early in the fiscal year. Several months later a correcting entry was made.
- Transfer of \$51,500 of personal service expenditures between the FY 02 AVTEC (AR 17860-02) and FY 03 AVTEC appropriation (AR 17860-03). As a result of this

transfer, a potential revenue shortfall of \$51,500 in the FY 02 AVTEC operating appropriation (AR 17860-02) was concealed, see Recommendation No. 11.

- The CCDF program was overcharged \$9,797 for legal services that were performed for other units within the department. The billing from the Department of Law supported charges to the Early Development (AR 17725-03) totaling \$9,247; however, the journal entry transferred \$19,044.

Alaska Statute 37.07.080 restricts transfers between appropriations. Specifically, “*transfers may not be made between appropriations, including transfers made through the use of a reimbursable services agreement or other agreement, except as provided in an act making the transfers between appropriations.*”

Additionally, the Accounting Procedures Manual, Section 9, for journal entries requires backup to ensure a clear understanding of the transaction and the appropriateness. Finally, U.S. Department of Health and Human Services federal regulation 45 CFR 92.20(b)(6) reads: “*accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.*”

Failure to apply established guidance, perform necessary review during the certification process, and lack of proper supporting documentation has resulted in several instances of noncompliance with state and federal statute and regulation.

We recommend sufficient documentation be included to support the movement of costs. The audit trail should specifically identify which expenditures are being moved, in order to ensure that costs are appropriate and allowable for the legal appropriation charged.

CFDA 93.575/93.596

Federal Agency: USDHHS

Questioned Costs: Immaterial

Agency Response – Department of Education and Early Development

The department agrees and believes that sufficient procedures are in place to ensure supporting documentation is attached to adjusting journal entries (AJEs) processed. Additional training in this area will be provided to staff to ensure that procedures are followed.

Contact Person:

*Elizabeth Sweeney, Internal Auditor
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Recommendation No. 11

The ESS assistant director should take measures to resolve revenue shortfalls.

The State Budget Act provides that if actual collections fall short of appropriated program receipts, an agency is required to reduce its budget by the estimated reduction in collections.

<u>Appropriation Number</u>	<u>Appropriation Title</u>	<u>Amount</u>
AR 17860-02	Alaska Vocational Technical Center	\$51,500

The revenue shortfall amount for AVTEC is shown after adjustment for the improper expenditure transfer discussed in Recommendation No. 10.

We recommend the assistant director of ESS work to resolve the revenue shortfall by collecting outstanding earned revenues and requesting a supplemental appropriation for amounts determined to be uncollectible.

Agency Response – Department of Education and Early Development

The department agrees with the recommendation and will request ratification at the next available opportunity.

*Contact Person: Elizabeth Sweeney, Internal Auditor
Telephone: 907-465-8685*

Recommendation No. 12

ESS should develop a cost allocation plan to support administrative overhead costs billed to capital projects, revise billing procedures, and lapse excess general fund receipts.

Prior Finding

DEED has accumulated over \$4 million in interagency Capital Improvement Project (CIP) receipts from capital appropriations. This unexpended balance consists of transfers from capital appropriations to cover future capital project administrative overhead costs at DEED. Rather than recording the CIP interagency receipts in the year billed, DEED maintains these funds in a suspense account. The CIP receipts are eventually recorded to operating appropriations at DEED’s discretion over multiple budget cycles.

DEED’s process has significant weaknesses for both overhead costs and resulting CIP receipts creating two areas of noncompliance with State budgetary and administrative requirements.

- Administrative overhead costs charged to capital appropriations are not supported by actual expenditures or a current approved cost allocation plan.⁸ The expenditures are charged to the projects before having been incurred. The current administrative overhead rate of 1.05% was revised in FY 99 and a supporting cost allocation plan has not been available.
- CIP receipts are not necessarily charged to the budget year in which they are received or earned. It appears that CIP receipts for the administrative overhead costs are recorded to an operating appropriation only when the general fund authorization is insufficient to fund DEED's administrative costs. There is no relationship between the recording of CIP receipts and the capital project expenditures that generated them.

The excess accumulation of funds may be due to: (1) an administrative overhead rate that is greater than actual capital project administrative costs, (2) CIP receipts for overhead costs that have been incurred, but have not been credited to the operating budget, and/or (3) overhead costs that have not yet been incurred on outstanding capital projects.

We recommend ESS develop a cost allocation plan and obtain AOMB approval to charge capital projects for administrative overhead costs. ESS should bill the capital projects on an annual basis using an approved rate that represents actual capital project overhead costs for the year. Further, all CIP receipts should be reflected as received in the agency's operating appropriations in the fiscal year they are earned. Additionally, the accumulated CIP receipts of \$4 million should be evaluated to determine if any amount represents excess charges to the outstanding capital appropriations. Any remaining accumulated CIP receipts should lapse.

Legislative Audit's Current Position

In FY 03, DEED partially addressed this finding by not transferring funds from capital appropriations for administrative overhead costs. However, no steps were taken to develop a cost allocation plan or evaluate the accumulated CIP receipt balance in the suspense account to determine the amount representing excess charges to capital appropriations. Nor were any general fund receipts lapsed as recommended in the prior year. At present, approximately \$3.7 million remains for evaluation in the suspense account.

An agency cannot receive or expend receipts in excess of their authorization. Further, any excess receipts must be classified as unrestricted receipts and lapsed into the general fund.

⁸ Alaska Statute 37.07.080(e) in part reads "... *Transfers may not be made between appropriations, including transfers made through the use of a reimbursable service agreement (RSA) or other agreement, except as provided in an act making the transfers between appropriations.* Further, it reads that "*a RSA or other agreement may be used to finance the provision of a service if ... (2) the agency that provides the service bills the agency administering the available funds based on (A) the actual cost to provide the service; or (B) a cost allocation method approved by the office.*"

We again recommend ESS evaluate the \$3.7 million remaining in the suspense account to determine the amount representing excess charges to capital appropriations. Any remaining accumulated CIP receipts should lapse.

Agency Response – Department of Education and Early Development

The department agrees that the administrative overhead cost allocation plan associated with management of capital projects needed review and updating. There was no overhead rate applied to current capital appropriations. The fund equity account balance within the state general fund is being transferred via journal entry to the state general fund on July 1, 2004 thereby closing the fund equity account. The department has resolved funding the facilities unit that oversees capital projects.

*Contact Person: Elizabeth Sweeney, Internal Auditor
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DEPARTMENT OF HEALTH AND SOCIAL SERVICES

Twenty-one recommendations were made to the Department of Health and Social Services (DHSS) in the *State of Alaska, Single Audit for the Fiscal Year Ended June 30, 2002*. Prior year Recommendation Nos. 20 through 29 and Recommendation No. 36, have been resolved. Prior year Recommendation Nos. 18, 19, 30, and 31 have not been resolved and are reiterated in this report as Recommendation Nos. 13, 14, 22, and 24, respectively. Prior year recommendation Nos. 32, 33, 34, 35, 37 and 38 have been partially implemented by DHSS. These recommendations are not specifically reiterated in this report; however, the impact on internal controls is considered in the current year Recommendation No. 24.

Additionally, 12 new recommendations have been made and are included as Recommendation Nos. 15 through 21, 23, and 25 through 28.

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Recommendation No. 13

The Department of Health and Social Services (DHSS) finance officer should improve the controls over categorization and allocation of allowable claims.

Prior Finding

DHSS allocates expenditures to federal programs through the use of electronic spreadsheets. Current internal control procedures for the determination and allocation of costs through these spreadsheets are not adequate. Significant errors have occurred and not been detected. Multiple formula errors and linking problems in the allocation process were identified. Individually, these anomalies do not indicate a significant weakness. Yet, when considered collectively, the errors are significant and indicate the need for improving the system of allocating costs.

Specifically, we identified instances of costs being allocated twice, formula errors in cells, and the application of the incorrect federal financial participation rates. These errors resulted in \$209,746 of questioned costs in FY 02 for the Medicaid program and \$40 for the Food Stamps program.

As a condition of receiving federal awards, states are required to maintain internal controls over federal programs that provide reasonable assurance that the state is managing federal awards in compliance with applicable laws and regulations. Additionally, both direct and indirect costs must meet the conditions of Office of Management and Budget (OMB) Circular A-87 which require the expenditures allowable under a grant program be necessary and reasonable for administration of the grant program.

Legislative Audit's Current Position

This finding continues to be applicable in FY 03. We identified multiple formula errors and inaccurate supporting amounts that resulted in federal programs being overbilled for expenditures.

Specifically, we identified instances of costs being allocated twice, formula errors in spreadsheet cells, inaccurate linking of spreadsheet cells, and unsupported reimbursable service agreement amounts. According to DHSS staff, there were instances where the cost allocation spreadsheets were changed after the spreadsheets were deemed final. This causes discrepancies between spreadsheets, as information entered into one is often based on information from another. Questioned costs related to these errors were \$740,994 for the Medicaid program, \$8,615 for the WIC⁹ program, \$1,237 for the SCHIP¹⁰ program, \$105 for the Food Stamps program, \$3,636 for the Center for Disease Control: Investigative and

⁹ WIC is the acronym for the Special Supplemental Food Program for Women, Infants, and Children.

¹⁰ SCHIP is the acronym for the State's Children Insurance Program.

Technical Assistance program, and \$37 for the Special Education: Grants for Infants and Families with Disabilities program.¹¹

We recommend the DHSS finance officer improve internal control procedures over the allocation of expenditures to federal programs. These improvements should address control over access to the cost allocation spreadsheets.

CFDA: 10.557
Questioned Costs: \$8,615
Federal Agency: USDA

CFDA: 84.181
Questioned Costs: \$37
Federal Agency: USDOE

CFDA: 93.283
Questioned Costs: \$3,636
Federal Agency: USDHHS

CFDA: 93.767
Questioned Costs: \$1,237
Federal Agency: USDHHS

CFDA: 93.778
Questioned Costs: \$740,994
Federal Agency: USDHHS

Agency Response – Department of Health and Social Services

The department concurs with the recommendation. The finance officer has established internal controls by “password protecting” the cost allocation spreadsheet after its deemed final. Access will be limited to two staff people, the finance officer and the accountant IV responsible for implementation. Additionally, the federal unit will continue to work with the information technology staff to ensure the spreadsheets are safeguarded to prevent changes occurring.

The federal reporting unit has processed some decreasing federal claim adjustments. The remaining decreasing claims will be reflected on the September 30, 2004 federal financial reports.

*Contact Person: Michelle Grose, Finance Officer
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¹¹ This program is also referred to as the Infant Learning program.

Recommendation No. 14

The DHSS assistant commissioner responsible for finance and management services should ensure staff provides accurate and reliable information for implementing the cost allocation plan and that the information is obtained in compliance with federal requirements.

Prior Finding

Weaknesses were found in the application of federally-approved cost allocation methodologies. DHSS' direct and indirect costs are allocated to federal programs as prescribed by the federally-approved cost allocation plan. This plan dictates the allocation methodologies that DHSS uses to calculate expenditures charged to various federal programs.

One weakness found in FY 02 related to the random moment time study (RMTS) completed by Division of Public Assistance (DPA) staff. The federally-approved cost allocation methodology requires a sample size of approximately 1,900. In the third quarter of FY 02, DPA had a countable sample size of 1,277.

Another weakness was in the application of the Division of Family and Youth Services (DFYS) RMTS results. The federally-approved cost allocation plan specifies that DFYS administrative costs are allocated based on a four-quarter average of the RMTS results. During FY 02, only the current quarter's results were used to allocate the costs.

Further, department-wide information services costs were not allocated in compliance with the cost allocation plan. The approved methodology specifies that costs identifiable to a specific division or cost center should be directly charged. Costs not specifically identifiable are to be allocated based on direct time charges during the quarter. Our review of time reports used to allocate costs found hours were incorrectly omitted, timekeeping procedures did not provide sufficient support to accurately allocate the time among cost centers, and 85% of the time charged was allocated to eight divisions based on the belief that the allocation generally reflected the time spent by the information services staff.

Legislative Audit's Current Position

Insignificant progress was made during FY 03 to address the weaknesses noted during FY 02. DPA reviewed their staff listing to ensure vacant positions were not included in the RMTS. This increased sample size. However, sample size is still far below the required 1,900.

No changes were made to ensure the DFYS' RMTS results were averaged with the prior three quarters. Further, the newly drafted cost allocation methodology awaiting federal approval continues to require the moving average. For the fourth quarter of FY 03, using the incorrect methodology resulted in \$10,819 being overcharged to Title IV-E Foster Care program and \$1,934 being overcharged to Title IV-E Adoption Assistance program. A

reallocation of costs based on the four-quarter average would be necessary for the other three quarters in order to identify all questioned costs for FY 03.

Beginning the last quarter in FY 03, DHSS changed the methodology used to allocate department information service costs to comply with the newly drafted cost allocation methodology awaiting federal approval. This methodology uses position counts to allocate costs. DHSS stated that, although this method was not federally approved, it resulted in a more accurate allocation of costs. Questioned costs likely exist for the first three quarters of FY 03 due to misrepresented allocation data.

In the current year, we found no additional errors associated with cost allocation methodologies.

We again recommend the assistant commissioner responsible for finance and management services ensure the sample size for DPA's RMTS complies with the federally-approved cost allocation plan. If DHSS regards their current sample size as being statistically valid, the department should pursue federal approval. We also recommend that the assistant commissioner responsible for finance and management services seek federal approval of the methodologies being used to allocate costs for the Division of Family and Youth Services administrative costs and department-wide information services costs.

CFDA: 93.658

Federal Agency: USDHHS

Questioned Costs: \$10,819

Agency Response – Department of Health and Social Services

The department concurs with the recommendation. Effective July 1, 2004 the Office of Children Services and the Division of Public Assistance implemented a computerized random moment time study that randomly selects 2500 samples for each quarter. Implementation of the computerized software will ensure that at least 1900 valid samples are used as outlined in the FY 02 recommendation.

*Contact Person: Michelle Grose, Finance Officer
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Legislative Audit's Additional Comments

We have reviewed DHSS' response to this recommendation and offer the following comment. While the department did provide a corrective action for one of the findings in this recommendation, it did not address a corrective action plan for the other two findings. Specifically, the unaddressed corrective actions relate to the department's methodology for allocating OCS' (previously DFYS) administrative costs and department-wide information service costs.

Recommendation No. 15

DHSS' finance officer should ensure that transfers of expenditures between appropriations are performed in accordance with state statutes.

DHSS inappropriately transferred \$885,359 of expenditures between appropriations.

Beginning FY 03, and in accordance with amendments to the Medicaid State Plan, changes were made in how the State provides funding for Community Mental Health (CMH) grants. Before FY 03, these grants were financed exclusively through general funds appropriated to the Division of Mental Health and Developmental Disabilities (DMHDD) and disbursed directly to CMH providers. CMH grants are now financed by the Division of Medical Assistance (DMA) via payments made to qualifying hospitals who then disburse the funds to CMH providers. This new method of financing allows DMA to claim federal reimbursement for CMH payments made to the hospitals. DMHDD, through a Reimbursable Services Agreement (RSA), provides the general fund portion of the funding to DMA.

In FY 03, expenditures totaling \$3,943,677 were transferred from DMA into an unbudgeted RSA (with DMHDD). The majority of this amount (\$3,058,318) represents the State portion (nonfederally reimbursed portion) of the CMH payments made by DMA. These expenditures are supported by services provided by CMH grantees that were funded by DMA in accordance with the unbudgeted RSA. However, also included in the total amount transferred was \$885,359 that the department labeled as the general fund savings generated from the refinancing process. This amount is not supported by actual services.

Per AS 37.07.080(e), transfers may not be made between appropriations, including transfers made through the use of RSA or other agreement, except as provided in an act, making the transfers between appropriations. However, an RSA may be used to finance the provision of a service if (1) the agency that requires the service has the legal authority to obtain or provide the service and (2) the agency that provides the service bills the agency administering the available funds based on either the actual cost to provide the service or an Alaska's Office of Management and Budget (AOMB) approved cost allocation method.

In this transaction, \$885,359 of expenditures transferred from DMA via an unbudgeted RSA to DMHDD does not represent the actual cost of providing a service or an approved cost allocation method. Therefore, because the transfer was not specifically authorized in legislation and not supported by any actual service, by making the transfer, DHSS circumvented the legislative process.

The unallowable transfer of expenditures increases the amount in shortfall reported in Recommendation No. 16 for DHSS' medical assistance appropriation (AR 22520-03). The unallowable transfer of expenditure increases the shortfall to \$15,124,359.

We recommend the DHSS finance officer ensure that transfers between appropriations are performed in accordance with state law.

Agency Response – Department of Health and Social Services

The department concurs with the recommendation. DHSS strives to ensure that all applicable statutes are adhered to. In the case cited, the RSA expenditures paid for clients requiring treatment for behavioral health related problems. The majority of this RSA paid for the disproportionate share match for single point of entry services to specific hospitals for behavioral health related services. The amount referenced \$885,359, was also used as state match for valid claims processed through the MMIS for behavioral health services. The department acknowledges that the RSA description could have been clearer to alleviate any misconception that these funds were inappropriately transferred.

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Legislative Audit’s Additional Comments

We have reviewed DHSS’ response to this recommendation and nothing contained in the response provided sufficient information to persuade us to remove or revise this recommendation.

We disagree with DHSS that clarifying the RSA description would address this finding. If the department is going to charge the behavioral health appropriation for the state match portion of behavioral health related MMIS transactions, the department needs to specifically identify the MMIS transactions. Without specifically identifying the transactions, DHSS has inappropriately used the RSA to transfer expenditure authority between appropriations.

Recommendation No. 16

The DHSS finance officer should take measures to resolve revenue shortfall issues.

The State Budget Act provides that if actual collections fall short of appropriated program receipts, an agency is required to reduce its budget by the estimated reduction in collections. For FY 03, six shortfalls have been identified for DHSS. These shortfalls are as follows:

<u>Appropriation Number</u>	<u>Appropriation Title</u>	<u>Amount</u>
AR 22550-02	Family and Youth Services Management	\$ 1,031,000
AR 22553-02	Family & Youth Services Staff Training	\$ 56,000

AR 22520-03	Medical Assistance	\$15,125,000 ¹²
AR 22541-03	Family and Youth Services	\$ 303,000
AR 22601-03	Miscellaneous Claims	\$ 59,000
AR 23686-03	Capital Upgrades to the EIS	\$ 47,000
AR 23745-03	Deferred Maintenance, Renewal, Replacement and Equipment	\$ 21,000

During the prior year, we identified that DHSS improperly transferred revenue to AR 22550-02 (discussed in prior year Recommendation No. 20). The revenue shortfall amount noted above for AR 22550-02 is shown after adjustment for the FY 02 improper revenue transfer and an improper FY 03 revenue transfer – which is discussed below. Additionally, as discussed in Recommendation No. 15, DHSS improperly transferred expenditures out of the Medical Assistance appropriation (AR 22520-03). The shortfall amount includes the \$885,359 of expenditures improperly transferred.

During FY 03, DHSS staff continued to improperly transfer revenue between appropriations to eliminate revenue shortfalls. A total of \$69,600 was transferred from the Purchased Services appropriation (AR 22540-02) to the Family and Youth Services Management appropriation (AR 22550-02) to eliminate part of the FY 02 shortfall amount. Additionally, \$56,000 of revenue was improperly transferred from the Front Line Social Workers appropriation (AR 22541-02) to the Family and Youth Services Training appropriation (AR 22553-02) to eliminate the FY 02 shortfall. Transfer of revenues for the purpose of eliminating a revenue shortfall is not allowable. The FY 02 shortfall of \$56,000 continues to be reported as noted above.

We recommend that DHSS’ finance officer work with the directors of the pertinent operating divisions to resolve these revenue shortfalls by collecting outstanding earned revenues where possible and requesting supplemental appropriations for the remaining amounts. We further recommend the DHSS finance officer stop the practice of improperly transferring revenues between appropriations to avoid revenue shortfall.

Agency Response – Department of Health and Social Services

DHSS has resolved all revenue shortfall issues. Our actions to resolve are the following:

AR 22550-02 Family and Youth Services Management – A revenue shortfall no longer exists. DHSS believes the revenue transfer is appropriate (See prior year recommendation No. 20). The balance was resolved with additional federal revenue collections.

¹² The amount reported in shortfall for AR 22520-03 does not include \$33,945,000 of revenue the State has not received related to its Fairshare program. DHSS believes the revenue will be paid to the State at resolution of the appeals process. Similarly, no shortfall has been reported for AR 22520-02; however, \$11,139,000 of revenue has not been received related to the Fairshare program. The federal Centers for Medicare and Medicaid Services is questioning the allowability of the costs. DHSS believes that the revenue will be paid to the State at resolution of the appeals process.

AR 22553-02 Family and Youth Services Staff Training - A revenue shortfall no longer exists. DHSS believes the revenue transfer is appropriate (See prior year recommendation No. 20).

AR 22520-03 Medical Assistance – A revenue shortfall totaling \$13,754,000 exists within this appropriation. This is a calculated difference due to the DHSS’s position regarding Recommendation No. 15 above. DHSS will request ratification during the next Legislative session.

AR 22541-03 Family and Youth Services – A shortfall no longer exists. Revenues were incorrectly posted to the SFY 04 appropriation which was earned in SFY 03.

AR 22601-03 Miscellaneous Claims – A shortfall no longer exists. DHSS claimed the federal revenue earned.

AR 23686-03 Capital Upgrades to the EIS and AR 23745-03AR 23745-03 Deferred Maintenance, Renewal, Replacement and Equipment – The revenue shortfalls result from discrepancies with the capital improvement receipts billing and direct charging federal programs for personal service time (using positive time keeping records). We have transfer excess federal revenue to the capital appropriations to remove the revenue shortfall.

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Legislative Audit’s Additional Comments

We have reviewed DHSS’ response and nothing contained in the response provided sufficient information to persuade us to remove this recommendation. We continue to believe transferring revenues between appropriations, to resolve shortfalls, is not appropriate.

Recommendation No. 17

The internal auditor should implement procedures to ensure subrecipient information provided to the Office of the Governor, Office of Management and Budget (AOMB) is accurate and that federal single audit reports are reviewed timely.

DHSS’ internal auditor provided AOMB inaccurate amounts passed through to subrecipients. Further, federal single audits received in FY 03 were not reviewed timely.

Generally, subrecipients are nonprofit organizations awarded grants by DHSS that are funded in whole or in part with federal funds. In order for a grantee to be considered a subrecipient, the agency must be responsible for carrying out objectives of a federal program. For

example, a subrecipient may determine who is eligible to receive federal financial assistance or may have responsibility for programmatic decision making. OMB Circular A-133 section .210 defines the characteristics of a subrecipient.

The State, as a recipient of federal funds, has specific responsibilities to monitor subrecipients. These responsibilities include ensuring subrecipients that expend \$300,000¹³ or more in federal awards during a subrecipient’s fiscal year have met the single audit requirement. Further, the State must review audit reports and issue a management decision on audit findings within six months after receipt of a subrecipient’s audit report and ensure a subrecipient takes appropriate and timely corrective action. State departments and AOMB have procedures in place to comply with federal subrecipient requirements.

AOMB is the entity that collects subrecipient information from all State departments, compiles the information, and determines which subrecipients meet the \$300,000 single audit threshold. AOMB then notifies the subrecipient of the audit requirement, receives the report, and performs a desk review to ensure it meets the audit reporting requirements. Subrecipient audit reports are then forwarded to the appropriate department for follow-up of findings.

DHSS’ internal audit section works with divisional staff to obtain the amounts passed through to subrecipients and forwards the information to AOMB. Further, the section receives the completed audits from AOMB and issues a management decision regarding audit findings.

Our review of federal single audit reports received by DHSS in FY 03 found that audit reports were not routinely reviewed within six months after receipt. Further, the subrecipient pass-through information provided to AOMB was often materially inaccurate. The table below summarizes the amounts reported by DHSS as passed through to subrecipients compared to the actual amounts.

Major Federal Program	Reported to AOMB as passed through to subrecipients	Actual amounts passed through to subrecipients	Amount (Under)/Overstated
TANF (CFDA # 93.558)	\$ 530,000	\$ 807,804	(\$ 277,804)
WIC (CFDA # 10.557)	\$ 3,605,602	\$ 5,206,239	(\$1,600,637)
Center for Disease Control (CFDA # 93.283)	\$ 522,500	\$ 1,225,871	(\$ 703,371)
Consolidated Knowledge Development (CFDA #93.230)	\$ 3,339,487	\$ 4,242,620	(\$ 903,133)

¹³ The federal single audit threshold has been increased to \$500,000 effective for fiscal years beginning after December 31, 2003.

According to the DHSS internal auditor, recent departmental reorganization has made it difficult and time consuming to locate grant files and perform a timely review of single audit reports. Without a timely review, DHSS cannot ensure that appropriate corrective action has been taken.

Inaccurate subrecipient pass-through amounts are due to a lack of understanding by grant staff and a lack of review by DHSS' internal auditor. Grant administrators do not have a clear understanding of what qualifies as a subrecipient and what amounts should be reported to AOMB. Further, DHSS' internal auditor does not review the subrecipient pass-through information for omissions or misstatements. Without accurate information, AOMB cannot ensure the subrecipients are meeting federal single audit requirements.

We recommend that DHSS' internal auditor provide training to the department's newly formed centralized grant administration section to ensure the correct subrecipients pass-through amounts are identified. Further, we recommend that DHSS' internal auditor conduct a review of the subrecipient information provided by grant staff to check for material misstatements before forwarding the information to AOMB. Additionally, we recommend that DHSS' internal auditor prioritize the review of single audits, ensuring a management decision is issued within six months as required by OMB Circular A-133.

CFDA: Various
Questioned Costs: None

Federal Agency: USDA
USDOE
USDOJ
USDHHS

Agency Response – Department of Health and Social Services

The Department concurs. Historically, the Department has not had standardized accounting and reporting process for federal subrecipient payments. Each granting division maintained their own record of federal monies passed through to subrecipient agencies. In FY 2004 the Department consolidated the administrative functions for all departmental grants in the Grants and Contracts Support Team. The Grants and Contracts Support Team is currently developing an electronic grants (eGrants) program that will have the capability to track and report federal subrecipient payments, by CFDA number, to individual grantees. This system should provide accurate, timely, and consistent subrecipient information across the Department grant programs.

The consolidation of the grant administration functions in the Grants and Contracts Support Team should also help considerably in the timely review of federal single audit reports. The Audit Section has implemented a process that prioritizes the review of federal single audit reports that contain findings and questioned costs. This process, along with the grant files and administrative staff being consolidated in the Grants and Contracts Support Team, should improve the timely review of federal single audits.

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Recommendation No. 18

We recommend DHSS administrative managers for the Division of Public Health (DPH) and the Office of Children’s Services (OCS) ensure personal services expenditures charged to federal programs comply with federal cost principals.

Weaknesses exist in DHSS procedures used to charge personal service costs to federal programs. We found two instances where documentation of personal service costs did not comply with federal requirements. In order for salaries and benefits to be an allowable cost, federal cost principals require certain documentation be maintained.

OMB Circular A-87 requires that a certification documenting sole participation be signed at least semiannually for employees who work entirely on a program funded by a single federal award.¹⁴ In addition, OMB Circular A-87 requires appropriate time distribution records support employees salaries that are charged to more than one federal grant of other cost objective. These records must account for all time worked and may not be based on estimates.

One person’s salary cost was charged entirely to the Center for Disease Control Tobacco program but a certification was not signed. FY 03 questioned costs associated with this error totaled \$64,653. Another person was set up to charge half of their time to the federal WIC program and half to the federal Infant Learning program. The employee believed this method approximated actual time worked, however time records were not maintained. FY 03 questioned costs associated with this individual were \$6,687 for WIC and \$6,687 for Infant Learning.

We recommend administrative managers for DPH and OCS implement procedures to ensure personal service expenditures charged to federal programs comply with OMB Circular A-87.

CFDA: 10.557

Federal Agency: USDA

Questioned Costs: \$6,687

CFDA: 84.181

Federal Agency: USDOE

Questioned Costs: \$6,687

¹⁴ Specifically, OMB Circular A-87, Attachment B, section 11 h. 3) states “Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.”

CFDA: 93.283
Questioned Costs: \$64,653

Federal Agency: USDHHS

Agency Response – Department of Health and Social Services

The department concurs with the recommendation. The DPH administrative manager will continue to work with its employees to ensure that adequate positive time records are maintained. Currently, the DPH administrative manager is developing a timesheet for all employees identified as working on multiple benefiting programs. The WIC and ILP programs were part of DPH during SFY 03. Effective July 1, 2003 (SFY 04) these programs were transferred to OCS. DHSS's public assistance cost allocation plan was significantly revised to incorporate the transfer of existing federal programs to other divisions.

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Recommendation No. 19

The health program manager of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), at DHSS' Division of Public Health (DPH), should ensure that food costs are net of rebates earned.

WIC food costs for FY 03 were not reduced for the formula rebates earned for June 2003. OMB Circular A-87 specifies that in order for costs to be allowable, they must be net of all applicable credits.

Under the WIC program, State agencies must operate a cost containment system. As a cost containment, the State solicits sealed bids from infant formula manufacturers to supply and provide a rebate for infant formula. The State agrees to purchase all the infant formula through one manufacturer and the manufacturer agrees to pay a portion of the purchase price back to the State in the form of a rebate. The State bills the manufacturer monthly for the infant formula rebate earned.

According to DHSS procedures, an amount equal to the monthly rebate must be moved from the WIC federally reimbursed cost center to a State-only cost center. This ensures that the allowable food cost is net of the rebate. We found that WIC food costs were not reduced for the amount of the rebate earned in June 2003. The amount of unallowable costs for the month of June was \$253,934.

We recommend the health program manager for the WIC program implement year-end review procedures to ensure WIC food costs have been reduced for all rebates earned.

CFDA: 10.557
Questioned Costs: \$253,934

Federal Agency: USDA

Agency Response – Department of Health and Social Services

The department concurs with the recommendation. Effective, July 1, 2003 the WIC program transferred to the Office of Children’s Services from the Division of Public Health the adjusting journal entry was not processed due to the new division’s unfamiliarity with the program’s financial requirements.

The DHSS federal reporting unit will work with the federal agency to determine how to resolve the questioned costs.

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Recommendation No. 20

DHSS’ finance officer should work with program staff to ensure that grant overpayments are refunded in a timely manner and the appropriate prior period adjustments are performed to reduce federal expenditures.

Four Infant Learning Program (ILP) grantees received funds in excess of actual expenditures during FY 03. Three of the four grantees who received overpayments totaling \$28,460 submitted refunds to the State during FY 04. However, no prior year federal claims adjustments were performed. The fourth overpayment (totaling \$7,327) has not been refunded.

ILP yearly grant close-out procedures include the reconciliation of grant advance payments and actual (grantee) expenditures. Grantees receiving excess funds are required to reimburse the State. Due to timing, these refunds are typically not received during the fiscal year in which the payments were made. An adjustment should be made in the department’s cost allocation spreadsheets to ensure the returned funds are credited to the appropriate federal grant award and prevent the claiming of unallowable expenditures.

Per OMB Circular No. A-87, to be allowable, expenditures must be necessary and reasonable for proper and efficient performance and administration of federal awards. Also, a cost must be the net of all applicable credits. Applicable credits refer to those receipts or reduction of expenditure type transactions (including overpayments) that offset or reduce items allocable to federal awards as direct or indirect costs. These offsetting transactions should be credited to the federal award as either a cost reduction or cash refund, as appropriate.

The \$35,787 in overpayments is considered unallowable under OMB Circular A-87 cost principles. The overpayment for which the state has not been reimbursed is an unsupported expenditure and represents an unnecessary cost assigned to a federal award. The refunded overpayments represent unallowable costs because the refunds have not been properly credited to the appropriate federal award as an expenditure reduction.

We recommend the DHSS finance officer work with program staff to ensure the timely collection of amounts due to the state resulting from grantee overpayments, and strengthen procedures to ensure refunds are properly credited to the appropriate federal award.

CFDA: 84.181

Federal Agency: USDOE

Questioned Costs: \$35,787

Agency Response – Department of Health and Social Services

DHSS concurs with the recommendation. Effective, January 2004, DHSS established the grants and contracts unit (GCU). The GCU has implemented processes requiring the grantee to spend the majority of its initial advance prior to receiving future payments. If the grantee did not spend the predetermined amount, the advance payment is reduced appropriately or not made until the quarterly expenditure reports reflect the appropriate amount of expenditures.

DHSS will process decreasing claim adjustments for the questioned costs totaling \$35,787.

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Recommendation No. 21

The Office of Children’s Services (OCS) director should establish procedures to ensure that ILP subrecipients allocate indirect costs to federally funded grants in accordance with federal program guidelines.

Various subrecipients of the State’s ILP allocated indirect costs to the federally-funded portion of their grants using inappropriate rates. Of the nineteen ILP grantees, we identified nine that used indirect cost rates to determine the amount of indirect costs chargeable to the federal portion of their award, and ten that did not charge indirect costs. Of the nine, six used inappropriate rates ranging from 16.5% to 25%.

The State requires ILP grantees to apply indirect rates in accordance with State regulation 7 AAC 23.060(9), which allows grantees to allocate a maximum of 25% of the total award to allowable administrative costs. However, this State regulation is not consistent with federal regulation 34 CFR 76.564.

Per 34 CFR 76.564, to determine indirect costs, a subrecipient of an agency of a state or local government under programs covered by 34 CFR 76.563¹⁵ may use either an approved Restricted Indirect Cost Rate (RICR) or a rate of 8%¹⁶. The ILP is covered by 34 CFR 76.563 and therefore subject to RICR requirements.

Misapplied indirect cost rates resulted in ILP providers receiving excess federal funds for indirect expenses. Using 8% as the allowable rate, approximately \$31,014 in excess indirect costs were charged to ILP by the six subrecipients not using RICRs.

We recommend the OCS director establish procedures to ensure that ILP subrecipients determine and allocate indirect costs in accordance with federal program guidelines.

CFDA: 84.181

Federal Agency: USDOE

Questioned Costs: Indeterminate

Agency Response – Department of Health and Social Services

The department concurs with the recommendation. The GCU will work with OCS to ensure the Infant Learning Program grantees comply with departmental and federal regulations regarding the appropriate mechanism for charging indirect costs to the grants.

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Recommendation No. 22

The DPH administrative manager should enforce procedures to ensure personal service expenditures charged to federal programs comply with federal cost principals.

Prior Finding

During FY 02, unsupported personal service costs for one DPH employee were charged to Medicaid and SCHIP federal programs. The DPH employee had been set up to charge set percentages of time to the federal programs and a State-only cost center. The allocation percentages were based on estimates.

OMB Circular A-87 requires that salaries of employees chargeable to more than one federal grant or other cost objective be supported by appropriate time distribution records. These records must account for all time worked. Federal guidelines also permit the use of a federally-approved statistical sampling system to allocate personal service costs to multiple

¹⁵ The ILP is covered by 34 CFR 76.563, since the program has a non-supplant requirement.

¹⁶ Subrecipients may use 8% unless US DOE determines that the subrecipient would have a lower rate using a RICR.

cost centers. The use of budgeted estimates is prohibited. Without adequate support for the time charges, the personal service costs are not allowable under federal cost principals. Questioned costs for the FY 02 finding were \$11,427 for SCHIP and \$14,656 for Medicaid.

Legislative Audit's Current Position

During FY 03, DPH continued to use estimates to allocate personal services to multiple cost centers. We tested two DPH employees and found that they were set up to charge half of their time to Medicaid and half to SCHIP. Questioned costs associated with this FY 03 finding are \$21,731 for SCHIP and \$11,043 for Medicaid.

We again recommend that the DPH administrative manager enforce procedures to ensure personal services expenditures comply with OMB Circular A-87.

CFDA: 93.767

Federal Agency: USDHHS

Questioned Costs: \$21,731

CFDA: 93.778

Federal Agency: USDHHS

Questioned Costs: \$11,043

Agency Response – Department of Health and Social Services

The department concurs with the recommendation. The DPH administrative manager will continue to work with its employees to ensure that adequate positive time records are maintained. Currently, the DPH administrative manager is developing a timesheet for all employees identified as working on multiple benefiting programs.

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Recommendation No. 23

We recommend the Division of Health Care Services (DHCS) director improve internal controls over maintenance of the Juneau Claims Eligibility (JUCE) database.

Currently, DHSS has only one staff person trained to maintain and/or use the JUCE database. No written procedures have been developed in the event this staff person terminates or takes an extended leave. DHSS management cited a lack of resources as the reason for the internal control weakness.

The JUCE database essentially downloads payment information from the Medicaid Management Information System (MMIS) into a database. This allows the database user to

perform reports, queries, and/or special data sorts. DHSS uses the JUCE database to identify which MMIS claims qualify for the federal SCHIP program.

OMB Circular A-133 subpart C.300(b) identifies adequate internal controls as a responsibility of management. Specifically, it states management must:

Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Without cross-training and written procedures, DHSS is placing the SCHIP program at a higher risk of noncompliance.

We recommend that the DHCS director allocate the resources necessary to cross-train staff on the maintenance of the JUCE database. Further, we recommend written procedures be developed to ensure SCHIP claims can be accurately determined and reported.

CFDA: 93.767

Federal Agency: USDHHS

Questioned Costs: None

Agency Response – Department of Health and Social Services

The department concurs with the recommendation. Currently, DHCS has one person with extensive training and experience with the JUCE database. We have, however, trained back-up within the division though it is not dedicated to this task and maintains other functions within the department. This HCS staff member can, with the help of the existing procedure manual, download and verify data from MMIS, process all standard monthly and quarterly reports, update projections, and complete all but the most difficult ad hoc data pulls.

In addition, maintenance of the JUCE database is contracted out to Wostman and Associates of Juneau. This local company built the system and is on contract to provide support to the HCS regarding all aspects of the system including data pulls if necessary. In addition, most existing data pulls are saved and well-documented electronically.

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Recommendation No. 24

The DHSS commissioner should emphasize strong internal controls over the Medicaid program.

Prior Finding

We conducted a performance audit of DMA internal control over Medicaid payments. In our report dated January 31, 2003 (Audit Control Number 06-30018-03), we identified numerous control deficiencies. Findings and recommendations related to compliance with federal Medicaid regulations were included in the FY 02 SWSA. We also noted a reportable condition during FY 02 federal compliance testing which was also included in the FY 02 SWSA.

The recommendations noted in the Medicaid performance audit, and the additional finding found in FY 02 testing, represent significant deficiencies in internal controls over federal program funds. Also noted in the Medicaid performance audit was a general desire by DMA, the State's Medicaid agency, to encourage service providers to participate in the program in order to better serve Medicaid clients. This desire surpassed the agency's willingness to implement and enforce the internal controls necessary to ensure accountability for services provided.

Legislative Audit's Current Position

DHSS has made some progress in addressing several of the internal control weaknesses noted in the FY 02 findings and recommendations. However, FY 03 federal compliance testing continued to find significant internal control weaknesses over Medicaid payments. Findings and recommendations related to compliance with federal Medicaid regulations have been included in this report as Recommendation Nos. 25 through 28. Additionally, the Federal Office of the Inspector General conducted an audit of the Medicaid drug rebate program in Alaska dated July 2003 (report number A-10-03-00006) and concluded that "*the State Agency had not established adequate policies, procedures, and internal controls over the Medicaid drug rebate program as required by Federal rules and regulations.*"

As a recipient of federal Medicaid funding, the State must comply with federal requirements related to these funds. OMB Circular A-133 requires the State to maintain internal controls over federal programs which provide reasonable assurance that material federal funds are managed consistent with laws, regulations, and the provisions of contracts or grant agreements. Medicaid is the largest federal program that the State administers. In FY 03, the State was reimbursed over \$552 million as part of the federal Medicaid program.

When considered together – DMA's weak control environment and significant reportable conditions noted during our review – the control deficiencies represent a material internal control weakness. We again recommend that the DHSS commissioner promote strong internal controls over the Medicaid program and swift compliance with audit findings.

CFDA: 93.778

Federal Agency: USDHHS

Questioned Costs: None

CFDA: 93.767
Questioned Costs: None

Federal Agency: USDHHS

Agency Response – Department of Health and Social Services

The DHSS concurs with the Legislative audit recommendations regarding emphasis on strong internal controls over the Medicaid program. The Division of Health Care Services continues to identify and strengthen recommended controls to the best of its ability under current circumstances. The Department expects much greater flexibility with the new Medicaid Management Information System.

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Recommendation No. 25

DHSS' Division of Health Care Services director and the Department of Education and Early Development's (DEED) Division of Teaching and Learning Support director should work together to improve procedures for claiming reimbursement of Medicaid school-based administrative costs to ensure costs are claimed in accordance with federal law.

The school setting provides a unique opportunity to enroll eligible children in the Medicaid program and assist children who are already enrolled in Medicaid to access the benefits available to them. Medicaid provides reimbursement for the costs of administrative activities, such as outreach, which support the Medicaid program.

Procedures used by DHSS to claim reimbursement of administrative costs for Medicaid school-based services fail to comply with federal law – throughout this recommendation these procedures are referred to as DHSS' claiming program. Several aspects of DHSS' claiming program do not meet federal standards including: 1) DEED's administration of the school district time study; 2) the interagency agreement that delineates DHSS and DEED responsibilities under the claiming program; and, 3) DHSS' calculation of allowable costs.

The State's administrative cost claiming program requires collaboration between DHSS, DEED, and school district staff. School district employees participate in time studies to identify the portion of staff time spent on administrative activities for Medicaid-related services. DEED administers the time study, tabulates the results, and provides these results to DHSS. DEED also provides DHSS with school district salary data and student enrollment information. DHSS calculates the administrative costs incurred by school districts for Medicaid-related services based on the information provided by DEED. An interagency agreement between DHSS and DEED identifies each agency's responsibility under the claiming program. DHSS' Division of Health Care Services is responsible for ensuring the claiming program complies with federal guidelines.

We reviewed the State's support for the Medicaid school-based administrative costs claimed for FY 03 and found numerous problems. The deficiencies are discussed below. Questioned costs associated with the errors include the entire FY 03 claim of \$6.5 million.

Time Study

Several aspects of the time study administered by DEED did not comply with federal requirements. Salaries for conducting administrative activities for Medicaid services are an allowable administrative cost as long as they are claimed in accordance with OMB Circular A-87. Attachment B, of OMB Circular A-87, requires supporting documentation in the form of activity reports/time sheets. Substitute systems are allowed under specific circumstance. Specifically, OMB Circular A-87 Attachment B states:

11. Compensation for personnel services

(h)(6) Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.

(a) Substitute systems which use sampling methods ... must meet acceptable statistical sampling standards including:

(i) The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results except as provided in subsection (c)¹⁷ ;

(ii) The entire time period involved must be covered by the sample; and

(iii) The results must be statistically valid and applied to the period being sampled.

Only certified employees of school districts with average daily memberships over 400 were included in the sample universe. Yet, the time study results were used to allocate salaries and benefits of certified employees and noncertified employees of all school districts. The time study form did not adequately distinguish between Medicaid and non-Medicaid activities making sample results unreliable. Further, we question whether time study recipients are completing the forms accurately since DEED provided no training to school district staff.

¹⁷ Subsection (c) states that *less than full compliance with the statistical sampling standards noted in subsection (a) may be accepted by the cognizant agency if it concludes that the amounts to be allocated to Federal awards will be minimal, or if it concludes that the system proposed by the governmental unit will result in lower costs to federal awards than a system which complies with the standards.*

Interagency Agreement

DHSS is the only entity that may submit claims for reimbursement of allowable Medicaid costs. An interagency agreement, which describes and defines the relationships between DEED, school districts, and DHSS, must be in place in order to claim reimbursement for Medicaid school-based administrative costs.

The interagency agreement has not been updated since the claiming program first received federal approval in 1997 and does not accurately reflect the current responsibilities of DEED and DHSS. DEED and DHSS operate under a verbal understanding of their respective roles/responsibilities rather than following the outdated agreement.

Calculation Methodology

Based primarily on information provided by DEED, DHSS calculates the claim for Medicaid school-based administrative costs using the following formula:

$$\begin{array}{ccccccc}
 \text{Medicaid} & & & & & & \\
 \text{School-Based} & & & & & & \\
 \text{Admin costs to be} & = & \text{School} & \times & \text{Percentage of time} & \times & \text{Percentage of} \\
 \text{claimed} & & \text{District} & & \text{staff spends on} & & \text{Medicaid children} \\
 & & \text{Salaries} & & \text{Medicaid Admin} & & \text{enrolled in School} \\
 & & & & \text{Activities} & & \\
 \end{array}$$

The calculation multiplies school district salaries by the percentage of time that staff spent on Medicaid administrative activities. This amount is then multiplied by the percentage of children attending school that DHSS determines are enrolled in Medicaid. DHSS calculates this percentage by taking the total children, ages six through 19, enrolled in Medicaid and dividing it by the average daily enrollment information provided by DEED. We believe this overstates the percentage of Medicaid children, since this methodology is based on the assumption that every child enrolled in Medicaid is also attending school. Adjusting this percentage by the drop-out rates would result in a more accurate percentage of Medicaid children attending school.

Conclusion

DHSS has taken steps to change aspects of their claiming program during FY 04 including working with DEED to revise the time study form and activity codes. We recommend DHSS’ director of Health Care Services and DEED’s director of Teaching and Learning Support take further steps to address the deficiencies noted above. The federal Centers for Medicare and Medicaid Services issued the *Medicaid School-Based Administrative Claiming Guide* in May 2003. Changes to the State’s claiming program are needed to meet federal requirements – as clarified in the guide. Without improvements, DHSS will jeopardize the allowability of further Medicaid school-based administrative claims.

CFDA: 93.778
Questioned Costs: \$6,480,333

Federal Agency: USDHHS

Agency Response – Department of Health and Social Services

The department concurs with the recommendation. Concurrent with this legislative audit was a Center for Medicare and Medicaid Services (CMS) technical assistance review, where many of the same issues were brought forth. During this review many of these issues were researched and corrected. At the request of DHSS, DEED has identified a means by which to survey non certificated staff. Non certificated employees were included in the January – March time study sample pool. Additionally, a new time study has been implemented and now distinguishes between both Medicaid and non-Medicaid time and utilizes the survey codes within the federal guidance. During the month of April, DHSS contracted with a trainer from the Oregon Medicaid program to provide training to district business managers, finance officers, and a few educators statewide. CMS also participated in the training. The training focused primarily on the coding and how to distinguish Medicaid from non Medicaid time. Additional quarterly training sessions are being scheduled next year, with statewide education conferences as one venue. We have also developed specific training curriculum aimed at teachers, school finance offices and business managers, and a ‘train the trainer’ approach.

Interagency Agreement: HCS is currently revising the interagency agreement which clearly delineates responsibilities of both Departments.

Calculation Methodology: DHSS agrees that including school drop out rates in the calculation methodology of Medicaid eligible school children would be more accurate, there are other considerations which indicate this may not be an equitable application to the formula. School Average Daily Membership is calculated at one point in time for the entire year, and does not take into account the drop out rate, nor does it take into account new children entering the school system. Applying drop out rates, without applying new admission rates would not produce a true and accurate percentage of school children. However, DHSS will research the dropout rate and consider its application to the methodology, if material.

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Agency Response – Department of Education and Early Development

Additionally, Recommendation No. 25 in Department of Health and Social Services is also addressed to DEED.

The administrative claiming program is a Medicaid component under the Department of Health and Social Services (DHSS). The Department of Education & Early Development’s (EED) role is limited to collecting school district data for DHSS.

EED does not believe that the contract work performed by the department on behalf of DHSS should be presented as a federal single audit finding to EED. EED needs the assurance provided in federal law that DHSS will manage the State's Medicaid programs.

Federal law is specific in assigning the authority and responsibility of Medicaid to a single state agency. Federal Medicaid law requires an interagency agreement between the State Medicaid agency and the state Department of Education. EED does not have a relationship with the federal Medicaid program for approvals, audit matters or technical assistance. The federal Medicaid agency does not include EED in correspondence or resolution of federal single audit findings; single audit findings and resolutions go through the state Medicaid agency.

The department relies on DHSS to be the lead agency, to manage the administrative claims program and provide the department with any necessary changes in law, updates or other information pertaining to the administrative claiming program. If EED's audit includes a federal single audit finding, EED will have been made responsible for those duties federal Medicaid assigns to DHSS. EED will not be provided the assurance of a state Medicaid agency and EED will not be able to rely on DHSS to manage the program. At the same time, EED is not legally allowed to operate the Medicaid claims program directly.

EED does agree that "DHSS' Division of Health Care Services director and the Department of Education and Early Development's (DEED) Division of Teaching and Learning Support director should work together to improve procedures for claiming reimbursement of Medicaid school-based administrative costs to ensure costs are claimed in accordance with federal law."

EED will be proactive in supporting the administrative claiming program. EED will make necessary corrections and changes as recommended and in order to fully comply with federal requirements. EED will continue to work cooperatively with DHSS in identifying and communicating issues, contributing staff knowledge and actively monitoring the administrative claiming environment. EED will accomplish these objectives through continued communication with DHSS, signing an updated interagency agreement in compliance with the May 2003 administrative claiming manual, participating in administrative claiming training in June 2004 and reviewing all components, procedures and documentation assigned to EED for the administrative claiming program.

The department requests that EED's participation be encompassed, as outlined in federal law, through an interagency agreement with DHSS and that the federal single audit finding be removed from EED's audit. A federal single audit finding in EED's audit will change the role of the authoritative party to the federal Medicaid program.

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Legislative Audit's Additional Comments

We have read DEED's response to this recommendation and offer the following comments. We agree with DEED that the responsibility for this finding rests with the Department of Health and Social Services. We asked that DEED respond to this recommendation because, while they are not responsible for the finding, they will be part of the corrective action.

Recommendation No. 26

The Division of Health Care Services (DHCS) director should ensure that disproportionate share hospital (DSH) payments are made in accordance with federal guidelines.

Under the DSH program, the State paid \$1.5 million to a hospital for the purpose of providing medical care to inmates of State correctional facilities. Federal guidelines prohibit the use of payments for this purpose.

The DSH program allows for payments to hospitals that serve a disproportionate number of low-income patients with special needs. These DSH payment adjustments are subject to several requirements including statutory eligibility criteria, federal allocation of DSH funds, facility specific payment limits, and other requirements identified in the Medicaid State Plan.

To be eligible for a payment, hospitals are required to enter into agreement with the State to report the number of encounters (units of service) for use in determining the appropriate DSH fund distribution. Payment adjustments are distributed to qualifying hospitals based on the relative number of encounters to be performed as specified in the required agreement.

DMA, working through the Department of Corrections, entered into agreement with a DSH under which the DSH received a payment of \$1.5 million. The rate was calculated based on the DSH agreeing to provide a minimum of seventy (70) encounters to adults in correctional institutions.

The federal Centers for Medicare and Medicaid Services (CMS) communicated to states their position that DSH payments cannot be made to cover the costs of prisoner inmate care. Federal guidelines limit Medicaid payments to the costs of providing hospital services to individuals who are either Medicaid-eligible, or have no health insurance or source of third party coverage. According to CMS, prison inmates are wards of the State. Hence, the State is obligated to provide for their basic needs.¹⁸ Because individuals in correctional facilities have a source of third-party coverage (the State), CMS reasons that payments for medical care for such individuals do not qualify for DSH payments.

¹⁸ According to CMS, failure to provide for prison inmates basic needs would be in violation of the 8th amendment to the U.S. Constitution.

We conclude that paying for the cost of medical services provided to adults in correctional facilities is prohibited by federal DSH guidelines. Questioned costs associated with the federally reimbursed portion of the \$1.5 million payment are equal to \$860,700.

We recommend that the DHCS director ensure DSH payments are made in accordance with federal program regulations.

CFDA: 93.778

Federal Agency: USDHHS

Questioned Costs: \$860,700

Agency Response – Department of Health and Social Services

The department agrees that payments should be made in accordance with federal guidelines, but disagrees with this finding because we believe the department was in compliance. DHCS relied upon opinions from Covington and Burling, a Washington D.C. law firm specializing in Medicaid law, and our state attorneys who supported the payment as allowable. DHCS and the Department of Corrections entered into an agreement dated June 28, 2002. The State Medicaid Director letter, discouraging these types of payments was issued August 16, 2002. DHCS believes the payment is appropriate due to the timing of the guidance. However, since CMS has issued the Director letter, the Department has ceased payments for prisoner care as compliance remains questionable.

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Legislative Audit’s Additional Comments

We have reviewed DHSS’ response to this recommendation and nothing contained in the response provided sufficient information to persuade us to reconsider this recommendation.

Recommendation No. 27

DHSS’ director of the Division of Health Care Services (DHCS) should take action to improve controls over the processing and payment of personal care service claims.

Review of personal care service claims paid by Medicaid in FY 03 found multiple instances of noncompliance. We reviewed 54 personal care claims and found instances where unauthorized services were provided, support for services provided was not approved, authorized services/time allowed for services was calculated incorrectly, authorized services were not provided but maximum time allowed was billed, timesheets were not used appropriately, and hours billed were not supported by timesheets. Collectively, these errors indicate significant weaknesses in internal controls over the processing and payment of personal care services by DHCS and its contractor First Health.

According to information published by DHSS, personal care services are provided statewide in Alaska through the Personal Care Assistant Program. These services enable functionally-disabled Alaskans of all ages, and frail, elderly Alaskans, to live in their own home or community instead of being placed in a more costly and restrictive long-term care institution. The program provides services which help with difficulties in performing activities of daily living, including bathing, dressing and grooming; problems with instrumental activities of daily living, such as shopping and housekeeping; and with other problems that require semiskilled and/or, in some cases, skilled care. These services are typically provided in a consumer's home by health care paraprofessionals called personal care assistants (PCA). PCAs work for the recipient, but are employed by either a Consumer-Direct¹⁹ or Agency-Based²⁰ personal care provider.

State regulations require that personal care services claims be supported by a timesheet documenting the total hours and services provided by the PCA. Regulations also state that a service plan must be developed annually for each recipient. The service plan establishes what services a recipient is authorized to receive.

During FY 03 a total of 69,745 personal service claims totaling \$39,286,727 were paid through the State's Medicaid payment system. Claim amounts ranged from a high of \$6,200 to a low of \$4, with an average claim payment of \$563. We randomly selected 54 claims totaling \$31,439 for testing. Testing included ensuring that the claims were adequately supported, services were provided in compliance with federal and state law, and recipient's plan of service was prepared in compliance with state law. Errors in testing are grouped below:

Unsupported personal care services costs: Personal care services were not supported by the timesheets for five of the claims tested. These errors identified a total of \$1,176 in unallowable costs. Using professional standards for projecting the unallowable costs for the universe of claims tested,²¹ we calculated that \$1,365,830 of claims are unallowable. The federally reimbursed portion of these costs is \$792,830.

Services provided were not authorized on the recipients' service plan: Personal care services must be provided in accordance with the recipient's service plan. Any service not authorized by the service plan is considered an excluded service. Of the 54 claims tested, support for 24 (or 44%) claims showed services provided to the recipient were either not authorized on the recipient's service plan or exceeded the amount of days the service was authorized to be provided. Although these claims certainly contain

¹⁹ Per DHSS, a Consumer-Directed PCA program allows each consumer to manage his or her own care by selecting, hiring, firing and supervising their own PCA.

²⁰ Per DHSS, an Agency-Based PCA program allows consumers to receive services through an agency that oversees, manages, and supervises their care.

²¹ DHSS was pursuing sanctions against a provider after an internal review found significant unallowable costs. The department requested that we not test claims for this provider as they were already pursuing action. During FY 03, claims for this provider totaled \$2,772,840. Our revised universe of claims for FY 03 was adjusted to remove these claims. The universe of claims tested totaled \$36,513,887.

questioned costs, we did not quantify any question costs because we could not determine what portion of the time billed was unallowable.

Service plan or timesheet not signed by authorized individuals: State regulations require that both a personal care agency representative and the recipient or recipient's representative sign all service plans. Three of the 54 service plans tested were not signed by the required individuals. Additionally, a timesheet for one claim was not signed by the recipient. The recipient allowed someone else to sign her timesheet in violation of regulations. Authorized signatures ensure that services are provided in accordance with regulations.

Time per task not calculated on service plans per state regulations: For one claim, the provider overstated the approved hours on the service plan. For two other claims, the provider exceeded the maximum allowable minutes per task without justification. Per state regulations, providers are not allowed to exceed the maximum allowable time per task unless it is justified based on the recipients condition and is documented on the recipient's service plan.

Authorized services were not provided, but maximum time allowable was billed: In four claims reviewed, PCAs documented that they had performed certain services. These services, however, were not all of the required services the recipient should have received per their service plan. Yet, the PCAs still billed for the maximum hours. Each task is assigned an amount of time and a number of times per day. When we compared the amount of time required to perform the tasks to the amount of time billed, we found substantial differences. Thus, we question the validity of the amount of hours billed.

Waiver services documented on the same timesheet as personal care services: Respite care services are not allowed through the personal care program. These services are provided through the waiver program. For one claim, PCAs provided both personal care and respite services to a client. These PCAs used the same timesheet to document both services. There is no way to differentiate which tasks were provided under the waiver and which were for personal care.

Characteristics of the personal care service program contribute to the lack of adequate controls. DHSS relies on the personal care agencies to institute internal controls over personal care services claims. Personal care agencies are not routinely reviewed by DHSS staff to ensure agencies' internal controls over the program are adequate. All claims are submitted electronically through the DHSS contractor, First Health. First Health does not maintain any timesheets to support claims unless the provider is on prepayment review (which is rarely used).

There are few Medicaid payment system controls over personal care services. Most of the system edits regarding personal care have been turned off because of the difficulty in evaluating personal care claims. Regulations require that any recipient receiving personal

care over eight hours per day or 56 hours per week get prior authorization from DHSS. However, there are no MMIS edits to prevent billing an amount over the maximum without prior authorization.

Another weakness in the personal care program is the determination of services to be provided. There is very little DHSS oversight in determining how many hours and what services are to be provided. This is determined by the agency that bills for the services and by the recipient who receives the services. These individuals are supposed to follow certain guidelines, but without outside oversight, there is an increased likelihood of noncompliance.

We recommend the DHCS director improve controls over personal care services claims. Improvements should be designed to address the deficiencies noted in this finding. DHSS may be able to improve controls over personal care service claims by changing how claims are processed in MMIS. The DHCS director should consider utilizing more MMIS edits to evaluate claims before payment, requiring that all personal care services be prior authorized (as is required in the waiver program), and providing additional DHSS oversight through evaluating recipient service plans for reasonableness and by conducting consistent provider reviews and audits.

CFDA: 93.778

Federal Agency: USDHHS

Questioned Costs: \$792,830

Agency Response – Department of Health and Social Services

The department concurs. In the past year, several actions have been taken, and additional improvements have been planned.

Regulations: The department added provisions to the recently adopted regulations (they have been in development for several years), lowering the number of hours of service per week that could be provided to a recipient without a prior authorization from 56 to 35 hours. This will help ensure that people don't receive excessive amounts of care.

The Department intends to begin developing additional regulations for the personal care program to ensure appropriate use of services and provide for more effective program controls. Although the final provisions have not yet been determined, proposals for consideration include:

- *Eliminating or restricting the provision of stand-by assistance*
- *Tying recipient eligibility to clear standards of assistance needs*
- *Further limiting the conditions under which family members can provide care*
- *Move from annual to semi-annual assessments*
- *Adopt a more refined and quantifiable assessment tool*
- *Prior authorize all PCA services*
- *Require all personal care assistants to enroll as rendering providers (to provide for more accountability and a better audit trail)*

Provider Audits: Department of Health and Social Services staff has begun targeted audits of personal care providers. Also, under the provisions of SB 41, the firm of Myers and Stauffer has begun conducting audits of several providers, including some personal care agencies.

State Assumption of Assessment and Plan of Care Development: The Department is in the process of hiring several non-perm employees to assume responsibility for assessing the clients and developing their care plans. This will help reduce inappropriate use of personal care service, by consistent and accurate determination of time for task standards.

Agency Oversight: In an effort to improve routine monitoring and oversight of provider agencies, the DSDS will add one non-perm staff to the DSDS, QA Unit. This staff person will be dedicated to the PCA program so that all activities in the PCA services will be linked. This staff will also work closely with DSDS program managers to provide data for tracking and trending.

MMIS Changes: While some changes to the MMIS cannot be made until regulations have been changed, the department is moving forward with some changes to the MMIS immediately. For example, the MMIS will no longer allow for span-date billing, in which a single claim can be submitted for multiple days of service. Requiring single date of service is the first step to ensure that all MMIS edits on service limits are applied correctly.

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Recommendation No. 28

We recommend the DHCS director improve procedures over the calculation of the Medicaid upper payment limit.

The DHSS calculation of the FY 03 Medicaid upper payment limit included several procedural errors. This caused the amount of Medicaid payments under the upper payment limit to be overstated by over \$10 million.

Upper payment limits were established by the federal Medicaid agency to ensure the reasonableness of payments to providers. They refer to total amounts the federal Medicaid agency would agree to pay for a variety of services and are based on what Medicare²² would pay for comparable services. Upper payments represent a ceiling on Medicaid payments for a category of providers above which the federal government will not share. Because state Medicaid payment rates are generally less than Medicare rates, states often have large gaps between their actual Medicaid payment and what they would pay using Medicare payment

²² Medicare is the federal health care program for the elderly and some disabled individuals.

rates. This gap is referred to the amount of Medicaid payments under the Upper payment limit.

States, including Alaska, have developed methods to maximize federal Medicaid revenue based on the upper payment limit calculation. Federally-approved amendments to the Medicaid state plan permit Alaska to access Medicaid funding, under certain circumstances, up to the upper payment limit for specific purposes. DHSS refers to these funding mechanisms as Proshare, Fairshare, and Private Hospital Refinancing.

The upper payment limit is calculated annually by DHCS staff using cost reports provided by each hospital. The amount Medicare would have paid for services is calculated for each hospital using information contained in these reports for discharges, capital costs, and patient days. Federally-published information on Medicare rates is also used. The amount Medicaid paid for services is estimated based on patient days and hospital specific Medicaid rates. The amount Medicaid paid is deducted from the amount Medicare would have paid to determine the amount the State under/over paid in terms of the upper payment limit.

The State's FY 03 calculation of the amount of Medicaid payments under the upper payment limit includes individual calculations for 18 hospitals. We selected six hospitals to test. Testing included verifying that the calculations were performed in compliance with the Medicaid State plan and that they were supported by cost reports, approved Medicaid payment rates, and federally-published information on Medicare rates.

DHCS staff calculated for FY 03 that Medicaid paid \$36,097,677 less than Medicare would have paid (i.e. \$36,097,677 under the upper payment limit). Our review of this calculation for six of the 18 hospitals found several errors. The errors included an unreasonable basis for allocating capital costs to Providence Hospital and Alaska Regional Hospital and the use of outdated cost information when more current cost data was available. The errors are discussed in more detail below:

Alaska Regional Hospital: Medicaid-related capital costs are determined by multiplying specific capital costs by the percentage of Medicaid days (Medicaid patient days divided by total hospital patient days). We found the percentage of Medicaid days failed to include neonatal intensive care unit (NICU) patient days. Additionally, we noted that calendar year 1999 information was used to estimate half of the FY 03 Medicaid/Medicare payments and calendar year 2000 information was used to estimate the second half of FY 03 Medicaid/Medicare payments. DHCS should have used the most current cost information for estimating FY 03 activity – the calendar year 2000 data. Using outdated cost data for half of FY 03 and an unreasonable methodology for allocating capital costs caused the FY 03 estimated Upper payment limit underpayment to be understated by \$124,109.

Providence Hospital: Providence Hospital splits their calculation of the upper payment limit between their NICU section and other sections of the hospital to incorporate higher Medicare payment limits for NICU services. The DHCS

methodology for allocating capital costs between the two sections was not reasonable. The Medicaid percentage of days for the NICU section was calculated as Medicaid neonatal care days divided by non-Medicaid neonatal care days (approximately 55%). This was not reasonable because capital costs for the entire hospital were allocated using this percentage. A more reasonable calculation of Medicaid-related capital costs would have been using Medicaid neonatal days divided by total hospital patient days (approximately 7%). The error was complicated by the fact that routine capital costs were identified as NICU and Non-NICU. Therefore, the higher NICU Medicaid rate could have been used for routine capital costs but not other capital costs.

Additionally, we noted that FY 03 Medicaid and Medicare payments were estimated using half of calendar 1999 cost data and half with calendar year 2000 cost data. DHCS should have used the most current cost information for estimating FY 03 activity – which would have been the calendar year 2000 data. Using outdated cost data for half of FY 03 and an unreasonable methodology for allocating capital costs caused the FY 03 estimated upper payment limit underpayment to be overstated by \$10,484,801.

The errors noted above appear to be systematic. Therefore, questioned costs likely exist for previous years.

We recommend the DHCS director ensure the procedures used to calculate the upper payment limit under/over payment by hospital are revised to properly allocate capital costs and to utilize the most current cost information available. We also recommend that calculations be reviewed for accuracy.

CFDA: 93.778

Federal Agency: USDHHS

Questioned Costs: \$10,360,692

Agency Response – Department of Health and Social Services

The Department concurs. We are working towards correcting the problem and will be making necessary changes to the calculation for future years. The Department is reviewing UPL calculations for all hospitals for accuracy.

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DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT

No recommendations were made to the Department of Labor and Workforce Development (DLWD) in the *State of Alaska, Single Audit for the Fiscal Year Ended June 30, 2002*.

One new recommendation is included as Recommendation No. 29.

(Intentionally left blank)

Recommendation No. 29

The Division of Administrative Services (DAS) director should eliminate the practice of transferring revenues earned in one fiscal year to the next fiscal year's appropriation.

Annually, the Department of Labor and Workforce Development (DLWD) transfers federal revenues earned from indirect cost²³ recovery from one fiscal year to the next year's operating appropriations. The cumulative revenue balance transferred by DLWD from FY 02 to FY 03's operating appropriations exceeded \$1.8 million. Just over \$2 million was transferred from DLWD's FY 03 to FY 04 operating appropriations. Adjusting journal entries are processed to move these revenues between fiscal year appropriations on the State accounting system. No formal legislative approval is obtained.

DLWD agrees that some of the revenue transferred should remain with prior-year appropriations; however, an analysis has not yet been performed. Further, DLWD contends that excess revenue received from recovery of indirect costs should be recognized as deferred revenue²⁴ to offset possible future revenue under-collections, as a result of using a fixed indirect cost rate. This fixed rate is based on estimated costs for the period including a carry forward adjustment for the difference between estimated and actual costs from a prior year which is required by Office of Management and Budget (OMB) Circular A-87, Attachment E.

To consider that indirect cost receipts are not earned until the carry-forward adjustment for costs is considered in a future rate development as DLWD contends is contrary to the major purpose of the OMB Circular A-87 cost principles which defines allowable federal expenditures. The nature of indirect costs is unique in that actual expenditures cannot be assigned directly to a single federal program. Thus, the OMB Circular A-87 cost principles provide guidance for determining a reasonable value for indirect costs for allocation to federal programs benefited. As a result, indirect costs are determined through an application of a rate and are not treated as a direct expenditure.

At DLWD, a federal claim is established by applying the approved fixed indirect cost rate to the direct expenditure base for a specific period. As long as the approved rate was applied appropriately, the federal government has no further claims or restrictions on receipt of these funds. This valid claim to resources completes the revenue earning process for the specific fiscal year. Revenues collected as indirect costs recovery through the application of a fixed indirect cost rate are earned, measurable and available to finance current period expenditures. No deferred revenue should be reported for indirect cost receipts earned in this manner.

Indirect cost recovery from federal agencies reimburses the State for expenses incurred by the State in the administration of federal programs. These funds are available to the

²³ Indirect costs are those costs incurred for joint purposes, benefiting more than one objective, but not specifically identified to a particular purpose or objective.

²⁴ However DLWD has not recorded the excess indirect cost recoveries as deferred revenue on the State's Basic Financial Statements for FY 03.

legislature for appropriation in the year they are expected to be collected. Because of the unpredictable nature of indirect cost recovery, the legislature may choose not to appropriate the total amount collected even though these funds are available for appropriation.

Indirect cost recovery money is collected and deposited into the general fund. To the extent a portion of the money has been appropriated, it will be classified as restricted. Amounts of indirect cost recovery collected in excess of the amount appropriated should be classified unrestricted funds.

There are a variety of constitutional and statutory cites that govern the appropriation of funds. The two cites that are most directly relevant to transferring funds from one fiscal year's appropriation to the next are Article IX Section 17(d) and the appropriation language typically included in the operating budget.

Chapter 60 SLA 2001, Section 29 states in part

If the unrestricted state revenue available for appropriation in fiscal year 2002 is insufficient to cover the general fund appropriations made for fiscal year 2002 the amount necessary to balance revenue and general fund appropriations is appropriated to the general fund from the budget reserve fund ...

Additionally, Alaska Constitution Article IX, Section 17(d) states

If an appropriation is made from the budget reserve fund, until the amount appropriated is repaid, the amount of money in the general fund available for appropriation at the end of each succeeding fiscal year shall be deposited in the budget reserve fund. ...

The financial effect of these legal requirements is that all funds available for appropriation are either: 1) used to support current existing appropriations, or 2) are swept into the Constitutional Budget Reserve Fund. Therefore, there are no funds available for transfer from the prior year appropriations to the next year operating appropriations. These transactions do not represent real funds and, therefore, cannot be used to support expenditures in the current period.

Transferring revenues earned in one year to the subsequent year's appropriation only distorts the accounting records that are used to demonstrate budgetary compliance. Without accurate financial records, the agency would be unable to take the necessary actions to reduce expenditures when they have identified an appropriation that may not collect sufficient revenues to support the current year's spending. Therefore, we recommend the DAS Director eliminate the practice of transferring revenues from indirect cost recovery from one fiscal year to the next.

Agency Response – Department of Labor and Workforce Development

For the reasons cited in the enclosed memorandum from Administrative Services Director Guy Bell, DOLWD must respectfully disagree with the legislative auditor's analysis. However, out of respect for the concerns expressed by the legislative auditor, in the future years the department will seek legislative approval of revenue carry-forward through the appropriation process.

Director's Comments

My staff and I have reviewed the Division of Legislative Audit's recommendation that the Department of Labor and Workforce Development (DOLWD) should eliminate the practice of transferring revenues earned in one fiscal year to the next fiscal year's appropriation.

After consulting with experts in this field, including the state's cost allocation consultant, we must respectfully disagree with the legislative auditor's analysis and conclusion. However, I recommend that we make this matter a non-issue in the future by seeking legislative approval of revenue carry-forward through the appropriation process. A detailed analysis follows.

The department's cost allocation plan is based on a federally approved method requiring over or under collections in any given year to be an adjustment to future periods.

The federal government's OMB circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," establishes indirect cost plan principles and standards. The DOLWD Divisions of Administrative Services and Vocational Rehabilitation use a federally approved "fixed with carry-forward" indirect cost allocation plan. This method is best described in A-87, Attachment C, G.3 and 4 (see also A-87, Attachment E, B.6):

Allocated central service costs are usually negotiated and approved for a future fiscal year on a "fixed with carry forward" basis. Under this procedure, the fixed amounts for the future year covered by agreement are not subject to adjustment for that year. However, when the actual costs of the year involved become known, the differences between the fixed amounts previously approved and the actual costs will be carried forward and used as an adjustment to the fixed amounts established for a later year.

DOLWD submits an indirect cost plan (ICP) to its cognizant federal agency, the U.S. Department of Labor, for approval of a rate to recover indirect costs. The ICP includes all allowable indirect costs, including those incurred on behalf of DOLWD by other departments. Examples of costs incurred by other departments on DOLWD's behalf are the Statewide Cost Allocation Plan (SWCAP), audit costs of the Division of Legislative Audit (incurred by them on DOLWD's behalf but not billed to

it), and lease costs (paid by the Department of Administration for its leases, but not billed to DOLWD).

The rate is the result of dividing the indirect cost pool (costs to be recovered) by the base (in DOLWD's case, the personal services expenditures of the department, excluding those in the pool). The ICP has two elements of cost for both the pool and the base. The first is the budgeted expenditures for the plan year; and the second is the "true up" or "carry forward" adjustment, which is a reconciliation of the actual expenditures from two years prior to what was planned in that ICP. For example, the FY 2004 ICP incorporates the FY 2004 budget for indirect costs, and an adjustment to reflect the FY 2002 actual indirect costs compared to what was planned for in the FY 2002 ICP.

Although the ICP contains all allowable costs, the department's policy is to bill for and collect only the part of the rate approved in the plan to recover this department's costs. The reason for the policy is that DOLWD's grants, with one exception, are not "cost plus." So if a grant is for \$1,000, both the direct and indirect costs must be paid from that \$1,000. For example, if the indirect is \$100, that leaves \$900 for direct costs, but if the indirect is \$150, that leaves only \$850 for the direct costs of the program.

The receipts questioned by the legislative auditor are the result of indirect collections in FY 2003, exceeding FY 2003 actual expenditures and the difference being transferred to future years. However, because of the two elements of costs that are contained in each ICP, a part of these collections resulted from expenditures from two years ago (FY 2001) and the audit year (FY 2003), and also from expenditures that will be incurred two years hence (FY 2005). The ones collected now but incurred in future years may also be referred to as deferred revenue. These funds are not yet recognizable as revenue, because they are the result of the difference between estimated and actual expenses and should be recorded as a liability for future expenses, or deferred revenue.

That these estimated payments are unearned deferred revenue is evidenced in that future indirect costs will be reduced or increased when the indirect cost plan adjusts future payments to reflect overpayments (deferred revenue) or underpayments (receivable).

In FY 2003, the department did not collect and post indirect costs in keeping with its established policy although the department did stay within both State and Federal guidelines. First, the department collected a higher rate than needed to recover department indirect costs by mistakenly including a portion of statewide costs in its charge to federal programs. Second, the department did not perform an analysis/reconciliation at the end of the fiscal year to determine, of the total amount rolled forward, how much resulted from costs that were paid on behalf of DOLWD by other departments, and how much was a recovery of indirect costs - including

deferred revenue for future years. We now believe the result should have been an adjustment to reflect the amounts received in excess of the underlying costs as deferred revenue.

At the end of this fiscal year, the department followed DOLWD policy and is nearly done with its analysis. The first step was to determine the amount of indirect collections that related to payments based on the department's internal indirect rate that were in excess of actual indirect costs. Of that amount, we then calculated how much of the excess revenue from the current and all prior years was the result of billing a higher rate than needed to recover the department's indirect costs, and how much resulted from other normal variance factors such as budgeted amounts versus "true up" or the use of a rounded rate. Of the amount that resulted from using a higher than needed rate to recover only the department's indirect costs, we determined how much can be reclassified as direct receipts of the program(s) and, wherever it was/is possible to do so, an adjustment has been (or will be) made to reclassify them as such. This is in keeping with the department policy of putting as much as possible of the available funding into the programs, and using only the amount necessary for indirect costs.

Any amount remaining after this action is taken, that resulted from billing for a higher rate than needed, will devolve to the General Fund to offset DOLWD's share of other departments' indirect expenses.

Of the amount of excess collections that relates to normal variances (again, such as the rounded rate or the budgeted versus actuals), the department will do a journal entry that will recognize it as deferred revenue. Adjusting this amount as a liability (deferred revenue) is appropriate in that DOLWD's approved indirect rate caused an over collection of its actual costs, which in future indirect cost proposals will necessitate a rate less than the department's actual indirect costs. When we have this reduced rate in a subsequent year, the department will do a journal entry to recognize the previously reported deferred revenue as earned revenue in that year.

Remitting collections for the amounts related to the statewide cost allocation plan to the general fund if it is not possible to put those dollars back into the department's programs, and booking collections in excess of actual costs on the department's portion of indirect costs as deferred revenue, will more clearly demonstrate the underlying activity. It will also provide users of the financial information the clearest picture of what is truly occurring while more accurately following the federal accounting standards the department reports under.

Once the Division of Administrative Services completes its reconciliation as outlined above, the analysis and results will be forwarded to the Divisions of Legislative Audit and Finance.

Contact Person: Guy Bell, Director
Telephone: 907-465-2720

Legislative Audit's Additional Comments

We have read DLWD's response to this recommendation and nothing contained in the response has provided sufficient information to persuade us to remove or revise this recommendation. However we offer the following comments.

In a July 2004 meeting sponsored by the National Association of State Auditors, Comptrollers and Treasurer's Committee on Accounting, Reporting and Auditing, generally accepted accounting principles related to revenue recognition of indirect costs was discussed. Participants of this meeting included members and staff of the governmental accounting standards board and representatives from other states familiar with governmental accounting practices. The consensus of this meeting was that for a fixed rate, as used by DLWD, indirect costs are recognized as earned when they are collected. Therefore, we reaffirm our finding and recommendation.

However, we agree with the department that if the legislature, through the appropriation process, allows DLWD to recognize revenues received in prior years to satisfy the revenue requirements of current appropriations then this matter becomes "*a non-issue in the future*".

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

No recommendations were made to the Department of Community and Economic Development (DCED) in the *State of Alaska, Single Audit for the Fiscal Year Ended June 30, 2002*.

No new recommendations have been made during the FY 03 Statewide Single Audit.

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DEPARTMENT OF MILITARY AND VETERANS' AFFAIRS

Two recommendations were made to the Department of Military and Veterans' Affairs (DMVA) in the *State of Alaska, Single Audit for the Fiscal Year Ended June 30, 2002*. Prior year Recommendation Nos. 39 and 40 have been resolved.

No new recommendations have been made during the FY 03 Statewide Single Audit.

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DEPARTMENT OF NATURAL RESOURCES

No recommendations were made to the Department of Natural Resources (DNR) in the *State of Alaska, Single Audit for the Fiscal Year Ended June 30, 2002*.

One new recommendation has been made and is included as Recommendation No. 30.

(Intentionally left blank)

Recommendation No. 30

The Support Services Division (SSD) director should implement procedures to ensure personal services expenditures charged to federal programs comply with federal cost principles.

We reviewed personal services expenditures distributed to the federal program, U.S. Geological Survey, Research and Data Collection. Three employees, whose time charges were solely allocated to the federal program, were not supported by semiannual certifications or time sheets. The lack of required supporting certifications was a result of the responsible administrator being unaware of federal requirements for personal services expenditures. As there were other programmatic evidence indicating employees had worked full-time on this program, no questioned costs were determined for this noncompliance issue.

Office of Management and Budget (OMB) Circular A-87 establishes principles and standards for determining allowable costs for federal awards carried out through grants with state governments. These principles require employee personal services costs, charged solely to a single federal award, must be supported by periodic certifications that employees worked solely on that program for the period covered by the certification. Further, the certifications must be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

We recommend the SSD director ensure that semiannual certifications are completed for employees working solely on a single federal program or cost objective.

CFDA: 15.808

Federal Agency: USDOJ

Questioned Costs: None

Agency Response – Department of Natural Resources

The Department concurs with the recommendation for DNR.

We will ensure that semiannual certifications are completed and on file for employees working solely on a single federal program or cost objective.

*Contact Person: Nico Bus, Acting Director
Telephone: 907-465-2406*

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DEPARTMENT OF FISH AND GAME

No recommendations were made to the Department of Fish and Game (DFG) in the *State of Alaska, Single Audit for the Fiscal Year Ended June 30, 2002*.

No new recommendations have been made during the FY 03 statewide single audit.

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DEPARTMENT OF PUBLIC SAFETY

Two recommendations were made to the Department of Public Safety (DPS) in the *State of Alaska, Single Audit for the Fiscal Year Ended June 30, 2002*. Prior year Recommendation Nos. 41 and 42 have been resolved. Prior year Recommendation No. 6 for Department of Law was also addressed to DPS. That recommendation has also been resolved.

Additionally, one new recommendation is included as Recommendation No. 31.

(Intentionally left blank)

Recommendation No. 31

The Council of Domestic Violence and Sexual Assault (CDVSA) executive director should develop and implement procedures to ensure federal funds are distributed to subrecipients in compliance with federal requirements.

Subrecipients of the Family Violence Prevention and Services Program (FVPSP) may not have met the requirement to not supplant federal funds. CDVSA staff was unaware of the federal requirement; therefore, no analysis was performed when determining FY 03 FVPSP grant award amounts for subrecipients. In our review, we determined eight of 11 subrecipients may have supplanted a total of \$91,000 of federal funds. This program requires federal funds be used to increase and not replace services provided by the nonfederal funding. Failure to adhere to this requirement puts both the State and the subrecipient at risk of incurring questioned costs.

U.S. Department of Health and Human Services requires that Family Violence Prevention and Services Act (FVPSA) funds be used to supplement and not supplant other federal, state, and local public funds expended to provide services and activities that promote the purposes of FVPSA.

We recommend the CDVSA executive director develop and implement procedures to ensure federal funds are distributed to subrecipients in accordance with program regulation.

CFDA: 93.671

Federal Agency: USDHHS

Questioned Costs: Indeterminate

Agency Response – Department of Public Safety

Thank you for the opportunity to comment on your recommendation. As I earlier indicated to your staff, the department agrees with the recommendation and will implement it as described below.

Effective with FY05 funding, CDVSA will prepare an assessment of all agencies that receive Family Violence Prevention and Services Program (FVPSP) funding and determine the ratio of FVPSP funds to total state and federal funds granted to the agency in the previous years. This information will be used when determining grant awards.

Contact Person:

*Fred E. Schmitz, Finance Officer
Telephone: 907-465-5501*

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DEPARTMENT OF ENVIRONMENTAL CONSERVATION

One recommendation was made to the Department of Environmental Conservation (DEC) in the *State of Alaska, Single Audit for the Fiscal Year Ended June 30, 2002*. Prior year Recommendation No. 43 has been resolved.

Additionally, four new recommendations have been made and are included as Recommendation Nos. 32 through 35.

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Recommendation No. 32

The Department of Environmental Conservation (DEC) finance officer and Village Safe Water (VSW) program manager should work with the State's cash manager to establish VSW disbursement procedures which maximize conservation of the State's general fund (GF).

The way in which VSW grants are currently distributed is not in the best financial interest of the State. VSW grants are for the construction of water and sewer facilities in the smallest of Alaska's communities. DEC's procedures call for the advance of funds to communities to cover the needs of the project during the construction season. Payments for the construction projects are either sent to an accounting firm for deposit into separate bank accounts for each project or provided to the Alaska Native Tribal Health Consortium (ANTHC) for the projects they administer.

Procedures for advances were initially established over a decade ago to address the difficulties related to rural Alaska's isolation and short intense construction seasons. Communication technology has greatly reduced this handicap for the bush community today. Funds can now be received much more timely from the State, making large advances no longer needed to balance the fiscal responsibilities of administering projects and the financial interests of the State.

These advances individually may be small, but in aggregate they amount to a significant amount of funds outside of the State's control at any given time. In March of 2003 the VSW accounting firm held approximately \$8.1 million in cash from the State, of which approximately \$2 million was State general funds. At June 30, 2003, during the construction season, the VSW accounting firm held \$11.5 million. The \$11.5 million is comprised of \$8.4 million in federal funds passed through the State, and \$3.1 million in state general funds. Using 5% as a long-term interest rate average, the State is losing approximately \$8,000 - \$13,000 in interest each month.

As mentioned earlier, funds are also advanced to ANTHC for the VSW projects they administer. During FY 03, 44% of funds advanced for VSW projects (federal pass-through and State GF matching funds), went to ANTHC. As discussed in Recommendation No. 33, DEC does not currently receive sufficient financial information from ANTHC to report actual VSW expenditures instead of advances for ANTHC projects. As a result, VSW project cash balance amounts at June 30, 2003 are not readily available.

Given the speed at which funds can be transferred, it is no longer necessary to provide advances for an entire construction season. Currently, the accounting firm pays payroll for VSW projects once every two weeks. The nonpayroll invoices for VSW projects are accumulated for two weeks and paid at once on the week between payrolls. DEC engineers approve payroll and all invoices before the accounting firm makes the payments. Therefore, there is abundant information available to allow for advances of grant funds which more closely approximate the timing of disbursements. DEC should provide funds based on

semimonthly billings from ANTHC and the accounting firm. These semimonthly billings can be based primarily on invoices received and not yet paid for VSW projects. Advancing grant funds using electronic funds transfers on a semimonthly, or even monthly, basis would greatly reduce the excessive cash balances currently maintained for VSW grantees. Working with the State's cash manager could maximize establishing procedures that are the most effective and efficient in meeting the VSW administrative needs and financial interests of the State.

The U.S. Treasury Financial Manual states: "*The timing and amount of cash advances will be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program costs.*" DEC should be aware that the Environmental Protection Agency (EPA) could enforce a more stringent interpretation of this federal requirement at any time.

We recommend that DEC's finance officer and VSW program manager work with the VSW accounting firm and ANTHC to move to a semimonthly advance for funding VSW projects.

Agency Response – Department of Environmental Conservation

This recommendation centers on the prescribed practice of advancing project funding to either the VSW accounting firm or the Alaska Native Tribal Health Consortium (ANTHC). We will review our policies and procedures and look at ways to improve our cash management practices regarding the advancement of funding for VSW projects.

While it is true that VSW procedures for advances were originally established over a decade ago, it is not accurate to say that communication technology has significantly reduced the handicap of construction activities and associated requests for project funding in rural Alaska. If anything, the handicap has grown larger because of the complexities entailed with managing multiple state and federal sources of project funding, which was not the case a decade ago.

Contrary to your recommendation, there is a great deal more required in making an advance than the transfer and receipt of funding, which admittedly requires little time. In particular, each request for a transfer of funds requires that the VSW Program Manager and Grant Manager each confirm that a number of grant requirements are being met. These grant requirements have been established to ensure program compliance with the multiple federal funding sources, and to promote continued safe, sustainable operation of rural sanitation facilities. For example, the VSW Program Manager works closely with the Manager for the Department of Community and Economic Development's Rural Utility Business Advisor (RUBA) program in reviewing requests for most advances. The RUBA program provides information about Essential Capacity Indicators (ECIs) for every community that receives a VSW grant, and notifies VSW about concerns. Requests for funding advances may be denied if ECIs are not being adequately addressed by the grantee.

Because of the attention and time required to adequately review each request for a funding advance, and the continuing demands of rural construction management in Alaska, we do not agree with your recommendation to advance funds on a semimonthly basis. This is because of the increased risk associated with the advancement of funds for projects where sustainability is in question.

We acknowledge that in most cases there is no need to provide advances for an entire construction season, and that the VSW procedures need to be reviewed, and revised to reflect a consistent process entailing more frequent advances. It is our intent at this time to review this process in attempt to identify ways to that may reduce the period of time for which advances are now issued.

Contact Person: Gary Zepp, Financial Officer
Telephone: 907-465-5289

Legislative Audit's Additional Comments

We have read DEC's response to this recommendation and nothing contained in the response has provided sufficient information to persuade us to remove or revise this recommendation.

DEC acknowledges that some improvements can be made on the cash management aspect of the Village Safe Water program. We encourage DEC to minimize the dollar amount and duration for any cash advances while maintaining the necessary internal controls for both cash advances and expenditures.

Recommendation No. 33

The DEC finance officer and the VSW program manager should revise the accounting procedures for VSW grants administered by ANTHC to allow proper financial statement presentation in the State's Comprehensive Annual Financial Report.

DEC's accounting for VSW grant disbursements to ANTHC is inappropriate for purposes of financial reporting per generally accepted accounting principles (GAAP)²⁵. VSW grant disbursements to ANTHC are reported as expenditures for the ANTHC-administered projects. In accordance with GAAP, these payments represent advances, not expenditures.

Expenditures occur when the State incurs a financial liability. The signed project agreement in itself does not create a financial liability. The point at which the State is financially liable and expenditures should be recorded for VSW grants administered by ANTHC is at the

²⁵ AS 37.05.210 requires that the State's financial statements be prepared in accordance with generally accepted accounting principles.

receipt of goods or services for authorized construction projects. Payments made prior to this remain assets of the State and should be classified as advances to the community.

DEC should require ANTHC, at the end of the fiscal year, to provide the State with the financial information necessary to report actual VSW expenditures for the projects administered by ANTHC. DEC already requires this information from the accounting firm that handles project payments for VSW grants administered by DEC.

Alternately, in our view, improved cash management procedures, as discussed in Recommendation No. 32, would be a more effective way to promote reporting consistent with GAAP. Better cash management practices would minimize the time between advances and expenditures. This would allow disbursements to ANTHC and the accounting firm to be considered a reasonable approximation of VSW expenditures. This would occur if disbursements to ANTHC and the accounting firm were made on a semimonthly basis.

We recommend that the finance officer and VSW program manager revise their accounting procedures so that DEC can identify and report VSW grant expenditures for projects administered by ANTHC for the State's fiscal year as they do for projects with the accounting firm.

Agency Response – Department of Environmental Conservation

The Department supports this recommendation and will work with ANTHC to develop a yearend report which reflects actual expenditures of VSW funding and actual balances remaining.

*Contact Person: Gary Zepp, Financial Officer
Telephone: 907-465-5289*

Recommendation No. 34

The DEC finance officer should implement procedures to ensure personal services expenditures charged to the EPA infrastructure grants comply with federal cost principles.

DEC is not following applicable federal guidance for the personal services costs charged to the FY 03 EPA infrastructure grant. VSW personal services costs are charged to the EPA infrastructure grant through a yearly reimbursable service agreement (RSA). During FY 03, 29 DEC employees charged personal services costs to the FY 03 EPA infrastructure grant. Of those who charged time to the EPA infrastructure grant, 20 charged 100% of their time, and the remaining nine charged only a portion of their time.

Office of Management and Budget (OMB) Circular A-87 requires that salaries of employees chargeable to more than one federal grant or other cost objective be supported by appropriate

time distribution records. State agencies with approval from federal program managers, may utilize an alternative system. OMB Circular A-87 states that budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards. Charges for employees working solely on a program funded by a single federal award will be supported by periodic (at least semiannual) certifications that the employee worked solely on that program for the period covered by the certification.

We reviewed time sheets for employees charging time to the EPA infrastructure grant, and found that DEC is not following OMB Circular A-87 requirements for charging personal services costs to federal programs. Split-funded employees' time was being charged to the EPA infrastructure grant based on annual estimates which are intended to represent the percent of total time devoted to the programs charged. Further, employees charging 100% of their time to the EPA infrastructure grant did not prepare certifications stating the employee worked solely on the program for the period covered by the certification. While the employees charging 100% of their time to the EPA infrastructure grant maintained time sheets, the timesheets did not directly indicate that 100% of the time was being charged to the EPA infrastructure grant, but rather charged to the VSW Administration RSA.

Finally, we found that all VSW personal services costs were being charged to the EPA infrastructure grant, CFDA 66.606. No VSW personal services costs were charged to United States Department of Agriculture – Rural Development (USDA-RD) – CFDA 10.760, even though VSW activities benefit both programs.

Given the lack of required OMB Circular A-87 support for the personal services costs charge to EPA infrastructure grant, we question the federal portion of all personal service costs charged to CFDA 66.606 through the EPA infrastructure grant (\$1,166,051).

We recommend the DEC finance officer implement procedures to ensure that VSW personal service costs comply with OMB Circular A-87 requirements.

CFDA: 66.606

Federal Agency: EPA

Questioned Costs: \$1,166,051

Agency Response – Department of Environmental Conservation

The Department supports this recommendation. Steps are being taken to ensure that those employees funded 100% by a federal grant will complete bi-annual certifications. Additionally, for those funded by multiply [multiple] funding sources, actual hours worked on a particular project will be reflected on the employee timesheet.

Contact Person: Gary Zepp, Financial Officer
Telephone: 907-465-5289

Recommendation No. 35

The VSW program manager should work with project engineers to strength internal controls over the VSW procurement process.

DEC did not consistently follow procurement procedures for VSW projects. VSW procedures, including procurement, are prescribed in the EPA approved VSW procedures manual. DEC engineers, in addition to onsite managers/superintendents hired by the village, are required to follow the VSW procedures manual.

We reviewed 15 procurement-related transactions from eight projects which were funded by EPA infrastructure grants. Of the 15 projects reviewed, five did not follow VSW procedures in some manner:

- Two transactions failed to use necessary VSW purchase orders.
- A project superintendent verbally agreed to a one year, \$12,000 rental without going through the proper procurement procedures or documentation.
- A single source procurement was not properly approved by the VSW engineering supervisor.
- An existing contract was amended to include work not in the original scope of the contract. While the VSW manual does not specify when a contract amendment should be used, the Alaska Administrative Code 12.485(b) is clear that a construction contract amendment is only allowable if the amendment is within the scope of the original contract.

While no error was significant on its own, the number of errors indicates a weakness in the internal controls over the VSW procurement process. We recommend the VSW program manager work with the VSW engineers to ensure VSW procurement procedures are followed.

CFDA: 66.606

Federal Agency: EPA

Questioned Costs: None

Agency Responses – Department of Environmental Conservation

The Department supports this recommendation. The Division of Water has created a procurement specialist position to support the VSW program to provide the kind of support and guidance needed to strengthen both internal controls and provide training and oversight for project engineers and superintendents. We share your interest in achieving practices which are fully consistent with procurement policies.

*Contact Person: Gary Zepp, Financial Officer
Telephone: 907-465-5289*

DEPARTMENT OF CORRECTIONS

One recommendation was made to the Department of Corrections (DOC) in the *State of Alaska, Single Audit for the Fiscal Year Ended June 30, 2002*. Prior year Recommendation No. 44 has not been fully implemented by the department, yet the current year effects are not significant audit issues. Therefore, they are not reiterated in this report.

No new recommendations have been made during the FY 03 statewide single audit.

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DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

Three recommendations were made to the Department of Transportation and Public Facilities (DOTPF) in the *State of Alaska, Single Audit for the Fiscal Year Ended June 30, 2002*. Prior year recommendation Nos. 46 and 47 are considered resolved. Prior year Recommendation No. 45 has not been resolved and is reiterated in this report as Recommendation No. 36.

No new recommendations have been made during the FY 03 statewide single audit.

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Recommendation No. 36

The Department of Transportation and Public Facilities (DOTPF), Division of Administrative Services (DAS) finance officer should improve the procedures to accurately report capital assets.

Prior Finding

Weaknesses were identified in DOTPF's procedures to classify construction projects as either capital assets or an expense for the current year. These weaknesses resulted in a \$226 million correction to the construction in progress account as reported in the State's FY 02 Comprehensive Annual Financial Report (CAFR).

DOTPF implemented procedures and developed written criteria to identify which construction projects should be capitalized. These procedures were made necessary for changes in generally accepted accounting principles applicable to the State. As stated in Alaska Administrative Manual 55.025 "*capitalizing refers to reclassifying the cost of a capital asset from expenditures to assets for financial reporting.*"

Given the materiality of construction projects at DOTPF and the necessity to report accurate financial data for capital assets, we recommended the DAS finance officer continue to provide training in the classification of projects to staff. In addition, we recommend the DAS finance officer perform an annual review of the projects to ensure DOTPF is properly presenting capital assets in the CAFR.

Legislative Audit's Current Position

This finding continues to be applicable in FY 03. Specifically, we identified 67 instances where projects were not closed timely, projects were not being properly classified when initially established in the State's accounting system, or the annual year-end review of projects was not sufficiently thorough to identify misclassified projects. These instances resulted in a net prior period adjustment to the CAFR in the amount of \$23 million and a net correction to construction in progress for \$1.4 million.

DOTPF relies on regional staff to properly classify construction projects in the State's accounting system. Staff has not been adequately trained to consider all aspects of a construction project. Regional staff should consider initial project funding, the overall scope and future funding needs when initially classifying projects in the state's accounting system. We continue to recommend that the DAS finance officer provide training in the classification of projects to staff and perform a thorough annual review of the projects to ensure DOTPF is properly presenting capital assets in the CAFR.

Agency Response – Department of Transportation and Public Facilities

The Department of Transportation and Public Facilities (DOT&PF) concurs with this recommendation. This program is relatively new to the Department.

The Department initially reported infrastructure costs in FY 2002. During the FY 2002 audit areas of confusion in recording assets were identified. Because of the timing of that audit report, implementation of recommended training could not take place until FY2004. During FY 2004, training was provided to the employees who categorize the projects. Issues identified in the current audit have been clarified with the regional project control offices and will continue to be part of our training. In addition, the accountant responsible for infrastructure reporting completes two reviews of the structure to verify proper classifications. A review of projects is conducted in early spring to determine proper classification of Work in Progress. A second review is conducted of project scopes for closed projects to ensure they meet all the criteria for capitalization.

*Contact Person: Nancy Slagle, Director
Telephone: 907-465-3911*

ALASKA COURT SYSTEM

No recommendations were made to the Alaska Court System (ACS) in the *State of Alaska, Single Audit for the Fiscal Year Ended June 30, 2002*.

No new recommendations have been made during the FY 03 statewide single audit.

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COMPONENT UNITS

This section includes six federal compliance recommendations made to various component units (State corporations and the University of Alaska) that are audited by other auditors. Complete copies of these reports may be obtained directly from the State corporations and the University of Alaska.

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Alaska Aerospace Development Corporation

Recommendation No. 37

Military Construction Noncompliance

Condition: The Alaska Aerospace Development Corporation did not timely file Federal grant reports for the Kodiak Launch Complex grants.

Criteria: Organizations are required to file timely grant reports per grant agreements.

Effect: The Alaska Aerospace Development Corporation is in violation of the above requirements.

Recommendation: We recommend the Alaska Aerospace Development Corporation file timely grant reports to ensure continued Federal and State support in the future.

CFDA: 12.400

Federal Agency: USDOD

Questioned Cost: None

Agency Response – Alaska Aerospace Development Corporation

Condition Found: The Alaska Aerospace Development Corporation did not timely file Federal Grant reports for the Kodiak Launch Complex Grant.

Response to Condition: Concur with audit finding.

Status: Finding has been corrected in fiscal year 2004. AADC received approval from the National Guard for extended grant reporting due date.

*Contact Person: Pat Ladner, Executive Director
Telephone: 907-561-3338*

Recommendation No. 38

Military Construction Noncompliance

Condition: The Alaska Aerospace Development Corporation reported incorrect expenditures on the Kodiak Launch Complex SF-272 grant reports.

Criteria: Organizations are required to certify the grant reports are accurate upon submission.

Effect: The Alaska Aerospace Development Corporation is in violation of the above requirements.

Recommendation: We recommend the Alaska Aerospace Development Corporation file accurate grant reports to ensure continued Federal and State support in the future. In addition, we recommend staff training in this area.

CFDA: 12.400

Federal Agency: USDOD

Questioned Cost: None

Agency Response – Alaska Aerospace Development Corporation

Condition Found: The Alaska Aerospace Development Corporation reported incorrect expenditures on the Kodiak Launch Complex SF-272 grant reports.

Response to Condition: Concur with audit finding.

Status: Finding has been corrected in fiscal year 2004. The differences related to MIPR monies received and expended. These items were resolved during FY04 and corrected on the submitted grant reports

*Contact Person: Pat Ladner, Executive Director
Telephone: 907-561-3338*

Recommendation No. 39

Military Construction Noncompliance

Condition: The Alaska Aerospace Development Corporation (AADC) incorrectly reported \$1,533,923 of expenditures on the Kodiak Launch Complex SF-272 grant reports.

Criteria: Attachment A of OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, provides general principles for determining allowable costs. AADC reported, in error, costs which were in excess of actual amounts incurred in FY 03.

Effect: The costs referred to above were reported as expended while the funds remained in deferred revenue. Part C, of Attachment A, defines reasonable costs. Since the reported amounts were not actual costs, the excess reported is not allowed.

Recommendation: We recommend the Alaska Aerospace Development Corporation file amended grant reports to correct the oversight.

CFDA: 12.400

Federal Agency: USDOD

Questioned Cost: None

Agency Response – Alaska Aerospace Development Corporation

Condition Found: The Alaska Aerospace Development Corporation incorrectly reported \$1,533,923 of expenditures on the Kodiak Launch Complex SF-272 grant reports.

Response to Condition: Concur with audit finding, but an explanation is warranted. It should be clarified that this is a reporting issue and not questioned costs. This finding stems from incorrect reporting indirect allocation and not from misappropriations of assets.

Status: Finding has been corrected in fiscal year 2004. The differences related to MIPR monies received and expended. These items were resolved during FY04 and corrected on the submitted grant reports.

*Contact Person: Pat Ladner, Executive Director
Telephone: 907-561-3338*

Alaska Housing Finance Corporation

Recommendation No. 40

Public and Indian Housing - Low Income Housing Noncompliance

Criteria: According to the March 2003 OMB A-133 Compliance Supplement, the Public Housing Authority's (PHA's) administrative plan must state the method used by the PHA to determine that the rent to owner is reasonable in comparison to rent for other comparable unassisted units. The PHA must determine that the rent to owner is reasonable at the time of initial leasing. The PHA also must maintain records to document the basis for the determination that rent-to-owner is a reasonable rent (initially and during the term of the Housing Assistance Program (HAP) contract). Per examination of the Corporation's Policy and Procedures, the Corporation requires for each new contract being entered, the completion of two Unassisted Unit Comparability Surveys to be included in the tenant file. Therefore, if a tenant moves into a new residence, a new HAP contract is entered into and new surveys must be conducted.

Statement of Condition: We tested 25 tenant files and found four tenant files that either had no Unassisted Unit Comparability surveys or only had one unassisted unit comparability survey.

Effect: The Corporation may be paying unreasonable rent for tenants. The lack of compliance with the above requirement could lead to a loss of funding to the Corporation.

Cause: The Corporation did not provide adequate training or did not have adequate resources to ensure compliance with this requirement.

Recommendation: We recommend the Corporation provide training to new staff and continue to monitor reasonable rent in compliance with Corporation policies and procedures as required by HUD.

CFDA: 14.855

Federal Agency: HUD

Questioned Cost: Indeterminate

Agency Response – Alaska Housing Finance Corporation

Based upon the threshold used to determine a “material finding,” staff concludes this finding does not meet that threshold. Field staff was asked to review each of the files in question. The file review revealed the following.

File #1 contained no comparable data. Staff conducted the rent reasonableness test using two comparable units and found that rent was reasonable. Documentation is included in the file. Copies are included with this response.

File #2 Staff located comparability data in the file. Only one comparable unit was located in the immediate Chugiak area where the assisted unit is located. Comparability was based upon that unit. The last client action was an annual renewal. The landlord had reduced the rent from the previous amount so no new rent comparability is required. A copy of the rent comparability is included with this response.

File #3 contained no comparable data. Staff conducted the rent reasonableness test using two comparable units and found that rent was reasonable. Documentation is included in the file. Copies are included with this response.

File #4 contained only one unit comparability worksheet. Staff pulled comparable data for two additional units and found that rent is reasonable. Copies of the additional comparability worksheets are included with this response.

The Public Housing Division annual staff training occurred October 20 through 24, 2003. Among other topics, training included a review of the Public and Indian Housing Notice 2003-12 dealing with multi-family developments. HUD has relaxed the rent for reasonable

standard to allow for owner certification on the Request for Tenancy Approval. Owner self certification is now sufficient in projects with more than four units, where at least 30 percent of the units are unassisted. Housing Support and Compliance will issue guidance on the new rule, plus reinforcement of otherwise current policy, the week of October 27, 2003.

Contact Person: Jim Gurke
Telephone: 907-338-6100

Recommendation No. 41

Section I Project-Based Cluster: Section 8 New Construction and Substantial Rehabilitation and Section 8 Housing Assistance Program – Special Allocations Noncompliance

Criteria: According to the March 2003 OMB Circular A-133 Compliance Supplement, the Public Housing Authority must select participants from the waiting list in accordance with the admission policies in its administrative plan and maintain documentation which shows that, at the time of admission, the family actually met the preference criteria that determined the family's place on the waiting list.

Statement of Condition: We tested 24 tenant files and found two tenants that were selected from an incorrect waitlist. While they were selected from a Section 8 waitlist, they were selected from a different location's waitlist while there were eligible individuals on the waitlist for the location that was to be filled.

Effect: The Corporation may be placing individuals in housing out of order or before other individuals who have preference. The lack of compliance with the above requirement could lead to a loss of funding to the Corporation.

Cause: The Corporation did not provide adequate training or did not have adequate resources to ensure compliance with this requirement.

Recommendation: We recommend the Corporation provide training to new staff and continue to monitor the wait list procedures in compliance with procedures as indicated by HUD.

CFDA: 14.182 and 14.195
Questioned Cost: None

Federal Agency: HUD

Agency Response – Alaska Housing Finance Corporation

Alpine Terrace: Upon review of the file, the family was income eligible for residence at Alpine Terrace; nevertheless, the participant was incorrectly drawn from the Anchorage Conventional Low Rent waitlist. New staff has since been assigned to Alpine Terrace and is

aware of the different program codes used for the respective programs. A contributing factor to the issue is the fact that AHFC uses one application for all programs, with a check box for various housing options available to applicants. Because differing income limits apply to the programs, this can lead to confusion for applicants and intake staff. Housing Support and Compliance is about to revise the application to include a much more detailed description of each program type and varying eligibility criteria. This should improve the distinction for applicants and help staff to correctly place applicants on the respective waitlists of their choosing.

Ptarmigan Park: For reasons similar to the above, an inexperienced staff pulled a three-bedroom applicant from the Anchorage Conventional Low Rent program and placed them at the Ptarmigan Park. The income guidelines for Ptarmigan Park and the conventional low rent units are the same so the family was income eligible; nevertheless the finding is correct. Staff is now aware of the proper codes to be used. The revision to the application should address future concerns.

*Contact Person: Jim Gurke
Telephone: 907-338-6100*

University of Alaska

Recommendation No. 42

Community Development Block Grants Noncompliance

Criteria or Specific Requirement: According to OMB Circular A-110 (Section 22), when the reimbursement method is used, the federal awarding agency shall make payment to the grantee after receipt of billing for costs incurred under the award.

Condition: The University submitted \$270,868 request for reimbursement to the grantor; however, the University had not incurred costs prior to the request of this amount.

Context: Isolated incident

Effect: The University was reimbursed for \$270,868 of costs that it had not yet incurred.

Cause: During the University's conversion to a new billing system, the setup of this grant was incorrect, leading to an incorrect beginning cash balance transferring to the new system.

Recommendation: The University should review all beginning receivable balances during a billing system conversion to ensure future billings are based on accurate balances. This will prevent reimbursement requests for costs not yet incurred.

CFDA: 14.246

Federal Agency: HUD

Questioned Cost: None

Agency Response – University of Alaska

The University has returned the \$270,868 to the grantor. Management agrees with auditors that this finding is the result of an isolated billing system conversion error, and not a systemic problem.

Contact Person:

Myron Dosch, Financial Accounting Manager

Telephone: 907-474-6561

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State of Alaska Division of Legislative Audit
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Fiscal Year Ended June 30, 2003

Part I – Summary of Auditor’s Results

- a) An unqualified opinion was issued on the basic financial statements of the State of Alaska.
- b) Reportable conditions were disclosed by the audit of the financial statement; none of the reportable conditions were material weaknesses.
- c) There was no noncompliance which was material to the basic financial statements.
- d) Reportable conditions in internal controls over major federal programs, including a material weakness, were disclosed by the audit.
- e) The independent auditor’s report on compliance with requirements applicable to each major federal program expressed a qualified opinion for one major federal programs and an unqualified opinion for all others.
- f) There were several audit findings that were required to be reported under Section 510(a) of Office and Management and Budget (OMB) Circular A-133. These are summarized in Part III of this schedule of findings and questioned costs. The detail findings and recommendations can be read in Section II – Recommendations and Questioned Costs of this report.
- g) The State of Alaska has 34 major federal programs for the fiscal year ended June 30, 2003 as follows:

<u>CFDA or Other Identifying Number</u>	<u>Title of Federal Program</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.760	Water and Waste Disposal Systems for Rural Communities
10.857	State Bulk Fuel Revolving Fund Grants
11.438	Pacific Coast Salmon Recovery: Pacific Salmon Treaty Program
12.400	Military Construction, National Guard
12.401	National Guard Military Operations and Maintenance (O&M) Projects
14.182, 14.195	Section 8 Project-Based Cluster
14.246	Community Development Block Grants/Brownfields Economic Development Initiative
14.855	Section 8 Rental Voucher Program
14.872	Public Housing Capital Fund

State of Alaska Division of Legislative Audit
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Fiscal Year Ended June 30, 2003

Part I – Summary of Auditor’s Results (Continued)

<u>CFDA or Other Identifying Number</u>	<u>Title of Federal Program</u>
15.605, 15.611	Fish and Wildlife Cluster
15.634	State Wildlife Grants
15.808	U.S. Geological Survey: Research and Data Acquisition
16.710	Public Safety Partnership and Community Policing Grants
17.225	Unemployment Insurance
20.106	Airport Improvement Program
20.500, 20.507	Federal Transit Cluster
21.999	Taxpayer Relief Act of 1997 Amtrak Congressional Appropriation
66.606	Surveys, Studies, Investigations and Special Purpose Grants
84.007, 84.032, 84.033, and 84.063	Student Financial Aid Cluster
84.031	Higher Education – Institutional Aid
84.181	Special Education: Grants for Infants and Families With Disabilities
84.367	Improving Teacher Quality State Grants
90.100	Denali Commission Program
93.230	Consolidated Knowledge Development & Application Program
93.283	Centers for Disease Control and Prevention: Investigations and Technical Assistance
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.575, 93.596	Child Care Cluster
93.659	Adoption Assistance
93.671	Family Violence Prevention and Services/Grants for Battered Women’s Shelters: Grants to States and Indian Tribes
93.767	State’s Children’s Insurance Program
93.775, 93.777, 93.778	Medicaid Cluster
93.999	USDHHS – Miscellaneous

- h) A threshold of \$7,042,056 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
- i) The State of Alaska does not qualify as a low-risk auditee under Section 530 of OMB Circular A-133.

State of Alaska Division of Legislative Audit
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Fiscal Year Ended June 30, 2003

Part II – Findings related to the Basic Financial Statements

Reportable Conditions

<u>State Department</u>	<u>Recommendation Number</u>	<u>Comments</u>
Administration	Recommendation No. 2	
Environmental Conservation	Recommendation No. 33	
Transportation and Public Facilities	Recommendation No. 36	

Irregularities and Illegal Acts

There were no reportable findings relating to irregularities and illegal acts.

Part III – Federal Findings and Questioned Costs

<u>Federal Agency/ Recommendation Number</u>	<u>Questioned Costs</u>	<u>Comments</u>
USDA		
Recommendation No. 3	\$ -0-	Reportable condition
Recommendation No. 13	8,615	Reportable condition, noncompliance
Recommendation No. 17	-0-	Reportable condition, noncompliance
Recommendation No. 18	6,687	Reportable condition, noncompliance
Recommendation No. 19	253,934	Noncompliance
USDOD		
Recommendation No. 37	-0-	Noncompliance
Recommendation No. 38	-0-	Noncompliance
Recommendation No. 39	-0-	Noncompliance
USDOE		
Recommendation No. 3	-0-	Reportable condition
Recommendation No. 4	-0-	Noncompliance
Recommendation No. 5	42,361	Reportable condition, noncompliance
Recommendation No. 6	-0-	Reportable condition
Recommendation No. 7	-0-	Reportable condition, noncompliance
Recommendation No. 13	37	Reportable condition, noncompliance
Recommendation No. 17	-0-	Reportable condition, noncompliance
Recommendation No. 18	6,687	Reportable condition, noncompliance
Recommendation No. 20	35,787	Reportable condition, noncompliance
Recommendation No. 21	Indeterminate	Noncompliance

State of Alaska Division of Legislative Audit
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Fiscal Year Ended June 30, 2003

Part III – Federal Findings and Questioned Costs (Continued)

<u>Federal Agency/ Recommendation Number</u>	<u>Questioned Costs</u>	<u>Comments</u>
USDOJ		
Recommendation No. 30	None	Reportable condition, noncompliance
USDOJ		
Recommendation No. 17	-0-	Reportable condition, noncompliance
USDHHS		
Recommendation No. 3	-0-	Reportable condition
Recommendation No. 8	33,000	Reportable condition, noncompliance
Recommendation No. 9	-0-	Reportable condition, noncompliance
Recommendation No. 10	Immaterial	Reportable condition, noncompliance
Recommendation No. 13	745,867	Reportable condition, noncompliance
Recommendation No. 14	10,819	Reportable condition, noncompliance
Recommendation No. 17	-0-	Reportable condition, noncompliance
Recommendation No. 18	64,653	Reportable condition, noncompliance
Recommendation No. 22	32,774	Reportable condition, noncompliance
Recommendation No. 23	-0-	Reportable condition
Recommendation No. 24	-0-	Material weakness
Recommendation No. 25	6,480,333	Reportable condition, noncompliance
Recommendation No. 26	860,700	Noncompliance
Recommendation No. 27	792,830	Reportable condition, noncompliance
Recommendation No. 28	10,360,692	Reportable condition, noncompliance
Recommendation No. 31	Indeterminate	Reportable condition
EPA		
Recommendation No. 34	1,166,051	Reportable condition, noncompliance
Recommendation No. 35	-0-	Reportable condition, noncompliance
HUD		
Recommendation No. 40	Indeterminate	Noncompliance
Recommendation No. 41	-0-	Noncompliance
Recommendation No. 42	-0-	Noncompliance
NFAH		
Recommendation No. 3	-0-	Reportable condition

Independent Auditor's Report on Compliance
and on Internal Control Over Financial Reporting Based on the
Audit of the Basic Financial Statements Performed in
Accordance with *Government Auditing Standards*

Members of the Legislative Budget
and Audit Committee:

We have audited the basic financial statements of the State of Alaska as of and for the year ended June 30, 2003, and have issued our report thereon dated November 28, 2003. That report, presented in Section I, describes our division of responsibility with other auditors and also details the State's adoption of certain Governmental Accounting Standards Board Statements. We conducted our audit in accordance with audit standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the State of Alaska's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of the basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which are described in the preceding section of Recommendations and Questioned Costs.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Alaska's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are identified in the accompanying Summary of Recommendations and Schedule of Findings and Questioned Costs in the Recommendations and Questioned Costs section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions identified above are a material weakness.

This report is intended for the information of the State's management, members of the Alaska Legislature, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Pat Davidson, CPA
Legislative Auditor

November 28, 2003

Independent Auditor's Report on Compliance Requirements
Applicable to Each Major Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133

Members of the Legislative Budget
and Audit Committee:

Compliance

We have audited the State of Alaska's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget's (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2003. The State of Alaska's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of Alaska's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Alaska's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Alaska's compliance with those requirements.

As described in Recommendations 37, 38, and 39 in the preceding Recommendations and Questioned Costs section, the State of Alaska did not comply with requirements regarding financial reporting that are applicable to the Military Construction program (CFDA 12.400) which is administered by the Alaska Aerospace Development Corporation. Compliance with

such requirements is necessary, in our opinion, for the State of Alaska to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph for CFDA 12.400, the State of Alaska complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2003. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133. These instances are also summarized in the accompanying Summary of Recommendations and Schedule of Findings and Questioned Costs and described in detail in the preceding Recommendations and Questioned Costs section.

Internal Control Over Compliance

The management of the State of Alaska is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State of Alaska's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State's ability to administer a major federal program in accordance with applicable laws, regulations, contracts and grants. Reportable conditions are summarized in the accompanying Summary of Recommendations and Schedule of Findings and Questioned Costs and described, in detail, in the preceding Recommendations and Questioned Costs section.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions identified, we considered some instances to be material weaknesses. These have been identified as such on the accompanying Summary of Recommendations and Schedule of Findings and Questioned Costs and described, in detail, in the preceding Recommendations and Questioned Costs section.

This report is intended for the information of the State's management, members of the Alaska Legislature, and the federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Pat Davidson, CPA
Legislative Auditor

June 2, 2004

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Independent Auditor's Report on Supplementary
Information – Schedule of Expenditures of Federal Awards

Members of the Legislative Budget
and Audit Committee:

We have audited the basic financial statements of the State of Alaska as of and for the fiscal year ended June 30, 2003 and have issued our report thereon dated November 28, 2003. That report, presented in Section I, describes our division of responsibility with other auditors and furnishes details regarding the State's adoption of certain Governmental Accounting Standards Board Statements. These financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2003 on our consideration of the State of Alaska's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the State of Alaska taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of

Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects, in relation to the basic financial statements taken as a whole.

Pat Davidson, CPA
Legislative Auditor

June 2, 2004

STATE OF ALASKA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2003
By Federal Agency

State Agency	CFDA Number	Grant or Other Identifying Number	Federal Program Title	Federal Expenditures	Notes	Provided to Subrecipient
U.S. Agency for International Development						
DCED	02.118-G-00-00-00-115		USAID Alaska-Sakhalin Working Group	213,562		
UofA	02.999		Miscellaneous	2,398,074		
UofA	02.999	SUBGRANT # ARO-07	Miscellaneous - Pass-through from Mercy Corps.	31,663		
02.999 Total				2,429,737		
Total U.S. Agency for International Development				2,643,299		
Legal Services Corporation						
COURT	09.902000		Technology Initiative Grant Program	13,438		
09.902000 Total				13,438		
Total Legal Services Corporation				13,438		
U.S. Department of Agriculture						
DNR	10.001		Agricultural Research: Basic and Applied Research	264,266		
UofA	10.001		Agricultural Research - Basic and Applied Research	990,511	10	
10.001 Total				1,254,777		
DEC	10.025		Plant and Animal Disease, Pest Control, and Animal Care	4,640		
DNR	10.025		Plant and Animal Disease, Pest Control, and Animal Care	403,401		
UofA	10.025	02-8560-0010-CA	Plant and Animal Disease, Pest Control, and Animal Care	16,454	10	
10.025 Total				424,495		
DEC	10.12-25-A-4091		Cooperative Pesticide Recordkeeping Program	10,845	6	
DNR	10.156		Federal-State Marketing Improvement Program	16,192		
DNR	10.162		Inspection Grading and Standardization	1,335		
DNR	10.163		Market Protection and Promotion	78,985		
UofA	10.200		Miscellaneous	1,738,733		
UofA	10.200		Miscellaneous	2,177,378	10	
10.200 Total				3,916,111		
UofA	10.202	51130-9729-00	Cooperative Forestry Research	28,109		
UofA	10.203		Payments to Agricultural Experiment Stations Under the Hatch Act	(60)		
UofA	10.203		Payments to Agricultural Experiment Stations Under the Hatch Act	(796)	10	
10.203 Total				(856)		
UofA	10.206		Grants for Agricultural Research: Competitive Research Grants	428,189	10	
UofA	10.206	00-RA2416-AK	Grants for Agricultural Research: Competitive Research Grants - Pass-through from University of California Davis	38,050	10	
10.206 Total				466,239		
UofA	10.207	2002-36100-06002	Animal Health and Disease Research	3,291	10	
UofA	10.224	2001-38426-11495	Fund for Rural America: Research, Education, and Extension Activities	57,794		
UofA	10.228		Alaska Native Serving and Native Hawaiian Serving Institutions Education Grants	357,571		
UofA	10.302	RCUH LTR JAN 1, 02	Initiative for Future Agriculture and Food Systems - Pass-through from University of Hawaii, HILO	13,277		
UofA	10.302		Initiative for Future Agriculture and Food Systems - Pass-through from University of Idaho	75,597		

STATE OF ALASKA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2003
By Federal Agency

<u>State Agency</u>	<u>CFDA Number</u>	<u>Grant or Other Identifying Number</u>	<u>Federal Program Title</u>	<u>Federal Expenditures</u>	<u>Notes</u>	<u>Provided to Subrecipient</u>
10.302 Total				88,874		
UofA	10.303	2002-51110-01510	Integrated Programs	1,719		
UofA	10.303	40534-6898	Initiative for Future Agriculture and Food Systems - Pass-through from Cornell University	5,217	10	
UofA	10.303	00RA2416-AK	Initiative for Future Agriculture and Food Systems - Pass-through from University of California, Davis	(63)	10	
10.303 Total				6,873		
AHFC	10.410		Very Low to Moderate Income Housing Loans	64,408		
DEC	10.43-0109-3-0325		Regulatory oversight of Contaminated Sites cleanup	29,696	6	
UofA	10.500		Miscellaneous	1,648,886		
UofA	10.500		Miscellaneous	525,534	10	
10.500 Total				2,174,420		
UofA	10.501	EATP10047		(727)		
DEED	10.550		Food Donation	2,931,477	15	2,931,477
DHSS	10.551		Food Stamps	64,260,677	7, 10	
DEED	10.553		School Breakfast Program	3,354,105	10	610,320
DEED	10.555		National School Lunch Program	17,389,195	10	24,266,880
DEED	10.556		Special Milk Program for Children	4,743	10	4,743
DHSS	10.557		Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	19,436,746	3, 8	5,206,239
DEED	10.558		Child and Adult Care Food Program	5,937,963		1,589,973
DEED	10.559		Summer Food Service Program for Children	161,555	10	141,556
DEED	10.560		State Administrative Expenses for Child Nutrition	720,529		
DHSS	10.561		State Administrative Matching Grants for Food Stamp Program	7,666,373	10	
DEED	10.568		Emergency Food Assistance Program (Administrative Costs)	69,887	10	69,887
DOA	10.570		Nutrition Services Incentive	346,236		346,236
DEED	10.574		Team Nutrition Grants	39,595		
ASMI	10.601		Market Access Program	2,410,073		
UofA	10.652		Forestry Research	12,557		
UofA	10.652		Forestry Research	34,766	10	
DNR	10.664		Cooperative Forestry Assistance	2,592,358	6	
DCED	10.665		Schools and Roads: Grants to States	8,705,414	10	8,705,414
DOTPF	10.665		Schools and Roads: Grants to States	170,000	10	
10.665 Total				8,875,414		
DCED	10.672		Rural Development, Forestry, and Communities	163,218		137,579
DEC	10.760	(Formerly 10.43175712)	Water and Waste Disposal Systems for Rural Communities	16,266,998	3, 6	394,845
UofA	10.769		Rural Business Enterprise Grants	94,352		
UofA	10.769		Rural Business Enterprise Grants - Pass-through from Alaska One - HUD Grant	79,682		
10.769 Total				174,034		
AEA	10.857		State Bulk Fuel Revolving Fund Grants	3,077,888	3	
UofA	10.901	CA #74-0150-1-008	Resource Conservation and Development	35,198	10	
DNR	10.905		Plant Materials for Conservation	484,284	6	
DPS	10.91032		Chugach National Forest	14,963		
DPS	10.91032		Tongass National Forest	23,925		
10.91032 Total				38,888		
ARRC	10.999	H.R. 4577	U.S. Department of Agriculture - Forest Service	184,239	9	
ASMI	10.999	agreement #1	Quality Samples Program (QSP)	27,822		

STATE OF ALASKA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2003
By Federal Agency

State Agency	CFDA Number	Grant or Other Identifying Number	Federal Program Title	Federal Expenditures	Notes	Provided to Subrecipient
ASMI	10.999	agreement #67	Section 108 Program	506,764		
DFG	10.999		Miscellaneous U.S. Forest Service	1,175,170	6	1,500
DOTPF	10.999	PO 43-0109-3-0356	Acquisition of right of way on section of Coffman Cove Rd costs reimb by USDA AK DOT Pj # 68690	11,277		
UofA	10.999		Miscellaneous	401,661		
UofA	10.999	LETTER 1/9/03	Miscellaneous - Pass-through from Alaska Public Broadcasting Service, Inc.	83,456		
UofA	10.999	PFG	Miscellaneous - Pass-through from Alaska Rural Partners, Inc.	5,320		
UofA	10.999		Miscellaneous - Pass-through from Denali Commission, The	63,530		
UofA	10.999		Miscellaneous	344,515	10	
UofA	10.999	MOA DATED 11/26/02	Miscellaneous - Pass-through from The Oceanic Institute	10,836	10	
UofA	10.999	99-35101-7834	Miscellaneous - Pass-through from University of Nevada, Las Vegas	(523)	10	
UofA	10.999	Subcontract 98-104	Miscellaneous - Pass-through from Utah State University	(2)	10	
10.999 Total				2,814,065		
DNR	10.L83008		Calendar Year 2001 Fire Suppression	16,706	6	
DNR	10.L83008		Calendar Year 2002 Fire Suppression	2,755,783	6	
DNR	10.L83008		Calendar Year 2003 Fire Suppression	250,241		
10.L83008 Total				3,022,730		
DNR	10.Other		Agricultural Economic Assistance	380,660		
DNR	10.Other		Calendar Year 2003 Misc Fire Billings	269,162		
10.Other Total				649,822		
Total U.S. Department of Agriculture				171,949,806		
U.S. Department of Commerce						
DHSS	11.0022-DC-2001-14		Alaska Rural Primary Health Care Needs Assessment - Phase II	105,134		
DHSS	11.0024-DC-2001-16		Code Blue (Improve Rural Emergency Health Care)	71,233		
DLWD	11.005		Census Special Tabulations and Services	24,030	6	
DEED	11.303		Economic Development: Technical Assistance	24,000		
UofA	11.303		Economic Development: Technical Assistance	118,479		
11.303 Total				142,479		
DCED	11.307		Economic Adjustment Assistance	100,167	10	161,719
UofA	11.307	07-79-56068	Economic Adjustment Assistance	31,506	10	
11.307 Total				131,673		
ASMI	11.313		Trade Adjustment Assistance	755,030		
DFG	11.405		Anadromous Fish Conservation Act Program	335,110	6	
DFG	11.407		Interjurisdictional Fisheries Act of 1986	140,899	6	
UofA	11.417		Sea Grant Support	581,528		
UofA	11.417		Sea Grant Support	1,490,905	10	
11.417 Total				2,072,433		
DCED	11.419		Coastal Zone Management Administration Awards	1,660,642		1,462,747
DFG	11.419		Coastal Zone Management Administration Awards	541,021	4, 6	
DMVA	11.419		Coastal Zone Management Administration Awards	36,621		
OG	11.419		Coastal Zone Management Administration Awards	1,519,487		
UofA	11.419	UNH 00-365	Coastal Zone Management Administration Awards - Pass-through from University of New Hampshire CICEET	30,336	10	
11.419 Total				3,788,107		

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DFG	11.420		Coastal Zone Management Estuarine Research Reserves	719,248	6	
UofA	11.420		Coastal Zone Management Estaurine Research Reserves	14,593	10	
	11.420 Total			733,841		
UofA	11.427		Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	20,815	10	
UofA	11.430		Undersea Research	5,839,505	10	
UofA	11.433	2003-5-5 CML	Marine Fisheries Initiative - Pass-through from Sloan Foundation	26,353		
UofA	11.435		Southeast Area Monitoring and Assessment Program	28,755	10	
DFG	11.437		Pacific Fisheries Data Program	3,424,212	6	
DEED	11.438		Pacific Coast Salmon Recovery: Pacific Salmon Treaty Program	33,443		
DFG	11.438		Pacific Coast Salmon Recovery: Pacific Salmon Treaty Program	13,674,962	3, 4, 6	692,814
UofA	11.438	RSA EN	Pacific Coast Salmon Recovery: Pacific Salmon Treaty Program - Pass-through from Exxon Valdez Oil Spill Trustee Cnsl	(781)	10	
	11.438 Total			13,707,624		
UofA	11.439		Marine Mammal Data Program	40,729		
UofA	11.439		Marine Mammal Data Program	631,222	10	
UofA	11.439	AWARD LTR 6/17/03	Marine Mammal Data Program - Pass-through from Aleutians East Borough - ANC	290	10	
UofA	11.439	NA16FX1270	Marine Mammal Data Program - Pass-through from NOAA	848,506	10	
UofA	11.439	NA96FX0124 SFOS 00 135	Marine Mammal Data Program - Pass-through from North Pacific Marine Science Foundation	(5,521)	10	
UofA	11.439		Marine Mammal Data Program - Pass-through from Seward Assoc for Advancement of Science (SAAMS)	113,646	10	
DFG	11.439		Marine Mammal Data Program	2,621,266	6	
	11.439 Total			4,250,138		
UofA	11.444	40HCNF100143	Aquaculture Program	24,758	10	
OG	11.452		Unallied Industry Projects	29,487		
DFG	11.454		Unallied Management Projects	1,375,456	6	
DEC	11.45ABNAON252		Miscellaneous Inspection Service	9,723		
UofA	11.460		Special Oceanic and Atmospheric Projects	841,862	10	
	11.460 Total			841,862		
UofA	11.472		Unallied Science Program - Pass-through from North Pacific Research Board	21,100	10	
UofA	11.472		Unallied Science Program - Pass-through from Seward Assoc for Advancement of Science (SAAMS)	306,376	10	
	11.472 Total			327,476		
DCED	11.477		Fisheries Disaster Relief	1,388,378		1,261,271
DFG	11.477		Fisheries Disaster Relief	953,142	6	
	11.477 Total			2,341,520		
UofA	11.478	NA16OP1428	Center for Sponsored Coastal Ocean Research: Coastal Ocean Program	16,822		
UofA	11.478	NA16OP2795	Center for Sponsored Coastal Ocean Research: Coastal Ocean Program	2,641	10	
	11.478 Total			19,463		

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UofA	11.480	NA16RG1724	National Ocean Service Intern Program	25,799		
UofA	11.480	#10 UNDER NA16FX2629	National Ocean Service Intern Program - Pass-through from North Pacific Marine Science Foundation	60,621	10	
11.480 Total				86,420		
DEC	11.50ABNC100055		Regulatory Oversight, Pribilof Islands, Alaska	48,414	6	
UofA	11.550	02-02-98135	Public Telecommunications Facilities: Planning and Construction	(1,520)		
UofA	11.552	02-60-100003	Technology Opportunities	150,180		
DFG	11.999		Miscellaneous NOAA	2,786,286	6	
DOTPF	11.999	Lease of space no Fed Agreement #	Space leased by National Weather Service at DOTPF facility in Slana & Ernestine	1,809		
DPS	11.999		National Marine Fisheries Joint Enforcement Agreement	716,263		
UofA	11.999		Miscellaneous	51,675		
UofA	11.999	LETTER 4-11-03	Miscellaneous - Pass-through from Alaska Marine Safety Education Association	6,520		
UofA	11.999	AGREEMENT	Miscellaneous - Pass-through from Denali Commision, The	10,629		
UofA	11.999		Miscellaneous	132,529	10	
UofA	11.999	AAR-400 SUBAWARD	Miscellaneous - Pass-through from Embry-Riddle Aeronautical University	4,554	10	
UofA	11.999		Miscellaneous - Pass-through from North Pacific Marine Science Foundation	68,748	10	
UofA	11.999		Miscellaneous - Pass-through from North Pacific Research Board	96,744	10	
UofA	11.999		Miscellaneous - Pass-through from Seward Assoc for Advancement of Science (SAAMS)	183,757	10	
11.999 Total				4,059,514		
DEC	11.NA16AB2392		DEC VSW Grants to St. Paul and St. George Islands for construction	800,000		800,000
Total U.S. Department of Commerce				45,710,124		
U.S. Department of Defense						
UofA	12.002		Procurement Technical Assistance For Business Firms	273,418		
DCED	12.112		Payments to States in Lieu of Real Estate Taxes	5,419,347		5,419,347
DEC	12.113		State Memorandum of Agreement Program for the Reimbursement of Technical Services	1,784,671	6	
UofA	12.114		Collaborative Research and Development - Pass-through from University of Mississippi	762,662	10	
UofA	12.300		Basic and Applied Scientific Research	167,031		
UofA	12.300	LETTER DATED 10/23/02	Basic and Applied Scientific Research - Pass-through from Consortium for Oceanographic Research & Education	15,520		
UofA	12.300		Basic and Applied Scientific Research	1,283,357	10	
UofA	12.300		Basic and Applied Scientific Research - Pass-through from John Hopkins University, The	2,732,139	10	
12.300 Total				4,198,047		
AADC	12.400	DAHA51-99-2-3038	Military Construction, National Guard	8,366,650	3	
DMVA	12.400		Military Construction, National Guard	1,347,495	3	
UofA	12.400		Military Construction, National Guard - Pass-through from State of Alaska	1,105,520	10	
12.400 Total				10,819,665		

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DMVA	12.401		National Guard Military Operations and Maintenance (O&M) Projects	11,038,893	3	
DMVA	12.404		National Guard Civilian Youth Opportunities	2,335,909		
UofA	12.420		Military Medical Research and Development	186,176	10	
ARRC	12.999	DTFRDV-99-G-60016	Track Realignment - Elmendorf Air Force Base and Ft. Richardson 1999 (pass-through from FRA)	1,096,950	9	
ARRC	12.999	DTFRDV-00-G-60025	Track Realignment - Elmendorf Air Force Base 2000 (pass-through from FRA)	803,272	9	
ARRC	12.999	DTFRDV-01-G-60031	Track Realignment - Elmendorf Air Force Base and Ft. Richardson 2001 (pass-through from FRA)	1,096,782	9	
ARRC	12.999	DTFRDV-02-G-60035	Track Realignment - Elmendorf Air Force Base and Ft. Richardson 2002 (pass-through from FRA)	5,554,528	9	
DCED	12.999		Delta Junction Missile Defense Test Bed Facilities Impact	1,841,989		1,821,591
DEED	12.999		Troops to Teachers	147,735		
DFG	12.999		Miscellaneous Army	146,043	6	
UofA	12.999	F65501-02-P-0084	Miscellaneous	9,950		
UofA	12.999		Miscellaneous - Pass-through from Oklahoma State University	133,801		
UofA	12.999		Miscellaneous	4,663,080	10	
UofA	12.999	4800-8	Miscellaneous - Pass-through from Calspan - UB Research Center, Inc.	(17,769)	10	
UofA	12.999		Miscellaneous - Pass-through from John Hopkins University, The	(1,162)	10	
UofA	12.999	M000010	Miscellaneous - Pass-through from University of Michigan	264,147	10	
12.999 Total				15,739,346		
DNR	12.F65501-01-M-8046		Kotzebue Rare Plant Propagation	766		
DOTPF	12.F65501-95C0017		Maintain Galena Airport to USAF Safety Standards	379,990		
DOTPF	12.F65501-96C0006		Maintain King Salmon Airport to USAF Safety Standards	311,737		
DNR	12.MOU01JSTATE052		Ft. Wainwright Interpretive Panels	2,551		
DEC	12.USAF Elmendorf Site cleanup		USAF Elmendorf Site Cleanup	26,037	6	
DNR	12.WC1JUW21422723		GMD Application Fees	1,036		
Total U.S. Department of Defense				53,280,251		
U.S. Department of Housing and Urban Development						
UofA	14.000	B-99-SP-AK-0001	Miscellaneous	488,260		
AHFC	14.117		Mortgage Insurance: Homes	2,146,288		
AHFC	14.182		Lower Income Housing Assistance Program: Section 8 New Construction/Substantial Rehabilitation	2,216,624	3, 10	
AHFC	14.195		Section 8 Housing Assistance Payments Program: Special Allocations	5,783,308	3, 10	5,767,819
AHFC	14.227		Community Development Block Grants/Special Purpose Grants/Technical Assistance Program	150,302		
DCED	14.228		Community Development Block Grants/State's Program	2,571,321		2,352,616
DCED	14.231		Emergency Shelter Grants Program	112,999		
AHFC	14.235		Supportive Housing Program	24,692		
AHFC	14.238		Shelter Plus Care	111,038		111,038
AHFC	14.239		HOME Investment Partnerships Program	3,553,065		3,383,891
AHFC	14.241		Housing Opportunities for Persons with Aids	474,590		285,757
UofA	14.243	2-298 SUB-GRANT	Opportunities for Youth: Youthbuild Program - Pass-through from National Youth Sports Program	45,175		
DEED	14.246		Community Development Block Grants/Brownfields Economic Development Initiative	30,970	3	
DOA	14.246		Community Development Block Grants/Brownfields Economic Development Initiative	39,695	3	
UofA	14.246		Community Development Block Grants / Brownfields Economic Development Initiative	3,390,320	3	

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14.246 Total				3,460,985		
AHFC	14.249		Section 8 Moderate Rehabilitation Single Room Occupancy	308,127		254,085
UofA	14.511	COPC-AK-98-0006	Community Outreach Partnership Center Program	208		
UofA	14.515		Alaska Native / Native Hawaiian Institutions Assisting Communities	170,424		
AHFC	14.850		Public and Indian Housing	7,695,987		
AHFC	14.854		Public and Indian Housing Drug Elimination Program	200,450		
AHFC	14.855		Section 8 Rental Voucher Program	24,247,069	3	
AHFC	14.859		Public Housing: Comprehensive Grant Program	74,856		
AHFC	14.870		Resident Opportunity and Supportive Services	36,807		
AHFC	14.872		Public Housing Capital Fund	4,437,991	3	
AHFC	14.901		Healthy Homes Demonstration Grants	115,862		111,746
Total U.S. Department of Housing and Urban Development				58,426,428		
U.S. Department of the Interior						
UofA	15.024	SERVICE AGREEMENT	Indian Self-Determination Contract Support - Pass-through from Orutsararmuit Native Council	(473)		
UofA	15.034	E004403095	Agriculture on Indian Lands	1,160		
UofA	15.043	CA9910-99-041	Indian Child and Family Education	6,844	10	
DNR	15.1422L953-A3-012		Joint Pipeline Coordination Office	36,555		
DNR	15.1422L953A98-0009		Development of an Electronic Access for Digital Mineral and Land Records	241,474	6	
DNR	15.1422LAA990023		Non-Coal AML Sites	10,000		
UofA	15.221		Cooperative Agreements for Research in Public Lands Management	15,769	10	
DFG	15.222		Cooperative Inspection Agreements With States and Tribes	49,983	6	
DNR	15.222		Cooperative Inspection Agreements with States and Tribes	880,927	6	
UofA	15.222	LBA022177	Cooperative Inspection Agreements with States and Tribes	7,786		
15.222 Total				938,696		
DNR	15.224		Cultural Resource Management	101,466		
UofA	15.224		Cultural Resource Management	10,891	10	
15.224 Total				112,357		
DNR	15.228		Wildland Urban Interface Community & Rural Fire Assistance	24,781		
DNR	15.250		Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	182,455	6	
UofA	15.250	RSA EN 1032014	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining - Pass-through from State of Alaska	5,000		
15.250 Total				187,455		
DNR	15.252		Abandoned Mine Land Reclamation (AMLR) Program	3,352,208	6	
DFG	15.605		Sport Fish Restoration	13,068,251	3, 6, 10	938,808
UofA	15.608		Fish and Wildlife Management Assistance	81,369	10	
UofA	15.608	30842 Subcontract	Fish and Wildlife Management Assistance - Pas-through from LGL Limited	7,033	10	
15.608 Total				88,402		
DFG	15.611		Wildlife Restoration	8,458,409	3, 6, 10	

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DFG	15.614		Coastal Wetlands Planning, Protection and Restoration Act	14,465	6	
DNR	15.614		Coastal Wetlands Planning, Protection and Restoration Act	553,000		
15.614 Total				567,465		
DFG	15.615		Cooperative Endangered Species Conservation Fund	134,096	6	
UofA	15.617	70181-1-G111	Wildlife Conservation and Appreciation	848	10	
DFG	15.625		Wildlife Conservation and Restoration	611,837	6	
UofA	15.630		Coastal Program	10,045	10	
DFG	15.634		State Wildlife Grants	1,285,214	3, 6	
DNR	15.7018M176		Comprehensive Conservation Plans	14,000		
UofA	15.805		Assistance to State Water Resources Research Institutes	71,451	10	
UofA	15.807		Earthquake Hazards Reduction Program	1,049,356	10	
DFG	15.808		U.S. Geological Survey: Research and Data Acquisition	73,059	3, 6	
DNR	15.808		U.S. Geological Survey: Research and Data Acquisition	1,011,050	3, 6	
UofA	15.808		U.S. Geological Survey: Research and Data Acquisition	3,081,282	10	
15.808 Total				4,165,391		
DNR	15.810		National Cooperative Geologic Mapping Program	442,279	6	
DNR	15.904		Historic Preservation Fund Grants-In-Aid	955,251	6	
DNR	15.916		Outdoor Recreation: Acquisition, Development and Planning	296,127		
UofA	15.922	02-00-GP-252	Native American Graves Protection and Repatriation Act	(116)		
ARRC	15.999	H.R. 4578	U.S. Department of Interior	544,840	9	
DFG	15.999		Miscellaneous Bureau of Land Management	134,468	6	
DFG	15.999		Miscellaneous National Park Service	184,893	6	
DFG	15.999		Miscellaneous U.S. Fish and Wildlife Service	3,095,429	6	
DOTPF	15.999		Bridge Design - Selected Alaska Communities AK DOT Pj#74975	17,326		
UofA	15.999		Miscellaneous	219,220		
UofA	15.999		Miscellaneous	2,279,145	10	
UofA	15.999	LTR 4/25/02 RODMAN	Miscellaneous - Pass-through from Anchorage Fire Department	29,185	10	
UofA	15.999	2002-004-013 NFWF SUB	Miscellaneous - Pass-through from Bureau of Land Management	34,913	10	
UofA	15.999	02-01-NA-0261	Miscellaneous - Pass-through from Ounalashka Corporation	2,416	10	
UofA	15.999	AGRMT 7/9/02	Miscellaneous - Pass-through from Seward Assoc for Advancement of Science (SAAMS)	59,874	10	
UofA	15.999	473556	Miscellaneous - Pass-through from University of Washington	15,517	10	
UofA	15.999	1435-01-00-CA-31083	Miscellaneous - Pass-through from USDI Minerals Management Services	33,028	10	
15.999 Total				6,650,254		
DNR	15.CA-02-02-06		Independence Mine	191,090		
DNR	15.CA9910-8-0050/99-01		Denali National Park Interpretative Services	6,000		
DNR	15.DDD	LAA-02-0005	Cadastral Project	307,019	6	
UofA	15.DDD	1422L953-A97-0017 LAA-02-0015	Operation of ARLIS (Alaska Resources Library & Information Services)	884,546		
15.DDD Total				1,191,565		

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DNR	15.FFB	701812G173	Davidson Ditch Land	1,960		
DNR	15.H9910030005		Stampede Road Alignment	12,043		
DNR	15.H9913020017		Iditarod Trail Improvements	1,073		
DNR	15.L300CA9301		Calendar Year 2002 Misc Fire Billing	250,386		
DNR	15.L300CA9301		Calendar Year 2003 Fire Suppression	4,461,602		
DNR	15.L300CA9301		Calendar Year 2002 Fire Suppression	1,199,114		
		15.L300CA9301 Total		5,911,102		
DOTPF	15.LAA010012		Dalton Highway Wayside Resurfacing	49,413		
DOTPF	15.MOA-N19973		Payment from BLM for aircraft tiedown fee fire suppression aircraft	2,506		
Total U.S. Department of the Interior				50,162,138		
U.S. Department of Justice						
DMVA	16.007		State Domestic Preparedness Program	472,091		
DHSS	16.202		Offender Reentry Program	31,042		15,076
DHSS	16.523		Juvenile Accountability Incentive Block Grants	1,607,589		728,313
DHSS	16.540		Juvenile Justice and Delinquency Prevention: Allocation to States	475,067		371,014
COURT	16.541		Juvenile Justice and Delinquency Prevention: Special Emphasis	2,441		
DHSS	16.541		Juvenile Justice and Delinquency Prevention: Special Emphasis	294,749		298,891
DOA	16.541		Juvenile Justice and Delinquency Prevention: Special Emphasis	50,000		
		16.541 Total		347,190		
DHSS	16.548		Title V: Delinquency Prevention Program	37,633		30,000
DHSS	16.549		Part E: State Challenge Activities	98,491		27,550
UofA	16.550		State Justice Statistics Program for Statistical Analysis Centers	68,911	10	
DPS	16.554		National Criminal History Improvement Program (NCHIP)	1,372,624		
UofA	16.560	2000-WT-VX-0013	National Institute of Justice Research, Evaluation, and Development Project Grants	69,745	10	
DPS	16.564		Crime Laboratory Improvement: Combined Offender DNA Index System Backlog Reduction	276,500		
UofA	16.565	SUBCONTRACT NIOJ 2003-45	National Institute of Justice Domestic Anti-Terrorism Technology Development Program - Pass-through from University of Oklahoma	78,625	10	
DPS	16.575		Crime Victim Assistance	1,276,422		1,121,438
DPS	16.576		Crime Victim Compensation	408,465		
DPS	16.579		Byrne Formula Grant Program	2,145,827		563,755
DPS	16.580		Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	1,018,229		
COURT	16.585		Drug Court Discretionary Grant Program	201,940		
DOTPF	16.585		Drug Court Discretionary Grant Program	143,635		
		16.585 Total		345,575		
DOC	16.586	96-CV-VX-0002	Violent Offender Incarceration and Truth in Sentencing Incentive Grant	335,655		
DPS	16.588		Violence Against Women Formula Grants	804,448		333,992
DPS	16.589		Rural Domestic Violence and Child Victimization Enforcement Grant Program	36,315		34,147
COURT	16.590		Grants to Encourage Arrest Policies and Enforcement of Protection Orders	66,128		

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DPS	16.590		Grants to Encourage Arrest Policies and Enforcement of Protection Orders	79,477		49,357
	16.590 Total			145,605		
DPS	16.592		Local Law Enforcement Block Grants Program	541,341		
UofA	16.592	1999-LB-VX-0002	Local Law Enforcement Block Grants Program	(18)	10	
	16.592 Total			541,323		
DPS	16.593		Residential Substance Abuse Treatment for State Prisoners	333,396		
UofA	16.595		Executive Office for Weed and Seed - Pass-through from East Anchorage Weed & Seed Initiative	25,119	10	
UofA	16.609	GRANT 2003-GP-CX-0006	Community Prosecution and Project Safe Neighborhoods	16,661	10	
DHSS	16.710		Public Safety Partnership and Community Policing Grants	193,227	3	
DOA	16.710		Public Safety Partnership and Community Policing Grants	2,000,000	3	
DPS	16.710		Residential Substance Abuse Treatment for State Prisoners	2,680,230	3	597,231
UofA	16.710	98UMWX1530	Public Safety Partnership and Community Policing Grants	8,197		
	16.710 Total			4,881,654		
UofA	16.712		Police Corps - Pass-through from Fairbanks Police Department	40,129		
DHSS	16.727		Enforcing Underage Drinking Laws Program	346,221		192,678
DHSS	16.729		Drug-Free Communities Support Program Grants	1,118,614		
DPS	16.729		Drug Free Communities Support Program Grants	94,590		
	16.729 Total			1,213,204		
DPS	16.99-02-02 & 03-02		Marijuana Eradication	71,121		
UofA	16.999	97PRWX0566	Miscellaneous	(3)		
UofA	16.999		Miscellaneous - Pass-through from National Opinion Research Center	129,126	10	
	16.999 Total			129,123		
DMVA	16.A98-229-CV		Counterdrug Support Program-Asset Forfeiture	90,801		
		Total U.S. Department of Justice		19,140,801		
		U.S. Department of Labor				
DLWD	17.002		Labor Force Statistics	815,039	6	
DLWD	17.005		Compensation and Working Conditions	173,184	6	
DLWD	17.203		Labor Certification for Alien Workers	74,627	6	
DLWD	17.207		Employment Service	10,193,926	6, 10	199,125
DLWD	17.225		Unemployment Insurance	216,537,450	3, 6, 11	
DOA	17.235		Senior Community Service Employment Program	1,649,644		1,436,616
DLWD	17.245		Trade Adjustment Assistance: Workers	337,507	6	
DEED	17.249		Employment Services and Job Training Pilots: Demonstrations and Research	193,172		123,659
UofA	17.249	AH-10857-00-60	Employment Services and Job Training Pilots: Demonstrations and Research - Pass-through from Workforce Development Office	409,813		
	17.249 Total			602,985		
DLWD	17.250		Job Training Partnership Act	78,587	6	
DLWD	17.253		Welfare-to-Work Grants to States and Localities	373,358	6	29,416

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DLWD	17.255		Workforce Investment Act	177,482	6	
DLWD	17.258		WIA Adult Program	4,398,957	6, 10	2,311,681
DLWD	17.259		WIA Youth Activities	4,846,322	6, 10	3,470,802
DLWD	17.260		WIA Dislocated Workers	10,165,362	6, 10	5,775,939
UofA	17.260		WIA Dislocated Workers	910,875	10	
	17.260 Total			11,076,237		
DLWD	17.261		Employment and Training Administration Pilots, Demonstrations, and Research Projects	601,490	6	599,600
UofA	17.261		Employment and Training Administration Pilots, Demonstrations, and Research Projects	1,017,602		
	17.261 Total			1,619,092		
DLWD	17.503		Occupational Safety and Health: State Program	1,287,118	6	
DLWD	17.504		Consultation Agreements	570,864	6	
UofA	17.600		Miscellaneous	46,833		
DLWD	17.720		Employment Programs for People with Disabilities	55,418	6	
DLWD	17.801		Disabled Veterans' Outreach Program (DVOP)	264,349	6, 10	
DLWD	17.804		Local Veterans' Employment Representative Program	535,416	6, 10	
UofA	17.999	PFG	Miscellaneous	9,775		
UofA	17.999	MOA DATED 05/03/02	Miscellaneous - Pass-through from Bethel Native Corporation	73,970		
	17.999 Total			83,745		
	Total U.S. Department of Labor			255,798,140		
	U.S. Department of State					
DHSS	19.1751-100345	2001	Arctic Human Health and Environmental Contaminants	(1,282)		
DHSS	19.S-LAQM-02-H0059		Supporting the "Taking Wing" Conference on Gender Equality	22,250		
	Total U.S. Department of State			20,968		
	U.S. Department of Transportation					
DOTPF	20 DTFA-0402P-44814		FAA agreement to install Precision Approach Path Indicator (PAPI) & Runway End Identifier Lights (REIL) at various airports	231,493		
DOTPF	20 DTFA-0402P-44839		FAA agreement to install Precision Approach Path Indicator (PAPI) & Runway End Identifier Lights (REIL) at various airports	8,822		
DOTPF	20 DTFA-AAL03P-45013		FAA agreement to install Precision Approach Path Indicator (PAPI) & Runway End Identifier Lights (REIL) at various airports	7,990		
DOTPF	20 DTFAWA-03-X-02009		FAA agreement to install Precision Approach Path Indicator (PAPI) & Runway End Identifier Lights (REIL) at various airports	929,925		
DNR	20.106		Airport Improvement Program	3,549	3	
DOTPF	20.106		Airport Improvement Program	132,514,670	3, 6, 19	
	20.106 Total			132,518,219		
UofA	20.108	AGREEMENT NO. 01-G-017	Aviation Research Grants	12,301		
UofA	20.108		Aviation Research Grants	37,123	10	
UofA	20.108	SUBCONTRACT 12/20/02	Aviation Research Grants - Pass-through from Embry-Riddle Aeronautical University	34,872	10	
	20.108 Total			84,296		
DNR	20.205		Highway Planning and Construction	24,668		
DOTPF	20.205		Highway Planning and Construction	404,194,065	6, 10, 19	1,981,821

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UofA	20.205	159972.B1.04.40	Highway Planning and Construction - Pass-through from CH2MHill	10,089	10	
20.205 Total				404,228,822		
UofA	20.215	03-447552-NSTI-UAA-AK P304115	Highway Training and Education - Pass-through from South Carolina State University	6,754		
DOTPF	20.218		National Motor Carrier Safety	546,641		
DNR	20.219		Recreational Trails Program	302,972		
ARRC	20.500		Federal Transit: Capital Investment Grants	11,635,022	3, 9, 10	
DOTPF	20.500		Federal Transit: Capital Investment Grants	6,751,814	3, 10	
20.500 Total				18,386,836		
ARRC	20.507		Federal Transit: Formula Grants	5,403,993	3, 9, 10	
DOTPF	20.509		Formula Grants for Other Than Urbanized Areas	915,095		483,549
DOTPF	20.513		Capital Assistance Program for Elderly Persons and Persons with Disabilities	353,499		200,859
DOTPF	20.514		Transit Planning & Research	209,413		212,315
DOTPF	20.515		State Planning and Research	74,843		18,260
DOTPF	20.600		State and Community Highway Safety	292,316	6, 10	24,826
UofA	20.600	LOA	State and Community Highway Safety - Pass-through from Anchorage Safe Communities	(209)	10	
20.600 Total				292,107		
DOTPF	20.601		Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	681,865	6, 10	434,044
DOTPF	20.602		Occupant Protection	279,452	6, 10	124,985
DOTPF	20.603		Federal Highway Safety Data Improvements Incentive Grants	263,478	6, 10	
DOTPF	20.604		Safety Incentive Grants for Use of Seatbelts	109,458	6, 10	49,458
DOTPF	20.605		Safety Incentives to Prevent Operation of Motor Vehicles By Intoxicated Persons	649,174	6, 10	481,980
UofA	20.701	SUBCONTRACT 217281	University Transportation Centers Program - Pass-through from University of Washington	5,846	10	
DMVA	20.703		Interagency Hazardous Materials Public Sector Training and Planning Grants	33,356		
ARRC	20.999	DTFRDV-99-G-60001	Capital Rehabilitation and Improvements – 1999	(9,631)	9	
ARRC	20.999	DTFRDV-99-G-60004	Positive Train Control – 1999	(2,000,000)	9	
ARRC	20.999	DTFRDV-99-G-60005	Anchorage International Airport Rail Passenger Station – 1999	8,791,969	9	
ARRC	20.999	DTFRDV-00-G-60021	Capital Rehabilitation and Improvements – 2000	(2,040)	9	
ARRC	20.999	DTFRDV-00-G-60028	Positive Train Control – 2000	(272,820)	9	
ARRC	20.999	DTFRDV-01-G-60030	Track Rehab, Siding Access Improv. and Track Relocation – 2001	6,890,180	9	
ARRC	20.999	DTFRDV-02-G-60032	Rail Safety and Infrastructure Improvements – 2002	13,844,151	9	
ARRC	20.999	DTFRDV-00-G-60022	Seward Dock Intermodal Project – 2000	46,139	9	
ARRC	20.999	DTFRDV-01-G-60029	Seward Dock Intermodal Project – 2001	450,302	9	
UofA	20.999		Miscellaneous - Pass-through from Embry-Riddle Aeronautical University	14,802		
UofA	20.999	SUBCONTRACT 111601	Miscellaneous - Pass-through from Embry-Riddle Aeronautical University	34,336	10	
20.999 Total				27,787,388		
DOTPF	20.DTFA04-81-F-81018		Pay Half of Electric Billed Through Shared Meter at Kodiak Airport	12,170		
DOTPF	20.DTFA04-92-89229		Prorated Share of Utilities and Repair/maintenance Cost FAA ARFF Deadhorse Combined Facility	45,362		

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DOTPF	20.DTSA20-02-P-50067		Increased Security Checkpoint Services Purchased by FAA from AIA	725,296		
DOTPF	20.DTSA20-02-P-50239		Increased Security Checkpoint Services Purchased by FAA from FIA	327,749		
DOTPF	20.PO 00020015		FHWA Alaska Division for TelNet Conference - Purchase Order	10		
DOTPF	20.PO 00200031-000		FHWA Alaska Division for FY 01 ITS Service Plan - Purchase Order	3,825		
DOTPF	20-00-A-17-0049 & 02-A-17-0063		Projects contracted by Western Federal Lands Division	551,859		
Total U.S. Department of Transportation				595,978,008		
U.S. Department of Treasury						
ARRC	21.999	None	Taxpayer Relief Act of 1997 Amtrak Congressional Appropriation	3,224,137	3, 9	
Total U.S. Department of Treasury				3,224,137		
U.S. Equal Employment Opportunity Commission						
OG	30.002		Employment Discrimination: State and Local Fair Employment Practices Agency Contracts	103,469		
Total U.S. Equal Employment Opportunity Commission				103,469		
U.S. General Services Agency						
DOA	39.003		Donation of Federal Surplus Personal Property	1,112,140	14	
UofA	39.009		Federal Citizen Information Center	4,662,997	10	
Total U.S. General Services Agency				5,775,137		
Library of Congress						
LAA	42.CRLD-0220		OpenWorld-Center for Russian Leadership Development	84,577		
Total Library of Congress				84,577		
National Aeronautics and Space Administration						
UofA	43.001		Aerospace Education Services Program	679,183	10	
UofA	43.001		Aerospace Education Services Program - Pass-through from JPL	47,548	10	
UofA	43.001	478959	Aerospace Education Services Program - Pass-through from University of Washington	25,092	10	
43.001 Total				751,823		
UofA	43.002	NAG5-11226	Technology Transfer	16,366	10	
UofA	43.999		Miscellaneous - Pass-through from University of Montana	30,208		
UofA	43.999		Miscellaneous	13,931,327	10	
UofA	43.999	NAG11055,PO1-0000441082	Miscellaneous - Pass-through from University of California Berkeley	8,286	10	
UofA	43.999		Miscellaneous - Pass-through from University of Massachusetts Dartmouth	793,263	10	
43.999 Total				14,763,084		
DNR	43.NAG1301010		Remote Sensing	383,870		
DNR	43.NAG1301011		Remote Sensing	518,921		
Total National Aeronautics and Space Administration				16,434,064		
National Foundation on the Arts and the Humanities						
UofA	45.024	00-4400-4097	Promotion of the Arts: Grants to Organizations and Individuals	44,766		
UofA	45.024	1-5500-6074	Promotion of the Arts: Grants to Organizations and Individuals	5,634	10	
45.024 Total				50,400		

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DEED	45.025		Promotion of the Arts: Partnership Agreements	538,055		295,294
UofA	45.129	GRANT #15-01	Promotion of the Humanities: Federal / State Partnership - Pass-through from Alaska Humanities Forum	474		
UofA	45.129	GRANT 17-02	Promotion of the Humanities: Federal / State Partnership - Pass-through from Alaska Humanities Forum	7,034	10	
45.129 Total				7,508		
UofA	45.149		Promotion of the Humanities: Division of Preservation and Access	62,381		
UofA	45.164	GM-25980-99	Promotion of the Humanities: Public Programs	(168)		
UofA	45.166	HE-20050-01	Promotion of the Humanities: Extending the Reach Grants to Underserved Areas	5,165		
UofA	45.302	IM-00022-00	Museum Assessment Program	622		
DEED	45.310		State Library Program	686,287		616,463
UofA	45.999	PA-24162-02	Miscellaneous	29,732		
UofA	45.999	FED02-023	Miscellaneous - Pass-through from National Film Preservation Foundation	2,858		
UofA	45.999	PFG	Miscellaneous - Pass-through from Alaska Humanities Forum	(4,059)	10	
45.999 Total				28,531		
Total National Foundation on the Arts and the Humanities				1,378,781		
National Science Foundation						
UofA	47.041		Engineering Grants	389,977	10	
UofA	47.049		Mathematical and Physical Sciences	66,380		
UofA	47.049		Mathematical and Physical Sciences	314,962	10	
UofA	47.049	PENDING	Mathematical and Physical Sciences - Pass-through from North Pacific Research Board	9,265	10	
47.049 Total				390,607		
UofA	47.050		Geosciences	22,566		
UofA	47.050		Geosciences - Pass-through from University of Nevada, Reno	179,704		
UofA	47.050		Geosciences	3,602,123	10	
UofA	47.050		Geosciences - Pass-through from Marine Biological Laboratory	84,057	10	
UofA	47.050	53-000045	Geosciences - Pass-through from SRI International	13,918	10	
UofA	47.050	S02-39004 ASSUMPT	Geosciences - Pass-through from UCAR Office of Programs	16,065	10	
UofA	47.050	F004262	Geosciences - Pass-through from University of Michigan	1,100	10	
UofA	47.050	AGRMT #010429-1	Geosciences - Pass-through from University of Pittsburgh	7,191	10	
UofA	47.050	SUBCONTRACT C029979	Geosciences - Pass-through from Utah State University	5,516	10	
47.050 Total				3,932,240		
UofA	47.070		Computer and Information Science and Engineering	296,279		
UofA	47.070		Computer and Information Science and Engineering	205,124	10	
47.070 Total				501,403		
UofA	47.074	SA3418-22395PG 500211PO#	Biological Sciences - Pass-through from University of California Berkeley	12,728	10	
UofA	47.074		Biological Sciences	1,212,976	10	
UofA	47.074	99221642	Biological Sciences - Pass-through from Marine Biological Laboratory	1,141	10	

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UofA	47.074	S900300 ACCT 444721-00001	Biological Sciences - Pass-through from Texas A & M University Research Foundation	2,824	10	
UofA	47.074	UF02018	Biological Sciences - Pass-through from University of Florida	101,745	10	
UofA	47.074	UNC-CH ACCT# 5-37526	Biological Sciences - Pass-through from University of North Carolina at Chapel Hill	21,437	10	
UofA	47.074		Biological Sciences	76,133		
		47.074 Total		1,428,984		
UofA	47.075		Social, Behavioral, and Economic Sciences	66,344		
UofA	47.075	SUBCONTRACT AGRMT DTD 02-13-01	Social, Behavioral, and Economic Sciences - Pass-through from National Research Council	3,824		
UofA	47.075		Social, Behavioral, and Economic Sciences	3,247	10	
UofA	47.075	SA0310094	Social, Behavioral, and Economic Sciences - Pass-through from University of Arkansas	4,325	10	
		47.075 Total		77,740		
DEED	47.076		Education and Human Resources	51,922		
UofA	47.076		Education and Human Resources	1,757,591		
UofA	47.076		Education and Human Resources - Pass-through from Alaska Federation of Natives Inc.	(10,843)		
UofA	47.076		Education and Human Resources	3,796,085	10	
UofA	47.076		Education and Human Resources - Pass-through from Alaska Federation of Natives Inc.	333,926	10	
		47.076 Total		5,928,681		
UofA	47.078		Polar Programs	950,447		
UofA	47.078	20012148-000 OP	Polar Programs - Pass-through from North Slope Borough	665		
UofA	47.078		Polar Programs	11,396,387	10	
UofA	47.078	UTA03-14816	Polar Programs - Pass-through from University of Texas at Austin	23,715	10	
UofA	47.078	250234	Polar Programs - Pass-through from University of Washington	34,234	10	
UofA	47.078	A100253	Polar Programs - Pass-through from Woods Hole Oceanographic Institution	64,070	10	
		47.078 Total		12,469,518		
UofA	47.999	SUBCONTRACT NO. 01-198B	Miscellaneous - Pass-through from Idaho State University	19,208	10	
UofA	47.999	OCE9731391	Miscellaneous	(3,896)		
UofA	47.999	AGREEMENT 7/1/02	Miscellaneous - Pass-through from Alaska Federation of Natives Inc.	66,553		
UofA	47.999		Miscellaneous	1,041,195	10	
UofA	47.999	PO 7099 3yrs	Miscellaneous - Pass-through from Marine Biological Laboratory	(3,636)	10	
UofA	47.999	PFG	Miscellaneous - Pass-through from Sea of Dreams Foundation, Inc.	37,272	10	
UofA	47.999	D979617287A	Miscellaneous - Pass-through from University of California Irvine	(755)	10	
		47.999 Total		1,155,941		
		Total National Science Foundation		26,275,091		
		Small Business Administration				
UofA	59.005	SBAHQ-99-R-0021	Business Development Assistance to Small Business	40,953		
UofA	59.007		Management and Technical Assistance	193,650		
UofA	59.037		Small Business Development Center	463,546		
		Total Small Business Administration		698,149		
		U.S. Department of Veterans' Affairs				

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AHFC	64.114		Veterans Housing: Guaranteed and Insured Loans	1,173,407		
ASLC	64.V101(223b)-P4101&P4201		Veteran's Administration Contract	56,360		
Total U.S. Department of Veterans' Affairs				1,229,767		
U.S. Environmental Protection Agency						
DEC	66.001		Air Pollution Control Program Support	1,080,753	6	54,000
DHSS	66.032		State Indoor Radon Grants	84,201		
UofA	66.400	R826103-01	Miscellaneous	2	10	
DEC	66.419		Water Pollution Control: State and Interstate Program support	162,622	6	
DEC	66.432		State Public Water System Supervision	2,171,124	6	
DOA	66.433		State Underground Water Source Protection	119,300		
DEC	66.454		Water Quality Management Planning	101,265	6	
DEC	66.458		Capitalization Grants for Water State Revolving Funds	8,857,672	6, 17	8,530,905
UofA	66.460	EN1890702	Nonpoint Source Implementation Grants - Pass-through from Watershed Management	(216)		
DFG	66.461		Wetland Program Grants	17,159	6	
UofA	66.461		Wetland Program Development Grants	68,161	10	
66.461 Total				85,320		
DEC	66.463		Water Quality Cooperative Agreements	108,356		
UofA	66.463	CP-97015901-0	Water Quality Cooperative Agreements	25,611	10	
66.463 Total				133,967		
DEC	66.467		Wastewater Operator Training Grant Program (Technical Assistance)	36,998	6	
DEC	66.468		Capitalization Grants for Drinking Water State Revolving Fund	3,214,854	6, 18	2,192,527
DEC	66.470		Hardship Grants Program for Rural Areas	43,348		
DEC	66.471		State Grants to Reimburse Operators of Small Water for Training & Certification Costs	175,291	6	
DEC	66.472		Beach Monitoring and Notification Program Implementation Grants	76,537	6	
DEC	66.474		Water Protection Grants to the States	42,317	6	
DEC	66.500		Environmental Protection Consolidated Research	422,471	6	
UofA	66.500	R-82982501-0	Miscellaneous	1,751	10	
66.500 Total				424,222		
DEC	66.605		Performance Partnership Grants	3,969,070	6	655,046
DCED	66.606		Surveys, Studies, Investigations and Special Purpose Grants	843,685	3	12,000
DEC	66.606		Surveys, Studies, Investigations and Special Purpose Grants	33,887,200	3, 6	10,016,487
DLWD	66.606		Surveys, Studies, Investigations and Special Purpose Grants	10,159	3, 6	
UofA	66.606		Surveys, Studies, Investigations and Special Purpose Grants	488,334		
UofA	66.606		Surveys, Studies, Investigations and Special Purpose Grants	221,389	10	
UofA	66.606		Surveys, Studies, Investigations and Special Purpose Grants - Pass-through from Kenai Watershed Forum	60,111	10	
66.606 Total				35,510,878		
DEC	66.608		State Information Grants	74,886		
DEC	66.609		Children's Health Protection	270,421		
DEC	66.700		Consolidated Pesticide Enforcement Cooperative Agreements	279,803	6	
DEC	66.708		Pollution Prevention Grants Program	187,488	6	

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DEC	66.804		State and Tribal Underground Storage Tanks Program	186,675	6	
DEC	66.805		Leaking Underground Storage Tank Trust Fund Program	412,512	6	
DEC	66.809		Superfund State and Indian Tribe Core Program	424,573	6	
			Cooperative Agreements			
UofA	66.951	NE-83057601-0	Environmental Education Grants	18,078	10	
UofA	66.999	U-91565801	Miscellaneous	3,996		
UofA	66.999	EGR357B	Miscellaneous - Pass-through from Northern Arizona University	7,632	10	
	66.999 Total			11,628		
DEC	66.LUST	Trust Cost Recovery	LUST Trust Cost Recovery	38,629	6	
		Total U.S. Environmental Protection Agency		58,194,218		
		U.S. Department of Energy				
AHFC	81.041		State Energy Program	333,094		
AHFC	81.042		Weatherization Assistance for Low-Income Persons	1,663,118		1,537,562
UofA	81.049	DE-FG03-03ER63530	Office of Science Financial Assistance Program	61,828	10	
UofA	81.049	PG-7433-01	Office of Science Financial Assistance Program - Pass-through from University of Montana	17,432		
UofA	81.049	SUBCONTRACT #1, 02-008	Office of Science Financial Assistance Program - Pass-through from Columbia University	50,448	10	
	81.049 Total			129,708		
AEA	81.079		Regional Biomass Energy Programs	17,386		
	81.079 Total			17,386		
AEA	81.087		Renewable Energy Research and Development	2,054,916		2,051,387
UofA	81.087	DE-FG51-01R021248	Renewable Energy Research and Development	641	10	
	81.087 Total			2,055,557		
DNR	81.089		Fossil Energy Research and Development	133,098		
UofA	81.089		Fossil Energy Research and Development	219,703	10	
UofA	81.089	#4742	Fossil Energy Research and Development - Pass-through from BP Exploration AK Inc	110,738	10	
UofA	81.089	409284-A-R8	Fossil Energy Research and Development - Pass-through from Pacific Northwest National Laboratory	48,485	10	
UofA	81.089		Fossil Energy Research and Development - Pass-through from Sandia National Laboratories	204,308	10	
UofA	81.089		Fossil Energy Research and Development Pacific Northwest National Laboratory	94,795	10	
	81.089 Total			811,127		
DEC	81.104		Office of Technology Development and Deployment for Environmental Management	300		
UofA	81.104		Office of Technology Development and Deployment for Environmental Management - Pass-through from Institute for Responsible Management, Inc.	134,880	10	
	81.104 Total			135,180		
UofA	81.113	CONTRACT 409909-A-R8	Office of Technology Development and Deployment for Environmental Management - Pass-through from Battelle Pacific Northwest Lab	340		
UofA	81.113	UM03-02-074 ASSUMPT	Office of Technology Development and Deployment for Environmental Management - Pass-through from University of Mississippi	2	10	
	81.113 Total			342		
AHFC	81.119		State Energy Program Special Projects	43,068		43,068

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UofA	81.999		Miscellaneous - Pass-through from Inland Northwest Research Alliance	189,012		
UofA	81.999		Miscellaneous	1,876,475	10	
UofA	81.999	AGREE. DTD NOV99; AMEND#1	Miscellaneous - Pass-through from Alaska State Dist. Counc. of Laborers	30,343	10	
UofA	81.999	321287-A-R1	Miscellaneous - Pass-through from Battelle Pacific Northwest Lab	(9,472)	10	
UofA	81.999		Miscellaneous - Pass-through from University of California	88,266	10	
81.999 Total				2,174,624		
DEC	81.DE-FC03-02EH02039		Amchitka Medical Screening Program	714,505	6	
DEC	81.DE-FG08-99NV13726		Provide Oversight for Conduct of Amchitka Island Workers Health	286,291		
DEC	81.DE-FG08-99NV13763		Amchitka Oversight/NEUNET	265,578	6	
Total U.S. Department of Energy				8,629,578		
U.S. Information Agency						
UofA	82.999		Miscellaneous	121,972		
Total U.S. Information Agency				121,972		
Federal Emergency Management Agency						
UofA	83.012	EMW-2000-CA-0397	Hazardous Materials Assistance Program	3,350		
DCED	83.105		Community Assistance Program: State Support Services Element (CAP-SSSE)	89,426		
DMVA	83.516		Disaster Assistance	84,407		
DMVA	83.519		Hazard Mitigation Assistance	98,858		
DCED	83.536		Flood Mitigation Assistance	143,541		140,900
DLWD	83.541		Disaster Unemployment Assistance (DUA)	36,375	6	
DMVA	83.543		Individual Assistance Grants	207,820		
ARRC	83.544	1316-DR-AK	U.S. Department of Emergency Management	31,500	9	
ARRC	83.544	1423-DR-AK	U.S. Department of Emergency Management	363,065	9	
ARRC	83.544	1445-DR-AK	U.S. Department of Emergency Management	108,000	9	
DMVA	83.544		Public Assistance Grants	2,559,910		995,947
83.544 Total				3,062,475		
DPS	83.547		First Responder Counter-Terrorism Training Assistance	126,610		
DMVA	83.548		Hazard Mitigation Grant	365,188		97,852
DMVA	83.552		Emergency Management Performance Grants	1,137,639		349,681
UofA	83.554		Public Assistance Grants	178,222		
DMVA	83.557		Pre-Disaster Mitigation	180,349		
DMVA	83.562		Emergency Operation Planning Grant	46,806		
DMVA	83.563		Emergency Operations Center Physical Modification for Secure Communications Equipment	50,000		
DMVA	83.564		Citizens Corps/Community Emergency Response Training	31,174		
Total Federal Emergency Management Agency				5,842,240		
U.S. Department of Education						
DEED	84.002		Adult Education: State Grant Program	37,000		
DLWD	84.002		Adult Education: State Grant Program	973,728	6	614,765
84.002 Total				1,010,728		
UofA	84.007		Federal Supplemental Educational Opportunity Grants	549,474	3, 10	
DEED	84.010		Title I Grants to Local Educational Agencies	26,053,098		26,004,258
DEED	84.011		Migrant Education: State Grant Program	6,243,947		5,539,634
DEED	84.013		Title I Program for Neglected and Delinquent Children	227,709		227,709
UofA	84.024	H024B60061	Early Education for Children with Disabilities	42,890		
DEED	84.027		Special Education: Grants to States	19,592,871	10	17,628,625
UofA	84.031		Higher Education: Institutional Aid	3,547,212	3	

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ASLC	84.032		Federal Family Education Loans	381,926	3, 10, 21	
UofA	84.032		Federal Family Education Loans	27,835,883	3, 10	
	84.032 Total			28,217,809		
UofA	84.033		Federal Work-Study Program	721,706	3, 10	
DEED	84.041		Impact Aid	25,540,902		
UofA	84.042		TRIO: Student Support Services	270,159	10	
UofA	84.044		TRIO: Talent Search	628,616	10	
UofA	84.047		TRIO: Upward Bound	1,372,603	10	
DEED	84.048		Vocational Education: Basic Grants to States	4,058,044		2,080,693
DEED	84.063		Federal Pell Grant Program	206,446	3, 10	206,446
UofA	84.063		Federal Pell Grant Program	8,421,336	3, 10	
	84.063 Total			8,627,782		
UofA	84.066		TRIO - Educational Opportunity Centers	555,340	10	
DEED	84.116		Fund for the Improvement of Postsecondary Education	32,950		
UofA	84.116		Fund for the Improvement of Postsecondary Education	890,741		
UofA	84.116	P116Z010123	Fund for the Improvement of Postsecondary Education - Pass-through from Galena City School District	41,114		
UofA	84.116	431986	Fund for the Improvement of Postsecondary Education - Pass-through from University of Washington	8,896		
	84.116 Total			973,701		
DLWD	84.126		Rehabilitation Services: Vocational Rehabilitation Grants to States	8,857,587	6	24,142
UofA	84.153	P153A970063	Business and International Education Projects	(658)		
UofA	84.153	P153A950091	Business and International Education Projects	(3,862)	10	
	84.153 Total			(4,520)		
DEED	84.154		Public Library Construction and Technology Enhancement	19,405		19,405
DEED	84.161		Rehabilitation Services: Client Assistance Program	123,668		
DLWD	84.169		Independent Living: State Grants	294,336	6	290,059
DEED	84.173		Special Education: Preschool Grants	1,378,126	10	1,229,873
DLWD	84.177		Rehabilitation Services: Independent Living Services for Older Individuals Who are Blind	239,220	6	237,798
DEED	84.181		Special Education: Grants for Infants and Families with Disabilities	8,400	3	
DHSS	84.181		Special Education: Grants for Infants and Families with Disabilities	1,976,078	3	1,575,279
	84.181 Total			1,984,478		
DEED	84.184		Safe and Drug-Free Schools and Communities: National Programs	40,806		20,403
DEED	84.185		Byrd Honors Scholarships	49,176		49,176
DEED	84.186		Safe and Drug-Free Schools and Communities: State Grants	2,035,460		1,969,673
DLWD	84.187		Supported Employment Services for Individuals with Severe Disabilities	328,537	6	
DEED	84.194		Bilingual Education Support Services	21,788		
UofA	84.195		Bilingual Education: Professional Development	762,572		

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UofA	84.195	T195 B000096	Bilingual Education: Professional Development - Pass-through from Anchorage School District	27,476		
84.195 Total				790,048		
DEED	84.196		Education for Homeless Children and Youth	116,422		
DOC	84.203	R203F990010-01	Star Schools	42,763		
DEED	84.213		Even Start: State Educational Agencies	1,283,290		1,146,268
UofA	84.215	R215K020096	Fund for the Improvement of Education	79,943		
UofA	84.215	FY01-113PO01, FY02-394 PO02	Fund for the Improvement of Education- Pass-through from Copper River School District	29,117		
UofA	84.215	0530602	Fund for the Improvement of Education	20,775	10	
84.215 Total				129,835		
DEED	84.215K		Fund for the Improvement of Education	2,842,043		
DLWD	84.224		Assistive Technology	539,894	6	485,464
DEED	84.243		Tech-Prep Education	395,707		333,167
DLWD	84.265		Rehabilitation Training: State Vocational Rehabilitation Unit In-Service Training	30,372	6	
DEED	84.276		Goals 2000: State and Local Education Systemic Improvement Grants	204,061		181,867
DEED	84.281		Eisenhower Professional Development State Grants	1,368,023		1,052,737
UofA	84.281	PETC 72110	Eisenhower Professional Development State Grants	8,370		
84.281 Total				1,376,393		
DEED	84.282		Charter Schools	174,535		164,715
DEED	84.287		Twenty-First Century Community Learning Centers	135,458		129,291
UofA	84.297	S297A000008	Native Hawaiian Curriculum Development, Teacher Training and Recruitment	444,542	10	
DEED	84.298		Innovative Education Program Strategies	1,622,851		1,358,659
UofA	84.299		Indian Education: Special Programs	28,440		
DEED	84.303		Technology Innovation Challenge Grants	133,055		66,444
UofA	84.303		Technology Innovation Challenge Grants	78,380		
UofA	84.303		Technology Innovation Challenge Grants - Pass-through from Chugach School District	419,128		
84.303 Total				630,563		
UofA	84.306	R306N010012	National Institute on the Education of At-Risk Students	273,677	10	
DEED	84.318		Education Technology State Grants	1,679,314		1,678,078
UofA	84.320		Alaska Native Educational Planning, Curriculum Development, Teacher Training, and Recruitment Program	1,318,842		
UofA	84.321	S321A990009	Alaska Native Home Based Education for Preschool Children	81,286		
UofA	84.321	MOA	Alaska Native Home Based Education for Preschool Children - Pass-through from Council of Athabascan Tribal Govts.	(2,704)		
84.321 Total				78,582		
UofA	84.322		Alaska Native Student Enrichment Program	321,177	10	
DEED	84.323		Special Education: State Program Improvement Grants for Children with Disabilities	574,812		120,536
UofA	84.325		Special Education: Personnel Preparation to Improve Services and Results for Children with Disabilities	328,779		

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UofA	84.325		Special Education: Personnel Preparation to Improve Services and Results for Children with Disabilities - Pass-through from 2001 Special Olympics World Winter Games AK	27,679	10	
84.325 Total				356,458		
DEED	84.326		Special Education: Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	149,577		85,816
DEED	84.330		Advanced Placement Program	133,296		79,705
DOC	84.331	V331A010032	Grants to States for Incarcerated Youth Offenders	9,064		
DEED	84.332		Comprehensive School Reform Demonstration	602,753		577,546
DEED	84.334		Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	1,250,149		1,137,911
UofA	84.334		Gaining Early Awareness and Readiness for Undergraduate Programs - Pass-through from Anchorage School District	18,884		
84.334 Total				1,269,033		
UofA	84.336		Teacher Quality Enhancement Grants	903,217		
DEED	84.338		Reading Excellence	3,201,386		2,986,421
DEED	84.340		Class Size Reduction	2,897,852		2,897,852
UofA	84.342		Preparing Tomorrow's Teachers to Use Technology	413,435		
UofA	84.342	CONTRACT DTD 7/02	Preparing Tomorrow's Teachers to Use Technology - Pass-through from Internatl Society for Technology in Education	89,597		
84.342 Total				503,032		
DLWD	84.346		Vocational Education: Occupational and Employment Information State Grants	137,848	6	
DEED	84.348		Title I Accountability Grants	356,709		356,709
DEED	84.352		School Renovation Grants	1,291,606		1,276,998
UofA	84.356	S356A020029	Alaska Native Educational Programs	73,938		
UofA	84.356	S356A020049	Alaska Native Educational Programs	100,578	10	
UofA	84.356	AGREEMENT DATED 1/2003	Alaska Native Educational Programs - Pass-through from Alaska Humanities Forum	18,382	10	
84.356 Total				192,898		
DEED	84.358		Rural Education	43,948		
UofA	84.363		Alaska Native Educational Programs	166,775		
DEED	84.365		English Language Acquisition Grants	182,407		179,407
DEED	84.367		Improving Teacher Quality State Grants	8,842,756	3	8,790,502
DEED	84.369		Grants for State Assessments and Related Activities	1,417,943		-
UofA	84.811A	RSA EN 063345		355,709		
DHSS	84.989		Systems Change Project to Expand Employment Opportunities for Individuals with Mental or Physical Disabilities, or Both, Who Receive Public Support	551,342		
DEED	84.994T		National Writing Project	20,521		-
DEED	84.999		Consolidated Programs IASA	678,026		
UofA	84.999	LETTER DATED APRIL 28,02	Miscellaneous - Pass-through from Association of American Colleges and Universities	2,039		
UofA	84.999	92 -AK01	Miscellaneous - Pass-through from National Writing Project Corporation	32,660		
84.999 Total				712,725		
Total U.S. Department of Education				182,935,134		

National Archives and Records Administration

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DEED	89.003		National Historical Publications and Records Grants	2,843		
89.003 Total				2,843		
Total National Archives and Records Administration				2,843		
Denali Commission						
AEA	90.100		Denali Commission Program	22,265,762	3	18,222,587
DCED	90.100		Denali Commission Program	2,543,846	3	2,543,846
DLWD	90.100		Denali Commission Program	3,225,868	3, 6	2,987,649
DOTPF	90.100		Denali Commission	165,430	3, 6	
DPS	90.100	A-2002-01	Denali Commission Programs	147,000	3	147,000
UofA	90.100	0022-DC-2001-I4B	Denali Commission Program	22,974		
90.100 Total				28,370,880		
AIDEA	90.999		Statewide Energy Plan	17,016		
Total Denali Commission				28,387,896		
U.S. Department of Health and Human Services						
DHSS	93.003		Public Health and Social Services Emergency Fund	409,991		
DOA	93.041		Special Programs for the Aging: Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	21,343		
DOA	93.042		Special Programs for the Aging: Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	57,450		
DOA	93.043		Special Programs for the Aging: Title III, Part D - Disease Prevention and Health Promotion Services	153,085		153,085
DOA	93.044		Special Programs for the Aging: Title III, Part B - Grants for Supportive Services and Senior Centers	1,925,869	10	1,727,308
DOA	93.045		Special Programs for the Aging: Title III, Part C - Nutrition Services	3,097,168	10	2,586,701
DOA	93.048		Special Programs for the Aging: Title IV and Title II - Discretionary Projects	113,948		10,000
DOA	93.051		Alzheimer's Disease Demonstration Grants to States	317,909		316,412
DOA	93.052		National Family Caregiver Support	674,415		674,415
DHSS	93.110		Maternal and Child Health Federal Consolidated Programs	431,732		39,869
UofA	93.113		Biological Response to Environmental Health Hazards	88,910	10	
UofA	93.115	CONSULT AGREE 9/2001	Biometry and Risk Estimation - Health Risks from Environmental Exposures - Pass-through from Aleutian Pribilof Islands Association, Inc.	1,634	10	
DHSS	93.116		Project Grants and Cooperative Agreements for Tuberculosis Control Programs	896,179		63,000
DHSS	93.127		Emergency Medical Services for Children	285,922		
DHSS	93.130		Primary Care Services: Resource Coordination and Development	1,104,923		30,000
DHSS	93.136		Injury Prevention and Control Research and State and Community Based Programs	434,232		38,400
DHSS	93.150		Projects for Assistance in Transition from Homelessness (PATH)	300,000		300,000
UofA	93.157	SUBCON # 423393	Centers of Excellence - Pass-through from University of Washington	9,717		
DHSS	93.161		Health Program for Toxic Substances and Disease Registry	5,216		
UofA	93.173	1 R03 DC03986-01	Research Related to Deafness and Communication Disorders	6,538	10	
UofA	93.178		Nursing Workforce Diversity	186,146		
UofA	93.189	NO. 600134	Health Education and Training Centers - Pass-through from University of Washington	96,693		

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DHSS	93.197		Childhood Lead Poisoning Prevention Projects: State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	98,671		
DHSS	93.200-97-7201		NCHS Contract	164,420		
UofA	93.211	ANTHC-03-C-5239	Rural Telemedicine Grants - Pass-through from Ak Native Tribal Health Consortium	71,580		
DHSS	93.217		Family Planning: Services	308,677		
DEC	93.223-01-4037		Food Sanitation Inspections	4,356		
DEC	93.223-02-4037		Food Sanitation Inspections	230,633		
DHSS	93.223-96-4401		Mammography Inspection	(724)		
DHSS	93.223-98-4813		FDA Tobacco Enforcement Contract	180		
DEED	93.230		Consolidated Knowledge Development and Application (KD&A) Program	406,064	3	250,654
DHSS	93.230		Consolidated Knowledge Development and Application (KD&A) Program	7,304,215	3	4,242,620
UofA	93.230		Consolidated Knowledge Development and Application Program - Pass-through from Fairbanks Native Association	278,673		
UofA	93.230		Consolidated Knowledge Development and Application Program - Pass-through from State of Alaska	629,041	4	
UofA	93.230	AGRT DTD8/30/01 1H79TI12887-01	Consolidated Knowledge Development and Application Program - Pass-through from Cook Inlet Council on Alcohol and Drug Abuse	2,467	10	
UofA	93.230	CONTRACT DTD 5-23- 2000	Consolidated Knowledge Development and Application Program - Pass-through from Copper River Native Association	6,604	10	
UofA	93.230	241-23622G-3101	Consolidated Knowledge Development and Application Program - Pass-through from Municipality of Anchorage	29,330	10	
UofA	93.230		Consolidated Knowledge Development and Application Program - Pass-through from State of Alaska	415,820	4, 10	
93.230 Total				9,072,214		
DHSS	93.234		Traumatic Brain Injury: State Demonstration Grant Program	66,855		
DHSS	93.235		Abstinence Education	63,607		69,570
DHSS	93.238		Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	559		
DHSS	93.241		State Rural Hospital Flexibility Program	947,521		
DHSS	93.243		Substance Abuse and Mental Health Services: Projects of Regional and National Significance	76,516		
DHSS	93.243-97-2030		NIOSH Trauma Registry	57,451		
DHSS	93.251		Universal Newborn Hearing Screening	156,908		
DHSS	93.259		Rural Access to Emergency Devices Grant	101,906		
DHSS	93.262		Occupational Safety and Health Research Grants	126,733		
DHSS	93.268		Immunization Grants	1,711,838		
UofA	93.273		Alcohol Research Programs	445,565	10	
UofA	93.273	PS#676898	Alcohol Research Programs - Pass-through from University of Connecticut	(54)	10	
93.273 Total				445,511		
UofA	93.279		Drug Abuse Research Programs - Pass-through from Univ of New Mexico Health Science Center	74,624		
UofA	93.279	5 R29 DA10872-04	Drug Abuse Research Programs	9,868	10	
UofA	93.279	PFG	Drug Abuse Research Programs - Pass-through from Univ of New Mexico Health Science Center	4,274	10	

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93.279 Total				88,766		
DHSS	93.283		Centers for Disease Control and Prevention: Investigations and Technical Assistance	10,207,710	3	1,225,871
DHSS	93.301		Small Rural Hospital Improvement Grants	174,305		
UofA	93.358	2 A10 HP 00194-03	Advanced Education Nursing Traineeships	37,946		
UofA	93.361	SUBCON #560795	Nursing Research - Pass-through from University of Washington	9,252	10	
UofA	93.389		Research Infrastructure	3,601,139	10	
DHSS	93.556		Promoting Safe and Stable Families	865,624		211,810
DEED	93.558		Temporary Assistance for Needy Families (TANF)	2,573,655	3, 4	2,573,655
DHSS	93.558		Temporary Assistance for Needy Families	42,031,046	3	530,000
DPS	93.558	RS630027	Temporary Assistance for Needy Families	1,470,000	3, 4	1,470,000
93.558 Total				46,074,701		
DEED	93.563		Child Support Enforcement	16,400	3	
DOR	93.563		Child Support Enforcement	16,948,986	3, 6	
93.563 Total				16,965,386		
AHFC	93.568		Low-Income Home Energy Assistance	975,137	4	975,137
DHSS	93.568		Low-Income Home Energy Assistance (LIHEAP)	6,340,394		
93.568 Total				7,315,531		
DCED	93.569		Community Services Block Grant	2,625,672		2,529,798
DCED	93.571		Community Services Block Grant Discretionary Awards: Community Food and Nutrition	7,658		7,658
DEED	93.575		Child Care and Development Block Grant	28,331,626	3, 4, 10	11,902,061
DHSS	93.575		Child Care and Development Block Grant	943,273	3, 10	
93.575 Total				29,274,899		
COURT	93.586		State Court Improvement Program	118,079		
DHSS	93.590		Community-Based Family Resource and Support Grants	401,208		225,170
DEED	93.596		Child Care Mandatory and Matching Funds of the Child Care Development Fund	6,946,598	3, 10	1,473,542
DOR	93.597		Grants to States for Access and Visitation Programs	119,597		
DEED	93.600		Head Start	70,008		
DHSS	93.603		Adoption Incentive Payments	482,561		
DHSS	93.630		Developmental Disabilities Basic Support and Advocacy Grants	467,599		
DHSS	93.631		Developmental Disabilities Projects of National Significance	170,988		961
UofA	93.632	#90DD0492/05	University Centers for Excellence in Developmental Disabilities Education, Research, and Service	379,342		
DHSS	93.643		Children's Justice Grants to States	61,821		
DHSS	93.645		Child Welfare Services: State Grants	379,800		192,575
COURT	93.652		Adoption Opportunities	116,030		
DHSS	93.658		Foster Care: Title IV-E	9,353,642		
DHSS	93.659		Adoption Assistance	6,272,009	3	
DHSS	93.667		Social Services Block Grant	10,348,465		
DHSS	93.669		Child Abuse and Neglect State Grants	103,374		
DEED	93.670		Child Abuse and Neglect Discretionary Activities	917,337		755,734
DHSS	93.670		Child Abuse and Neglect Discretionary Activities	1,829,744		1,313,420
UofA	93.670	90XA0024/01	Child Abuse and Neglect Discretionary Activities	221,345		
93.670 Total				2,968,426		
DPS	93.671		Family Violence Prevention and Services/Grants for Battered Women's Shelters: Grants to States and Indian Tribes	811,437	3	780,308

STATE OF ALASKA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2003
By Federal Agency

<u>State Agency</u>	<u>CFDA Number</u>	<u>Grant or Other Identifying Number</u>	<u>Federal Program Title</u>	<u>Federal Expenditures</u>	<u>Notes</u>	<u>Provided to Subrecipient</u>
DHSS	93.674		Chafee Foster Care Independent Living	752,356		
DHSS	93.767		State Children's Insurance Program	23,696,750	3	
DHSS	93.768		Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	437,912		
DHSS	93.773		Medicare: Hospital Insurance	683,254		
LAW	93.775		State Medicaid Fraud Control Units	351,002	3, 10	
DHSS	93.777		State Survey and Certification of Health Care Providers and Suppliers	172,048	3, 10	
DEED	93.778		Medical Assistance Program	3,160,152	3, 4, 10	
DHSS	93.778		Medical Assistance Program	552,412,930	3, 10, 20	690,806
DOA	93.778		Medical Assistance Program	1,604,337	3	-
			93.778 Total	557,177,419		
DOA	93.779		Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations, and Evaluations	258,709		60,000
UofA	93.822		Health Careers Opportunity Program	194,396		
UofA	93.822		Health Careers Opportunity Program - Pass-through from University of Washington	60,724		
			93.822 Total	255,120		
UofA	93.824		Basic / Core Area Health Education Centers - Pass-through from University of Washington	57,186	10	
UofA	93.848	5R29DK45711-03	Digestive Diseases and Nutrition Research	32	10	
UofA	93.848	PO#29995F	Digestive Diseases and Nutrition Research - Pass-through from Washington University	49,251	10	
			93.848 Total	49,283		
UofA	93.854		Biological Basis Research in the Neurosciences	1,576,456	10	
DHSS	93.879		Medical Library Assistance	104		
DHSS	93.887		Health Care and Other Facilities	305,561		
UofA	93.891		Alcohol Research Center Grants - Pass-through from University of Connecticut	47,215	10	
DHSS	93.912		Rural Health Outreach and Rural Network Development Program	295,449		
UofA	93.912		Rural Health Outreach and Rural Network Development Program	209,800		
			93.912 Total	505,249		
DHSS	93.913		Grants to States for Operation of Offices of Rural Health	217,784		
DHSS	93.917		HIV Care Formula Grants	976,099		
DHSS	93.919		Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	677,635		364,423
UofA	93.928	ANTHC-03-U-6877	Special Projects of National Significance - Pass-through from Ak Native Tribal Health Consortium	60,121	10	
DEED	93.938		Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	251,951		26,407
DHSS	93.940		HIV Prevention Activities: Health Department Based	1,507,782		613,733
DHSS	93.944		Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	89,638		
DHSS	93.945		Assistance Programs for Chronic Disease Prevention and Control	731,904		
DHSS	93.952		Improving EMS/Trauma Care in Rural Areas	36,453		
DHSS	93.958		Block Grant for Community Mental Health Services	1,155,915		1,067,918

STATE OF ALASKA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2003
By Federal Agency

State Agency	CFDA Number	Grant or Other Identifying Number	Federal Program Title	Federal Expenditures	Notes	Provided to Subrecipient
DHSS	93.959		Block Grants for Prevention and Treatment of Substance Abuse	4,641,969		825,137
DHSS	93.977		Preventive Health Services: Sexually Transmitted Diseases Control Grants	507,635		
DHSS	93.988		Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	544,973		15,000
DHSS	93.991		Preventive Health and Health Services Block Grant	673,241		113,235
DHSS	93.994		Maternal and Child Health Services Block Grant to the States	1,274,460		341,522
UofA	93.999		Miscellaneous	652,339	3	
UofA	93.999	PROFESSIONAL SVCS CONTRACT	Miscellaneous - Pass-through from Alaska Federation of Natives Inc.	41,515	3	
UofA	93.999		Miscellaneous - Pass-through from Fairbanks Native Association	32,402	3	
UofA	93.999		Miscellaneous Pass-through from University of Washington	34,693	3	
UofA	93.999		Miscellaneous	137,619	10	
UofA	93.999	243-00-C-2011	Miscellaneous - Pass-through from Alaska Area Native Health Services	31,663	10	
UofA	93.999	ANTHC-02-U-4771	Miscellaneous Pass-through from Ak Native Tribal Health Consortium	17,176	10	
UofA	93.999	CDC SUBCON 200-2002-00433	Miscellaneous Pass-through from Center to Protect Worker's Rights	16,215	10	
93.999 Total				963,622		
DEC	93.FD-R-002064-01		Food Safety Task Force	2,537		
DEC	93.FD-R-18-1-OR		Risk Focused Inspection Training & Evaluation	38,326		
93.FD-R-18-1-OR Total				38,326		
Total U.S. Department of Health and Human Services				781,821,673		
U.S. Corporation for National and Community Service						
DEED	94.003		State Commissions	163,580		-32
DEED	94.004		Learn and Serve America: School and Community Based Programs	41,470		36,206
UofA	94.005		Learn and Serve America: Higher Education	88,539		
DEED	94.006		AmeriCorps	1,430,544		1,430,544
DEED	94.007		Planning and Program Development Grants	8,132		8,132
DEED	94.009		Training and Technical Assistance	87,986		29,952
DCED	94.013		Volunteers in Service to America	7,500		-
Total U.S. Corporation for National and Community Service				1,827,751		
Social Security Administration						
DLWD	96.001		Social Security: Disability Insurance	1,538,022	6, 10	
DLWD	96.006		Supplemental Security Income	2,500,862	6, 10	
UofA	96.008	16-T-10001-10-03	Social Security: Benefits Planning, Assistance, and Outreach Program	31,180		
Total Social Security Administration				4,070,064		
U.S. Department of Homeland Security						
DNR	97.015		Boating Safety Financial Assistance	549,566		
DNR	97.041		National Dam Safety Program	45,018		
Total U.S. Department of Homeland Security				594,584		
Total Federal Financial Assistance				2,380,754,525		268,141,224

STATE OF ALASKA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2003

Note 1: Purpose of the Schedule

The federal Office of Management and Budget (OMB) Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations* requires a schedule of expenditures of federal awards showing total federal financial assistance for the period covered in the financial statements. Each federal financial assistance program must be identified as it is in *the Catalog of Federal Domestic Assistance* (CFDA) and its CFDA number. When CFDA information is not available, another federal identifying number must be used.

Note 2: Significant Accounting Policies

- A. Reporting Entity - The accompanying schedule includes the federal financial assistance programs administered by the State of Alaska for the fiscal year ended June 30, 2003.
- B. Basis of Presentation - The accompanying schedule presents expenditures of federal awards for each federal financial assistance program in accordance with OMB Circular A-133. Federal program titles are reported as presented in the CFDA whenever possible.

As defined in OMB Circular A-133, federal financial assistance means assistance provided by a federal agency in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, or direct appropriations. However it does not include direct federal cash assistance to individuals. Federal financial assistance includes awards received directly from federal agencies, or indirectly through other units of state and local government and private nonprofit agencies.

This schedule identifies federal financial assistance with the state agency that uses the federal assistance directly for the federal program's purpose. Sometimes a state (requesting) agency passes federal assistance through to another (servicing) state agency using a reimbursable services agreement. When this has occurred, the requesting agency's financial assistance reported on this schedule does not include amounts passed through to the servicing agency (see Note 4).

Note 3: Major Federal Programs

The Single Audit Act Amendments of 1996 and OMB Circular A-133 establish the criteria to be used by the auditor in determining the major federal programs. For the fiscal year ended June 30, 2003, using the A-133 criteria, the State of Alaska has 34 major federal programs. The major federal programs are identified on the Schedule of Findings and Questioned Costs in Section II.

Note 4: Federal Pass-through Funds

This federal financial assistance was passed through from another State of Alaska agency (see Note 2 B).

Note 5: State Match

The exact amount of federal financial assistance cannot be readily determined for this federal program. The expenditures amount includes state matching dollars and overmatch, if any.

Note 6: Indirect Costs

Expenditures amount includes indirect costs recovered.

STATE OF ALASKA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Fiscal Year Ended June 30, 2003

Note 7: Food Stamps

At fiscal year end, June 30, 2003, food stamp inventory was approximately \$1.8 million and during FY 03, approximately \$64.3 million were issued.

Note 8: WIC Rebates

During FY 03 the Alaska Department of Health and Social Services (DHSS) received cash rebates of \$2,996,258 from infant formula manufacturers on sales of formula to participants in the WIC Program. Rebate contracts with infant formula manufacturers are authorized by 7 CFR 246.16(m) as a cost containment measure. Rebates represent a reduction of expenditures previously incurred for WIC food benefit costs. Applying the rebates received to such costs enables DHSS to extend program benefits to approximately 61,434 more persons than could have been served this fiscal year in the absence of the rebate contract. The number of additional persons provided benefits was determined by dividing the total amount of program benefits by the total number of individuals to determine average individual benefits. Total rebate dollars were then divided by the average benefit (CFDA 10.557).

Note 9: Fiscal Year

All State of Alaska agencies are reported using a fiscal year that ends June 30 except the Alaska Railroad Corporation whose fiscal year ends December 31.

Note 10: Cluster Programs

OMB Circular A-133 identifies programs to be considered clusters of programs for auditing purposes. These clusters consist of related programs that share common compliance requirements.

A. RESEARCH AND DEVELOPMENT CLUSTER

	<u>EXPENDITURES</u>
U.S. DEPARTMENT OF AGRICULTURE	
Animal and Plant Health Inspection Service	\$ 16,454
Cooperative State Research, Education, and Extension Service	46,495
Natural Resources Conservation Service	35,198
Other Subdivision	4,510,408
 U.S. DEPARTMENT OF COMMERCE	
National Oceanic and Atmospheric Administration	1,093,379
Other Subdivision	9,662,582
 U.S. DEPARTMENT OF DEFENSE	
	10,978,150

STATE OF ALASKA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2003

	<u>EXPENDITURES</u>
U.S. GENERAL SERVICES AGENCY	4,662,997
U.S. DEPARTMENT OF THE INTERIOR	
Bureau of Indian Affairs	6,844
Bureau of Land Management	34,913
Minerals Management Service	33,028
U.S. Fish and Wildlife Service	7,881
Other Subdivision	6,706,300
U.S. DEPARTMENT OF JUSTICE	
Bureau of Justice Assistance	16,643
National Institute of Justice	148,370
Other Subdivision	223,156
U.S. DEPARTMENT OF TRANSPORTATION	
Federal Aviation Administration	71,995
Research and Special Programs Administration	5,846
Other Subdivision	34,336
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION	15,501,065
NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES	
National Endowment for the Arts	5,634
National Endowment for the Humanities	7,034
Other Subdivision	(4,059)
NATIONAL SCIENCE FOUNDATION	22,751,422
ENVIRONMENTAL PROTECTION AGENCY	
Office of Environmental Education	18,078
Office of Water	25,613
Other Subdivision	359,044
U.S. DEPARTMENT OF ENERGY	2,911,440
U.S. DEPARTMENT OF EDUCATION	1,202,948
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES	
Health Resources and Services Administration	60,121
National Institutes of Health	66,653
Substance Abuse and Mental Health Services Administration	38,401
Other Subdivision	6,449,106
Total Research and Development Cluster	\$ 87,687,475

STATE OF ALASKA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Fiscal Year Ended June 30, 2003

B. STUDENT FINANCIAL AID CLUSTER

	<u>EXPENDITURES</u>
U.S. DEPARTMENT OF EDUCATION	
84.007 Federal Supplemental Educational Opportunity Grants	\$ 549,474
84.032 Federal Family Education Loans	28,217,809
84.033 Federal Work-Study Program	721,706
84.063 Federal Pell Grant Program	8,627,782
	8,627,782
Total Student Financial Aid Cluster	\$ 38,116,771

C. OTHER CLUSTERS

	<u>EXPENDITURES</u>
FOOD STAMP CLUSTER	
10.551 Food Stamps	\$ 64,260,677
10.561 State Administrative Matching Grants for Food Stamp Program	7,666,373
	7,666,373
Total Food Stamp Cluster	\$ 71,927,050

CHILD NUTRITION CLUSTER	
10.553 School Breakfast Program	\$ 3,354,105
10.555 National School Lunch Program	17,389,195
10.556 Special Milk Program for Children	4,743
10.559 Summer Food Service Program for Children	161,555
	161,555
Total Child Nutrition Cluster	\$ 20,909,598

EMERGENCY FOOD ASSISTANCE CLUSTER	
10.568 Emergency Food Assistance Program (Administrative Costs)	\$ 69,887
	69,887

SCHOOLS AND ROADS CLUSTER	
10.665 Schools and Roads: Grants to States	\$ 8,875,414
	8,875,414

PUBLIC WORKS AND ECONOMIC DEVELOPMENT CLUSTER	
11.307 Economic Adjustment Assistance	\$ 131,673
	131,673

SECTION 8 PROJECT-BASED CLUSTER	
14.182 Lower Income Housing Assistance Program: Section 8 New Construction/Substantial Rehabilitation	\$ 2,216,624
14.195 Section 8 Housing Assistance Payments Program: Special Allocations	5,783,308
	5,783,308
Total Section 8 Project-based Cluster	\$ 7,999,932

STATE OF ALASKA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2003

	<u>EXPENDITURES</u>
FISH AND WILDLIFE CLUSTER	
15.605 Sport Fish Restoration	\$ 13,068,251
15.611 Wildlife Restoration	8,458,409
Total Fish and Wildlife Cluster	\$ 21,526,660
 EMPLOYMENT SERVICES CLUSTER	
17.207 Employment Service	\$ 10,193,926
17.801 Disabled Veterans' Outreach Program (DVOP)	264,349
17.804 Local Veterans' Employment Representative Program	535,416
Total Employment Services Cluster	\$ 10,993,691
 WORKFORCE INVESTMENT ACT CLUSTER	
17.258 WIA Adult Program	\$ 4,398,957
17.259 WIA Youth Activities	4,846,322
17.260 WIA Dislocated Workers	11,076,237
Total Employment Services Cluster	\$ 20,321,516
 HIGHWAY PLANNING AND CONSTRUCTION CLUSTER	
20.205 Highway Planning and Construction	\$ 404,228,822
 FEDERAL TRANSIT CLUSTER	
20.500 Federal Transit: Capital Investment Grants	\$ 18,386,836
20.507 Federal Transit: Formula Grants	5,403,993
Total Federal Transit Cluster	\$ 23,790,829
 HIGHWAY SAFETY CLUSTER	
20.600 State and Community Highway Safety	\$ 292,107
20.601 Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	681,865
20.602 Occupant Protection	279,452
20.603 Federal Highway Safety Data Improvements Incentive Grant	263,478
20.604 Safety Incentive Grants for Use of Seatbelts	109,458
20.605 Safety Incentive to Prevent Operation of Motor Vehicles By Intoxicated Persons	649,174
Total Highway Safety Cluster	\$ 2,275,534
 SPECIAL EDUCATION CLUSTER	
84.027 Special Education: Grants to States	\$ 19,592,871
84.173 Special Education: Preschool Grants	1,378,126
Total Special Education Cluster	\$ 20,970,997

STATE OF ALASKA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2003

	<u>EXPENDITURES</u>
TRIO CLUSTER	
84.042 TRIO: Student Support Services	\$ 270,159
84.044 TRIO: Talent Search	628,616
84.047 TRIO: Upward Bound	1,372,603
84.066 TRIO: Educational Opportunity Centers	555,340
	\$ 2,826,718
 ADMINISTRATION ON AGING CLUSTER	
93.044 Special Programs for the Aging: Title III, Part B - Grants for Supportive Services and Senior Centers	\$ 1,925,869
93.045 Special Programs for the Aging: Title III, Part C - Nutrition Services	3,097,168
	\$ 5,023,037
 CHILD CARE CLUSTER	
93.575 Child Care and Development Block Grant	\$ 29,274,899
93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund	6,946,598
	\$ 36,221,497
 MEDICAID CLUSTER	
93.775 State Medicaid Fraud Control Units	\$ 351,002
93.777 State Survey and Certification of Health Care Providers and Suppliers	172,048
93.778 Medical Assistance Program (Medicaid)	555,573,082
	\$ 556,096,132
 DISABILITY INSURANCE/SSI CLUSTER	
96.001 Social Security: Disability Insurance	\$ 1,538,022
96.006 Supplemental Security Income	2,500,862
	\$ 4,038,884

Note 11: Unemployment Insurance

Federal participation in FY 03 Unemployment Insurance Benefits was \$38,968,701. Federal participation for program administration was \$22,919,904. UI benefits paid by the state during FY 03 was \$152,625,992 and Reed Act distribution was \$2,022,853. (CFDA No. 17.225)

Note 12: Petroleum Violation Escrow

Department of Energy (ENERGY) programs were funded in part by Petroleum Violation Escrow (PVE) funds. These expenditures are not included in the Schedule of Federal Financial Assistance. PVE funds represent the

STATE OF ALASKA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2003

State of Alaska share of settlement proceeds in various lawsuits between the Federal Government and oil producers. During FY 03, AHFC expended \$.00 from the trust fund in support of ENERGY programs.

Note 13: AHFC Loan Guarantee Programs

During FY 03, AHFC owned mortgage loans with various federal insurance and guarantee agreements covering future losses. Those programs, and the related principal balance of the loans covered at June 30, 2003, are:

Housing and Urban Development FHA Mortgage Insurance	\$ 936,562,844
Department of Veterans' Affairs Mortgage Guarantees	616,139,119
Farmers Home Administration Mortgage Insurance	112,434,654
Total Loan Guarantees and Insurance Programs	<u>\$ 1,665,136,617</u>

Note 14: Federal Surplus Property Program

All assistance provided to the Federal Surplus Property Program is in the form of donations of excess property to the Division of General Services. In FY 03, the state processed federal property valued at \$4,773,134 donors' acquisition cost. For OMB Circular A-133 purposes, the donated property is valued at 23.3% of donors' cost. This is the expenditure amount shown on the schedule \$1,112,140. The ending inventory at June 30, 2003, carried at the donors' acquisition cost was \$5,709,856 (CFDA 39.003).

Note 15: Commodities

DEED administers federal commodities distribution through other governmental and nonprofit agencies. In FY 03, commodities distributed totaled \$2,931,477. Commodities are valued at cost. These commodities are not reported in the State of Alaska basic financial statements for the year ended June 30, 2003 (CFDA 10.550).

Note 16: Federally Funded Student Loan Programs

Paul Douglas Teacher Scholarship program requires scholarship recipients to pay back assistance received if certain program requirements are not fulfilled. As of June 30, 2003, there were 12 outstanding scholarships, which totaled \$94,825 (CFDA 84.176).

Note 17: Capitalization Grants for State Revolving Funds

The U.S. Environmental Protection Agency jointly funds the Alaska Clean Water Fund with the State of Alaska. At fiscal year end June 30, 2003, 80 loan commitments totaling \$171,995,623 had been granted. Total loans against these commitments were \$124,031,683 of which \$103,359,694 was federal participation. Of the \$103,359,694, \$8,530,905 was disbursed in FY 03. Repayment received during FY 03 totaled \$7,840,709. Loans outstanding at June 30, 2003, totaled \$92,569,892 (CFDA 66.458).

Note 18: Capitalization Grants for Drinking Water State Revolving Fund

EPA jointly funds the Alaska Safe Drinking Water Loan Fund with the state. At fiscal year end June 30, 2003, 39 loan commitments totaling \$65,166,098 had been granted which consists of \$7,821,000 in disadvantaged assistance and \$57,345,098 in loan assistance. Total loans against these commitments were \$33,279,807 of which \$27,733,161 was federal participation. Of the \$27,733,161, \$2,192,527 was disbursed in FY03. Loans outstanding at June 30, 2003, totaled \$25,999,752 (CFDA 66.468).

STATE OF ALASKA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2003

Note 19: Last Resort Housing Loans

DOTPF made last resort housing loans in compliance with Uniform Relocation Assistance and Real Property Acquisition Act. FY 03 loan disbursements, if any, are included in CFDA 20.205 and CFDA 20.106. The exact amount is not readily available. Loans outstanding at June 30, 2003, totaled \$354,206. Federal share of principal is \$332,319.

Note 20: Medical Assistance Program Deferred Claims

The Department of Health and Social Services received notification from the U.S. Department of Health and Human Services, Centers for Medicare & Medicaid Services (CMS) in September 2002 that over \$41 million of Medical Assistance Program federal expenditures for In-Patient Hospital Services included in the FY 03 Schedule of Expenditures of Federal Awards was deferred. The State is providing additional information to CMS to support the expenditures (CFDA 93.778).

Note 21: Federal Family Education Loan Program (FFELP)

FFELP loans are governed by the Higher Education Act (Act). The Act provides for federal (i) insurance or reinsurance of eligible loans, (ii) interest subsidy payment to eligible lenders with respect to certain Subsidized Stafford loans, and (iii) special allowance payments representing an additional subsidy paid by the Secretary of the U.S. Department of Education to holders of eligible loans. FFELP loans outstanding at year end was \$8,836,209 (CFDA 84.032).

Note 22: Perkins Loan Program

The University receives Federal awards under the Perkins Loan Program (CFDA #84.638). The outstanding loan balances under this program totaled \$502,676 as of June 30, 2003.

STATE OF ALASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FY 2003 Audit

Report: 02-6800-98 Finding Number: 18 Fiscal Year: 1997 Initial Finding Year: 1997	<u>Prior Audit Finding:</u> <u>The director of the Division of Medical Assistance (DMA) should ensure that the division effectively monitors utilization control of the Medical Assistance Program.</u>
Federal Agency: USDHHS State Agency: DHSS CFDA: 93.778 Questioned Costs: Not determined	<u>Status/corrective action planned/reasons for no further action:</u> Please refer to the department response - Report: 02-40001-01 , Finding Number 13. We consider this audit recommendation resolved in accordance with OMB Circular A-133 __.315.

Report: 02-6800-98 Finding Number: 21 Fiscal Year: 1997 Initial Finding Year: 1997	<u>Prior Audit Finding:</u> <u>The director of DMA should ensure that providers are eligible and are aware of its disclosure requirements by updating enrollment on a periodic basis.</u>
Federal Agency: USDHHS State Agency: DHSS CFDA: 93.778 Questioned Costs: Not determined	<u>Status/corrective action planned/reasons for no further action:</u> Please refer to the department response - Report: 02-40001-01 , Finding Number 14. We consider this audit recommendation resolved in accordance with OMB Circular A-133 __.315.

Report: 02-6900-99 Finding Number: 19 Fiscal Year: 1998 Initial Finding Year: 1997	<u>Prior Audit Finding:</u> <u>The director of DMA should ensure that the division effectively monitors utilization control of the Medical Assistance Program.</u>
Federal Agency: USDHHS State Agency: DHSS CFDA: 93.778 Questioned Costs: None	<u>Status/corrective action planned/reasons for no further action:</u> Please refer to the department response - Report: 02-40001-01 , Finding Number 13. We consider this audit recommendation resolved in accordance with OMB Circular A-133 __.315.

Report: 02-6900-99 Finding Number: 21 Fiscal Year: 1998 Initial Finding Year: 1997	<u>Prior Audit Finding:</u> <u>The director of DMA should ensure that providers are eligible and are aware of its disclosure requirements by updating enrollment on a periodic basis.</u>
Federal Agency: USDHHS State Agency: DHSS CFDA: 93.778 Questioned Costs: None	<u>Status/corrective action planned/reasons for no further action:</u> Please refer to the department response - Report: 02-40001-01 , Finding Number 14. We consider this audit recommendation resolved in accordance with OMB Circular A-133 __.315.

STATE OF ALASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FY 2003 Audit

Report: **02-40000-00**
Finding Number: **25**
Fiscal Year: **1999**
Initial Finding Year: **1997**

Prior Audit Finding:

The director of the Division of Medical Assistance (DMA) should ensure that the division effectively monitors utilization control of the Medical Assistance program.

Federal Agency: **USDHHS**
State Agency: **DHSS**
CFDA: **93.778**
Questioned Costs: None

Status/corrective action planned/reasons for no further action:

Please refer to the department response - Report: **02-40001-01**, Finding Number 13. We consider this audit recommendation resolved in accordance with OMB Circular A-133 __.315.

Report: **02-40000-00**
Finding Number: **27**
Fiscal Year: **1999**
Initial Finding Year: **1997**

Prior Audit Finding:

The director of DMA should ensure that providers are eligible and are aware of its disclosure requirements by updating enrollment on a periodic basis.

Federal Agency: **USDHHS**
State Agency: **DHSS**
CFDA: **93.778**
Questioned Costs: None

Status/corrective action planned/reasons for no further action:

Please refer to the department response - Report: **02-40001-01**, Finding Number 14. We consider this audit recommendation resolved in accordance with OMB Circular A-133 __.315.

Report: **02-40001-01**
Finding Number: **13**
Fiscal Year: **2000**
Initial Finding Year: **1997**

Prior Audit Finding:

The director of the Division of Medical Assistance (DMA) should ensure that the division effectively monitors utilization control of the Medical Assistance program.

Federal Agency: **USDHHS**
State Agency: **DHSS**
CFDA: **93.778**
Questioned Costs: None

Status/corrective action planned/reasons for no further action:

DHSS recognizes that this is a repeat recommendation for the FY 1997, 1998, 1999, and 2000 single audits. The DMA post-payment review policy and procedure manual has been completed and provided to our fiscal agent. The manual is currently in use.

DMA continues to move toward resolving the backlog of SURS cases. As of November 2001, the provider-recipient review function within DMA is staffed with a manager and three full-time Medical Assistance Administrators. Internally, DMA is training and utilizing other audit resources within the division to provide some support for the SUR function. The SUR review activities under contract with First Health are being improved through routinely scheduled work process meetings and the hiring of an additional staff member within First Health. We consider this audit recommendation resolved in accordance with OMB Circular A-133 __.315.

STATE OF ALASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FY 2003 Audit

Report: **02-40001-01**
Finding Number: **14**
Fiscal Year: **2000**
Initial Finding Year: **1997**

Federal Agency: **USDHHS**
State Agency: **DHSS**
CFDA: **93.778**
Questioned Costs: None

Prior Audit Finding:

The director of DMA should ensure that providers are eligible and aware of its disclosure requirements by updating enrollment on a periodic basis.

Status/corrective action planned/reasons for no further action:

DHSS recognizes that this is a repeat recommendation for the FY 1997, 1998, 1999, and 2000 single audits. DMA continues to concur with this recommendation and the need for such controls, and plans to initiate a new, significantly different, application/enrollment process under the MMIS reprocurement. The MMIS reprocurement effort has encountered delays but continues with an expected implementation date in September 2005. In recognition of this recommendation, the RFP does require that the re-enrollment of providers be scheduled early in the installation process of the new MMIS.

DMA controls currently in place to monitor and review provider enrollment include:

- Monthly provider enrollment and eligibility list cross-checks against the Division of Occupational Licensing database to ensure licensed providers remain licensed;
 - Ongoing reviews of nonlicensed providers to identify potential problem areas and update re-enrollment; and
 - Periodic provider enrollment and eligibility list crosschecks with the Medicare/Medicaid Sanctions/Reinstatement Report issued by the Office of the Inspector General to help identify ineligible providers.
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STATE OF ALASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FY 2003 Audit

Report: **02-40001-01**
Finding Number: **25**
Fiscal Year: **2000**
Initial Finding Year: **2000**

Federal Agency: **USDA**
State Agency: **DMVA**
CFDA: **USDA-FSA-
KCMODS**
Questioned Costs: \$3,785

Prior Audit Finding:

The director of Division of Emergency Services (DES) should ensure that Western Alaska Fishery Disaster (WAFD) assistance is spent on allowable expenditures.

Status/corrective action planned/reasons for no further action:

A letter was sent to all WAFD vendors in October 2002 requesting confirmation of eligible fund expenses. A second letter was sent in May 2003. Letters were sent to 526 vendors, 387 responded to the letter, 139 did not (26%). Of the 387 vendors that responded to the letter, 55 of these returned unexpended funds in the amount of \$49,804.76. Stale dated warrants total \$44,426.00 for four vendors. Due to the stale dated warrants being federal funds, the Department is currently drafting correspondence to the U.S. Department of Agriculture to determine whether the funds are to be returned to the federal government or whether they will be retained by the state.

The Department has made a good faith effort in resolving this finding and corrective action has been taken to the best of our ability. It would be more cost efficient to close this out as the administrative costs to pursue this would be much higher. The Department believes this finding is resolved in accordance with OMB Circular A-133___.315. This will be the Departments final action to close this disaster.

Report: **02-40001-01**
Finding Number: **29**
Fiscal Year: **2000**
Initial Finding Year: **2000**

Federal Agency: **USDOJ**
State Agency: **DPS**
CFDA: **16.575, 16.579,
16.588**
Questioned Costs: None

Prior Audit Finding:

The director of AST and executive director of CDVSA should implement procedures to ensure subrecipients are properly informed and fulfilling federal award requirements.

Status/corrective action planned/reasons for no further action:

This audit finding is resolved in accordance with OMB Circular A-133___.315 for CFDA 16.588. See status of Finding # 41, Report 02-40002-03.

Report: **02-40002-02**
Finding Number: **3**
Fiscal Year: **2001**
Initial Finding Year: **1998**

Federal Agency: **USDHHS,
USDOL**
State Agency: **DOA**
CFDA: **93.044, 93.045**
Questioned Costs:
Indeterminate
CFDA: **17.235**
Questioned Costs:
Indeterminate

Prior Audit Finding:

The Department of Administration's (DOA) director of Division of Senior Services (DSS) and the executive director of the Alaska Commission on Aging (ACOA) should improve its monitoring of subrecipients to ensure that federal funds passed through to grantees are spent in accordance with federal requirements.

Status/corrective action planned/reasons for no further action:

This audit finding is considered resolved in accordance with OMB Circular A-133___.315. Please refer to the department response – **Report 02-40003-03**, Finding Number 5.

STATE OF ALASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FY 2003 Audit

Report: **02-40002-02**
Finding Number: **4**
Fiscal Year: **2001**
Initial Finding Year: **2001**

Federal Agency: **GSA**
State Agency: **DOA**
CFDA: **39.003**
Questioned Costs: None

Prior Audit Finding:

The Division of General Services Director should improve documentation of program activities for the Donation of Federal Surplus Personal Property Program.

Status/corrective action planned/reasons for no further action:

The U.S. General Service Administration conducted a federal review towards the beginning of FY03. Per the federal review letter dated September 16, 2002, an on-site compliance visit was required by DGS by the end of state FY03 for several vessels and aircrafts. These on-sites were conducted early FY03. Based on the federal review, this recommendation is considered closed.

Report: **02-40002-02**
Finding Number: **14**
Fiscal Year: **2001**
Initial Finding Year: **2001**

Federal Agency: **USDHHS**
State Agency: **DHSS**
CFDA: **93.558, 93.230**
Questioned Costs: None

Prior Audit Finding:

The director of the Division of Public Health (DPH) and the director of the Division of Mental Health and Developmental Disabilities (DMHDD) should improve the agencies' monitoring of subrecipients to ensure that federal funds are passed through to grantees in accordance with federal requirements.

Status/corrective action planned/reasons for no further action:

This audit finding is resolved in accordance with OMB Circular A-133___.315. Procedures have been established requiring the Administrative Manager of each division to verify and review each NGA to ensure that it is completed properly and in accordance with federal requirements.

Report: **02-40002-02**
Finding Number: **21**
Fiscal Year: **2001**
Initial Finding Year: **2000**

Federal Agency: **USDA**
State Agency: **DMVA**
CFDA: **USDA-FCA-KCMODS**
Questioned Costs: \$15,877

Prior Audit Finding:

The director of Division of Emergency Services (DES) should ensure that Western Alaska Fishery Disaster (WAFD) assistance is spent for allowable expenditures.

Status/corrective action planned/reasons for no further action:

This audit finding is resolved in accordance with OMB Circular A-133___.315. Please refer to the department response - Report: **02-40001-01**, Finding Number 25.

Report: **02-40002-02**
Finding Number: **25**
Fiscal Year: **2001**
Initial Finding Year: **2000**

Federal Agency: **USDOJ**
State Agency: **DPS**
CFDA: **16.575, 16.588, 16.579**
Questioned Costs: None

Prior Audit Finding:

The director of AST and executive director of CDVSA should implement procedures to ensure subrecipients are properly informed and fulfilling federal award requirements.

Status/corrective action planned/reasons for no further action:

This audit finding is resolved in accordance with OMB Circular A-133___.315 for CFDA 16.588. See status of Finding #41, Report 02-40002-03.

STATE OF ALASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FY 2003 Audit

Report: **02-40003-03**
Finding Number: **4**
Fiscal Year: **2002**
Initial Finding Year: **2002**

Federal Agency: **USDOL**
State Agency: **DOA**
CFDA: **17.235**
Questioned Costs:
Indeterminate

Prior Audit Finding:

The Division of Senior Services (DSS) director and the Alaska Commission on Aging (ACOA) executive director should continue to adhere to their corrective action plan to meet federal requirements.

Status/corrective action planned/reasons for no further action:

The Department of Administration, Division of Senior Services concurs with this recommendation. Implementation of the corrective action plan has taken place.

The “supplement not supplant”, or maintenance of effort, requirement by the U.S. Dept. of Labor (20 CFR 641.325) has been implemented across Alaska in an effective manner. During FY03, the program added a subrecipient (in addition to two others; one in Fairbanks and one in Anchorage) to oversee the program in Southeast Alaska (Southeast Alaska Regional Resource Center). The benefit of subrecipients is that they are professional employment/training agencies and do not have a vested interest in where enrollees are placed or what work is performed by the enrollee. Each area is under the auspices of its respective subrecipient with the balance of state under the Associate Coordinator through host agencies.

In addition, in February 2003, the Associate Coordinator informed each host agency (other than those located in subrecipient areas) that major changes would be in place beginning July 1, 2003. These changes included: ensuring enrollees are out of essential positions by June 30, 2003, updating their Individual Employment Plans to reflect this move, and requiring enrollees to register with a Job Center, or for those without access to a Job Center, to seek employment with local employers at least once every two weeks. Site visits have occurred since the implementation of the above requirements.

Site visits allow the Associate Coordinator to view enrollees at work in their respective host agencies ensuring the maintenance of effort requirement is being followed. Interviews with the host agency supervisors have impressed the importance of the requirement and that negative consequences could occur if the requirement is violated.

Work continues to find grantees that are interested in providing subrecipient services in rural regions of the state, but response to outreach efforts has been minimal.

The Senior Employment Program, among with the other senior grant programs under the Alaska Commission on Aging were transferred from the Department of Administration to the Department of Health & Social Services in FY04. The grant management for this program was assigned to the newly formed Division of Senior and Disabilities Services effective in FY04.

STATE OF ALASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FY 2003 Audit

Report: **02-40003-03**

Finding Number: **5**

Fiscal Year: **2002**

Initial Finding Year: **1998**

Federal Agency: **USDHHS,
USDOL**

State Agency: **DOA**

CFDA: **93.044, 93.045**

Questioned Costs:

Indeterminate

CFDA: **17.235**

Questioned Costs:

Indeterminate

Prior Audit Finding:

The DSS director and the ACOA executive director should improve its monitoring of subrecipients to ensure that federal funds passed through to grantees are spent in accordance with federal requirements.

Status/corrective action planned/reasons for no further action:

The Department of Administration, Division of Senior Services, concurs with this recommendation and has taken significant steps toward fully addressing the issue. In FY03, the Associate Coordinator conducted eight monitoring visits. We have also reviewed our internal processes for notifying grantees of the federal requirements and the information each of them may need to complete their year-end requirements. We have incorporated that into the accounting position within ACOA and issued all notices by the end of FY03.

The Nutrition, Transportation, and Support Services Program (NTS) and the Senior Employment Program (SEP), among with the other senior grant programs under the Alaska Commission on Aging were transferred from the Department of Administration to the Department of Health & Social Services (DHSS) effective in FY04. The grant management for both programs was assigned to the newly formed Division of Senior and Disabilities Services.

With the move to DHSS, granting procedures for all senior grant programs, including NTS and SEP, will be updated to reflect DHSS grant policies and procedures beginning FY04. Specifically, monitoring will improve for subrecipients because the reorganization administrative funds of the OAA grants are now being used for site visits to monitor subrecipients.

STATE OF ALASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FY 2003 Audit

Report: **02-40003-03**
Finding Number: **6**
Fiscal Year: **2002**
Initial Finding Year: **2002**

Federal Agency: **USDOJ**
State Agency: **DOL**
CFDA: **16.579**
Questioned Costs: \$137,922
CFDA: **16.588**
Questioned Costs: \$36,080

Prior Audit Finding:

The director of the Department of Public Safety's (DPS) Division of Alaska State Troopers (AST) and the Department of Law's (DOL) director of Administrative Services should ensure that personal service costs for federal programs are supported as federally required.

Status/corrective action planned/reasons for no further action:

The Department of Law agrees that the requirements for personal service costs are not vastly different between federal grants and we fully concur that adequate record should have been maintained to comply with typical requirements. As described below, the department has developed a corrective action plan for both direct and indirect costs.

Direct Costs: The Department of Law now requires employees working directly on federally funded and pass-through federally funded projects or in programs to undertake positive timekeeping to ensure that personal services costs charged to such funds are consistent with the activities taking place and the requirements of OMB Circular A-87.

Indirect Costs: DMG Maximus has informed us that the indirect cost allocation method of assigning costs on a per capita basis has been revised to include the entire department and was approved by the federal government with an effective date back to July 1, 2002. Included in the approved plan are those cost centers associated with the Violence Against Women Grant RSA and the Byrne Grant RSA.

Report: **02-40003-03**
Finding Number: **7**
Fiscal Year: **2002**
Initial Finding Year: **1992**

Federal Agency: **USDHHS**
State Agency: **DOR**
CFDA: **93.563**
Questioned Costs: None

Prior Audit Finding:

The director of Department of Revenue (DOR), Child Support Enforcement Division (CSED) should take steps to ensure that federal requirements for the Child Support Enforcement program are met.

Status/corrective action planned/reasons for no further action:

Findings from our self-assessment indicate that CSED is in compliance with the performance requirements for establishment of paternity and support orders in FY 03. This audit finding is resolved in accordance with OMB Circular A-133___.315.

Report: **02-40003-03**
Finding Number: **8**
Fiscal Year: **2002**
Initial Finding Year: **1998**

Federal Agency: **USDHSS**
State Agency: **DOR**
CFDA: **93.563**
Questioned Costs: None

Prior Audit Finding:

The director of DOR's CSED should continue to strengthen the division's internal controls over the cash management system.

Status/corrective action planned/reasons for no further action:

This audit finding is resolved in accordance with OMB Circular A-133___.315.

STATE OF ALASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FY 2003 Audit

Report: **02-40003-03**
Finding Number: **9**
Fiscal Year: **2002**
Initial Finding Year: **2001**

Prior Audit Finding:

The directors of Early Development (ED) and Alaska Vocational Technical Center (AVTEC) should ensure that personal service charges are supported as federally required.

Federal Agency: **USDHHS, HUD**
State Agency: **DEED**
CFDA: **93.575, 93.596**
Questioned Costs: None
CFDA: **14.246**
Questioned Costs: None

Status/corrective action planned/reasons for no further action:

The department agrees with the importance of keeping accurate record of personnel costs. The department has implemented timekeeping procedures and will make every effort to assure that the procedures are followed so that all future expenditures from a federal program will be accurately documented. The expenditures that initiated this finding have been rectified.
This finding is resolved in accordance with OMB Circular A-133____.315

Report: **02-40003-03**
Finding Number: **10**
Fiscal Year: **2002**
Initial Finding Year: **2001**

Prior Audit Finding:

The director of the Division of Education Support Services (ESS) should ensure that federal program financial reports are accurate and supported by the accounting records for the Child Care Cluster.

Federal Agency: **USDHHS**
State Agency: **DEED**
CFDA: **93.575, 93.596**
Questioned Costs: None

Status/corrective action planned/reasons for no further action:

EED has made changes to the department accounting structure so that federal matching, mandatory, discretionary, and TANF funds, have unique codes as well as state match funds. This enables the department to obtain complete and accurate information required to prepare this report.
This finding is resolved in accordance with OMB Circular A-133____.315

Report: **02-40003-03**
Finding Number: **11**
Fiscal Year: **2002**
Initial Finding Year: **2002**

Prior Audit Finding:

The director of ESS should develop procedures to ensure that federal drawdowns are done in accordance with Cash Management Improvement Act (CMIA) Policy Statement No. 19 for the Child Care Mandatory and Matching Funds (CCMMF).

Federal Agency: **USDHHS**
State Agency: **DEED**
CFDA: **93.575, 93.596**
Questioned Costs: None

Status/corrective action planned/reasons for no further action:

The Department of Education & Early Development has rectified the federal draw process to ensure that the CCDF 93.596 federal Mandatory & Matching funds which are not included in the FY03 CMIA agreement between the State of Alaska and the US Department of Treasury are differentiated from the 93.575 discretionary funds that are included under CMIA requirements. The final report prepared by EED at the conclusion of FY03 demonstrates the correct completion of this requirement.
This finding is resolved in accordance with OMB Circular A-133____.315

STATE OF ALASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FY 2003 Audit

Report: **02-40003-03**
Finding Number: **12**
Fiscal Year: **2002**
Initial Finding Year: **2002**

Federal Agency: **USDHHS**
State Agency: **DEED**
CFDA: **93.575, 93.596**
Questioned Costs: None

Prior Audit Finding:

The director of ESS should establish written policy and procedures to ensure uniform and proper processing of all departmental accounting data. Further, administrative staff in divisions should adhere to established procedures.

Status/corrective action planned/reasons for no further action:

The department is in the process of updating and streamlining policy for the fiscal section for all accounting tasks.

Report: **02-40003-03**
Finding Number: **13**
Fiscal Year: **2002**
Initial Finding Year: **2002**

Federal Agency: **USDOE**
State Agency: **DEED**
CFDA: **84.027, 84.173**
ESEA programs contributing
to IASA Consolidated
Administration
Questioned Costs: None

Prior Audit Finding:

The director of ESS should make certain that personnel responsible for the procurement of goods and services are properly trained to ensure compliance with procurement statutes.

Status/corrective action planned/reasons for no further action:

Responsibility for the procurement of goods and services at EED has been moved to a higher level position with GSS level III certification. This finding is resolved in accordance with OMB Circular A-133__315.

Report: **02-40003-03**
Finding Number: **16**
Fiscal Year: **2002**
Initial Finding Year: **2002**

Federal Agency: **USDOE**
State Agency: **DEED**
CFDA: **84.010, 84.011**
Questioned Costs: None

Prior Audit Finding:

The director of Teaching and Learning Support (TLS) should ensure that Local Education Agencies (LEAs) are complying with the comparability reporting requirement.

Status/corrective action planned/reasons for no further action:

During FY2003 the department developed a new website for the purpose of assisting LEAs to determine if they are required to complete comparability reporting, the website includes worksheets and instructions to assist in producing the report. For the fiscal year 2003 all districts were in compliance with comparability reporting. While progress was made on the corrective action plan during FY2003, due to lack of consistent procedures and supporting documentation, the corrective action plan was not complete in FY2003. During FY2004 the department developed procedural steps at the SEA level to assure that comparability reporting in the state is adhered to and is adequate to meet federal requirements. DLA's FY02 audit recommendation to collect the missing FY02 comparability reports was completed in April 2004, these reports were reviewed and LEA's met requirements. FY2004 will reflect a fully compliant corrective action plan for Comparability reporting.

STATE OF ALASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FY 2003 Audit

Report: **02-40003-03**
Finding Number: **17**
Fiscal Year: **2002**
Initial Finding Year: **2002**

Prior Audit Finding:

The director of TLS should develop and implement procedures to ensure that LEAs are meeting the period of availability carryover requirement.

Federal Agency: **USDOE**
State Agency: **DEED**
CFDA: **84.010**
Questioned Costs: None

Status/corrective action planned/reasons for no further action:

TLS Grants Administration staff has implemented a procedure that will assess at 15 months LEA compliance with the carryover availability requirement. For the fiscal year 2003 all districts were in compliance with the Title I carryover requirement. While progress was made on the corrective action plan during FY2003, due to lack of consistent procedures and supporting documentation the corrective action plan was not complete in FY2003. During FY2004 the department reviewed written procedures and documentation requirements such that FY2004 will reflect a fully compliant corrective action plan for Title I carryover.

Report: **02-40003-03**
Finding Number: **18**
Fiscal Year: **2002**
Initial Finding Year: **2001**

Prior Audit Finding:

The Department of Health and Social Services' (DHSS) finance officer should improve the controls over categorization and allocation of allowable claims.

Federal Agency: **USDHHS, USDA**
State Agency: **DHSS**
CFDA: **93.778**
Questioned Costs: \$209,746
CFDA: **10.561**
Questioned Costs: \$40

Status/corrective action planned/reasons for no further action:

This audit finding is resolved in accordance with OMB Circular A-133 ____.315.

Report: **02-40003-03**
Finding Number: **19**
Fiscal Year: **2002**
Initial Finding Year: **2001**

Prior Audit Finding:

The DHSS director of administrative services should ensure staff provides accurate and reliable information for implementing the cost allocation plan.

Federal Agency: **USDA, USDHHS**
State Agency: **DHSS**
CFDA: **10.561**
Questioned Costs: \$27,807
CFDA: **93.558**
Questioned Costs: \$18,581
CFDA: **93.568**
Questioned Costs: Immaterial
CFDA: **93.778**
Questioned Costs: \$11,982
CFDA: **93.767**
Questioned Costs: \$1,669
CFDA: **93.658**
Questioned Costs: \$24,486

Status/corrective action planned/reasons for no further action:

DHSS has submitted a revised public assistance cost allocation plan with a proposed effective date of July 1, 2003. The department has issued a contract for the purchase of RMTS software and anticipates using the software beginning July 1, 2004.

STATE OF ALASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FY 2003 Audit

Report: 02-40003-03 Finding Number: 23 Fiscal Year: 2002 Initial Finding Year: 2002 Federal Agency: USDA, USDHHS State Agency: DHSS CFDA: 10.561 Questioned Costs: \$9,665 CFDA: 93.558 Questioned Costs: \$9,311 CFDA: 93.778 Questioned Costs: \$4,052 CFDA: 93.658 Questioned Costs: \$163	<u>Prior Audit Finding:</u> <u>The director for DHSS' division of administrative services (DAS) should improve internal controls over the retention and management of records.</u> <u>Status/corrective action planned/reasons for no further action:</u> This audit finding is resolved in accordance with OMB Circular A-133____.315. Further, the missing documents were subsequently located by DHSS staff.
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Report: 02-40003-03 Finding Number: 24 Fiscal Year: 2002 Initial Finding Year: 2002 Federal Agency: USDHHS State Agency: DHSS CFDA: 93.558 Questioned Costs: Previously reported CFDA: 93.778 Questioned Costs: Previously reported	<u>Prior Audit Finding:</u> <u>The DHSS finance officer should properly present the summary of prior year audit findings to accurately reflect corrective action taken by the department.</u> <u>Status/corrective action planned/reasons for no further action:</u> This audit finding has been partially implemented. Decreasing claims for the Medicaid and TANF related questioned costs were processed. However, we determined there was an error in the methodology for adjusting the TANF questioned costs. Decreasing claims for TANF of \$8080 will be processed for quarter ending June 30, 2004.
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Report: 02-40003-03 Finding Number: 25 Fiscal Year: 2002 Initial Finding Year: 2002 Federal Agency: USDHHS State Agency: DHSS CFDA: 93.659 Questioned Costs: \$19,146	<u>Prior Audit Finding:</u> <u>DHSS' director of DFYS should ensure that adoption assistance subsidy payments are made in accordance with federal program requirements.</u> <u>Status/corrective action planned/reasons for no further action:</u> This audit finding is resolved in accordance with OMB Circular A-133____.315.
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Report: 02-40003-03 Finding Number: 26 Fiscal Year: 2002 Initial Finding Year: 2002 Federal Agency: USDHHS State Agency: DHSS CFDA: 93.558 Questioned Costs: None	<u>Prior Audit Finding:</u> <u>The DPA director should implement procedures to comply with the income eligibility and verification system (IEVS) requirement of the federal TANF program.</u> <u>Status/corrective action planned/reasons for no further action:</u> This audit finding is resolved in accordance with OMB Circular A-133____.315.

STATE OF ALASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FY 2003 Audit

Report: 02-40003-03 Finding Number: 27 Fiscal Year: 2002 Initial Finding Year: 2002 Federal Agency: USDA State Agency: DHSS CFDA: 10.557 Questioned Costs: None	<u>Prior Audit Finding:</u> <u>The health program manager of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) at DHSS, Division of Public Health (DPH) should ensure that all food instruments are properly accounted for.</u> <u>Status/corrective action planned/reasons for no further action:</u> This audit finding is resolved in accordance with OMB Circular A-133____.315.
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Report: 02-40003-03 Finding Number: 28 Fiscal Year: 2002 Initial Finding Year: 2002 Federal Agency: USDHHS State Agency: DHSS CFDA: 93.767 Questioned Costs: \$18,226	<u>Prior Audit Finding:</u> <u>We recommend the Healthy Babies' program manager ensure program expenditures are charged to the proper federal program.</u> <u>Status/corrective action planned/reasons for no further action:</u> This audit finding is resolved in accordance with OMB Circular A-133____.315.
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Report: 02-40003-03 Finding Number: 29 Fiscal Year: 2002 Initial Finding Year: 2002 Federal Agency: USDHHS State Agency: DHSS CFDA: 93.767 Questioned Costs: \$87,827	<u>Prior Audit Finding:</u> <u>The Division of Medical Assistance (DMA) research analyst in charge of identifying SCHIP eligible costs should monitor claims to ensure that only costs for children 18 and younger are claimed for federal reimbursement.</u> <u>Status/corrective action planned/reasons for no further action:</u> This audit finding is resolved in accordance with OMB Circular A-133____.315.
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Report: 02-40003-03 Finding Number: 30 Fiscal Year: 2002 Initial Finding Year: 2002 Federal Agency: USDHHS State Agency: DHSS CFDA: 93.767 Questioned Costs: \$11,427 CFDA: 93.778 Questioned Costs: \$14,656	<u>Prior Audit Finding:</u> <u>The DPH administrative manager should enforce procedures to ensure personal service expenditures charged to federal programs comply with federal cost principals.</u> <u>Status/corrective action planned/reasons for no further action:</u> This audit finding is resolved in accordance with OMB Circular A-133____.315.

STATE OF ALASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FY 2003 Audit

Report: **02-40003-03**
Finding Number: **31**
Fiscal Year: **2002**
Initial Finding Year: **2002**

Prior Audit Finding:

The commissioner for DHSS should emphasize strong internal controls over the Medicaid program.

Federal Agency: **USDHHS**
State Agency: **DHSS**
CFDA: **93.778**
Questioned Costs: None
CFDA: **93.767**
Questioned Costs: None

Status/corrective action planned/reasons for no further action:

The audit finding has been partially implemented. During the 2003 legislative session, CH 66 (Senate Bill 41) was enacted. The legislation mandated increased surveillance, utilization and review (SURS) of Medicaid. The division of Health Care Services (formally known as the Division of Medical Assistance.) will ensure at least 80 audits of will be conducted.

Report: **02-40003-03**
Finding Number: **32**
Fiscal Year: **2002**
Initial Finding Year: **2002**

Prior Audit Finding:

DMA's health and programs manager should review the Medicaid Management Information System (MMIS) administrative controls and edits, and the related disposition policy, in order to better utilize the payment system's capacity to evaluate claims.

Federal Agency: **USDHHS**
State Agency: **DHSS**
CFDA: **93.778**
Questioned Costs: \$64,661
CFDA: **93.767**
Questioned Costs: Not determined

Status/corrective action planned/reasons for no further action:

This finding has been partially implemented. As the DHSS reorganization takes hold, committees between and within the four Medicaid agencies will be formed to develop a standardized approach to the continued review of MMIS edits and controls as they effect each division. Under HIPAA compliance, the sunset imposed on local codes meant conversion from a state-specific coding system to a standard, nationally-recognized coding system to be used by all payers. This has increased DHSS's ability to evaluate claims as well as enhanced the ability to "pay and chase" third-party liability. Edits built around the local codes are being re-built and many control updates are occurring through that process.

Report: **02-40003-03**
Finding Number: **33**
Fiscal Year: **2002**
Initial Finding Year: **2002**

Prior Audit Finding:

DMA's provider and beneficiary services manager should develop and implement stronger Medicaid provider enrollment controls consistent with federal regulations and to prevent enrollment of inappropriate service providers.

Federal Agency: **USDHHS**
State Agency: **DHSS**
CFDA: **93.778**
Questioned Costs: None

Status/corrective action planned/reasons for no further action:

This finding has been partially implemented. DHSS has reviewed ineligible providers and has taken appropriate action to terminate enrollment. A legal review of State compliance with 42 CFR 455.105 and 455.106 is currently underway. A Memorandum of Understanding (MOU) between DHSS and the Department of Community and Economic Development has been signed by the Director of the Division of Occupational Licensing. This MOU will provide for updated files, interaction with SURS, and notification of adverse actions. A process to deactivate inactive providers is in place and being done by the fiscal agent.

STATE OF ALASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FY 2003 Audit

Report: **02-40003-03**
Finding Number: **34**
Fiscal Year: **2002**
Initial Finding Year: **2002**

Prior Audit Finding:

DMA's health program and policy manager should strengthen controls over transportation claims.

Federal Agency: **USDHHS**
State Agency: **DHSS**
CFDA: **93.778**
Questioned Costs: None
CFDA: **93.767**
Questioned Costs: None

Status/corrective action planned/reasons for no further action:

This finding has been partially implemented. The DHSS transportation project is in progress. Regulation changes related to non-emergency transportation have been adopted and forwarded to the Lieutenant Governor's office for certification. A RFP for non-emergency airline brokerage services was issued but has been pulled back due to cost containment concerns. A new RFP is currently being developed in cooperation with the Office of Children's Services, the Division of Juvenile Justice, Division of Health Care Services and the Department of Administration (DOA). This joint project should allow maximum flexibility in non-emergent transportation problem areas. When finalized and approved, the DOA RFP will be released to the public.

Report: **02-40003-03**
Finding Number: **35**
Fiscal Year: **2002**
Initial Finding Year: **2002**

Prior Audit Finding:

DMA's director should take action to improve the agency's utilization control and program integrity function.

Federal Agency: **USDHHS**
State Agency: **DHSS**
CFDA: **93.778**
Questioned Costs:
Indeterminate
CFDA: **93.767**
Questioned Costs:
Indeterminate

Status/corrective action planned/reasons for no further action:

This finding has been partially implemented. Please see our response to finding no. 31. In addition, a contract amendment with the state's fiscal agent will establish a 1-800 number that encourages and allows for complaints of fraud and abuse or misuse of Medicaid; the deployment of advance abuse and fraud detection tools; an increase in SUR generated and state referred SURS cases; and an increase in lock-ins with a target of 1000 over the first year of the contract. Also, a new MMIS is currently under development and will have significant improvements for enhanced surveillance, utilization, and review.

STATE OF ALASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
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Report: **02-40003-03**
Finding Number: **36**
Fiscal Year: **2002**
Initial Finding Year: **2002**

Federal Agency: **USDHHS**
State Agency: **DHSS**
CFDA: **93.778**
Questioned Costs:
Indeterminate

Prior Audit Finding:

Division of Mental Health and Developmental Disabilities (DMHDD) program managers should improve internal control over the use of care coordinators in the development of recipients' plans of care under the mentally retarded/developmentally disabled (MRDD) waiver program.

Status/corrective action planned/reasons for no further action:

Controls over Care Coordinators have been strengthened. Assessments and reassessments where practicable have been removed to a private contractor. State staff reviews all plans of care to assure that plans are related to the scores determined by the private contractor. We are in the second year of the Real Choice Systems Change Grant on Self Directed Waivers. Self directed waivers make care coordination a more independent function. Much of the casework under self-directed waivers will be managed by an independent service broker and fiscal intermediary limiting the influence of agency based care coordinators. New regulations signed by the Lt. Governor on 4/15/04 codify the use of private contractors for assessments. This finding is resolved per OMB Circular A-133.)

Report: **02-40003-03**
Finding Number: **37**
Fiscal Year: **2002**
Initial Finding Year: **2002**

Federal Agency: **USDHHS**
State Agency: **DHSS**
CFDA: **93.778**
Questioned Costs: None

Prior Audit Finding:

DMA Medicaid policy administrator and DMHDD program administrator should address home and community-based (HCB) agency payment rate issues to ensure costs paid are reasonable.

Status/corrective action planned/reasons for no further action:

This finding has been partially implemented. DHSS intended to conduct a study on the cost rate setting mechanisms. No responses were received for the relate request for proposal. The department has formed a workgroup to address the rate setting methodology. It consists of a mix of state employees, providers and board members. The work group will help to better define a standardized methodology for calculations and reimbursement rates and to estimate fair and reasonable reimbursement levels for each of the HCBS identified in regulation.

Report: **02-40003-03**
Finding Number: **38**
Fiscal Year: **2002**
Initial Finding Year: **2002**

Federal Agency: **USDHHS**
State Agency: **DHSS**
CFDA: **93.778**
Questioned Costs:
Indeterminate
CFDA: **93.767**
Questioned Costs:
Indeterminate

Prior Audit Finding:

We recommend the DMA director establish internal controls over Medicaid costs billed to third parties so that Medicaid costs are recovered to the greatest extent possible.

Status/corrective action planned/reasons for no further action:

This finding has been partially implemented. A contract to perform third-party billings using Nationally-recognized billing forms is in place that allows for a reconciliation process by which it is known whether or not we will receive payment, and if not, why not. New MMIS system will have the ability to track claims and perform reconciliations. Estimated implementation date of new MMIS is September 2005.

STATE OF ALASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
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Report: **02-40003-03**
Finding Number: **39**
Fiscal Year: **2002**
Initial Finding Year: **2002**

Federal Agency: **USDOD**
State Agency: **DMVA**
CFDA: **12.400, 12.401**
Questioned Costs: None

Prior Audit Finding:

The deputy director of Facilities and Maintenance (F&M) and the director of Division of Administrative Services (DAS) should develop procedures to segregate procurement and payment approval duties.

Status/corrective action planned/reasons for no further action:

The Department of Military and Veterans' Affairs has completed the first two phases of its proposed corrective action plan. Standard Operating Procedures (SOP) for Procurement Authority and Approving Officer have been drafted and reviewed by the Division of Administrative Services (DAS). Programmatic review prior to implementation and possible process modification is expected prior to finalizing these SOPs. Expected implementation date is April 2004.

Report: **02-40003-03**
Finding Number: **40**
Fiscal Year: **2002**
Initial Finding Year: **2002**

Federal Agency: **USDOD**
State Agency: **DMVA**
CFDA: **12.401**
Questioned Costs: None

Prior Audit Finding:

The F&M deputy director and the director of DAS should ensure proper approval for payment of state obligations.

Status/corrective action planned/reasons for no further action:

The Department of Military and Veterans' Affairs has completed phase one and phase three of the corrective action plan. An Accounting Documentation SOP has been drafted and reviewed by the Division of Administrative Services. The signature card procedure has been drafted and included in the above referenced Approving Officer SOP. Programmatic review prior to implementation and possible process modification is expected prior to finalizing the Accounting Documentation SOP. Expected implementation date is April 2004.

Report: **02-40003-03**
Finding Number: **41**
Fiscal Year: **2002**
Initial Finding Year: **2000**

Federal Agency: **USDOJ**
State Agency: **DPS**
CFDA: **16.588**
Questioned Costs: None

Prior Audit Finding:

The executive director of the Council on Domestic Violence and Sexual Assault (CDVSA) should implement procedures to ensure subrecipients are properly informed and fulfilling federal award requirements.

Status/corrective action planned/reasons for no further action:

This audit finding is resolved in accordance with OMB Circular A-133___.315 for CFDA 16.588. Effective July 1, 2003, the FY04 VAWA S*T*O*P* Grant Award Notifications have been amended to include all appropriate grant award assurances and federally required information.

STATE OF ALASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
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Report: **02-40003-03**
Finding Number: **42**
Fiscal Year: **2002**
Initial Finding Year: **2002**

Federal Agency: **USDOJ**
State Agency: **DPS**
CFDA: **16.579**
Questioned Costs: Immaterial

Prior Audit Finding:

The director of the Division of Alaska State Troopers (AST) should ensure personal service costs are charged to federally-funded programs in a manner consistent with federal regulations.

Status/corrective action planned/reasons for no further action:

This audit finding is resolved in accordance with OMB Circular A-133_.315 for CFDA 16.579. Effective July 1, 2003, the Division of Alaska State Troopers (AST) has implemented policies and procedures to ensure that personal service costs, including compensatory time, are charged to programs in a manner consistent with federal regulations. The Division of AST is currently formalizing these implemented policies and procedures in writing.

Report: **02-40003-03**
Finding Number: **43**
Fiscal Year: **2002**
Initial Finding Year: **2002**

Federal Agency: **USDA,**
EPA
State Agency: **DEC**
CFDA: **10.43175712**
Questioned Costs: None
CFDA: **66.606**
Questioned Costs: None

Prior Audit Finding:

The DEC Director for the Division of Facility Construction and Operation, Village Safe Water Program, should seek guidance from the U.S. Environmental Protection Agency (EPA) and the U.S. Department of Agriculture (USDA) to ensure compliance with federal subrecipient monitoring requirements for federal funds passed through to the Alaska Native Tribal Health Consortium (ANTHC).

Status/corrective action planned/reasons for no further action:

This audit finding is resolved in accordance with OMB Circular A-133_.315. As recommended we have sought guidance from the EPA and USDA to ensure compliance with federal subrecipient monitoring requirements. Both the EPA and USDA concur that DEC is in compliance with federal subrecipient monitoring requirements, as outlined in OMB circular A-133.

STATE OF ALASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
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ALASKA AEROSPACE DEVELOPMENT CORPORATION (AADC)

AADC – FINDING 02-01

Federal Agency: USDOD
CFDA:12.400

Condition found:

The Alaska Aerospace Development Corporation did not timely file grant reports for the Kodiak Launch Complex grants.

Status: Partially corrected.

Planned Corrective Action:

AADC is taking actions to ensure timely filing of grant reports.

AADC – FINDING 02-02

Federal Agency: USDOD
CFDA:12.400

Condition found:

The Alaska Aerospace Development Corporation reported incorrect cash balances on the Kodiak Launch Complex SF-272 grant reports.

Status: Partially corrected.

Planned Corrective Action: AADC will file a corrected report and ensure closer proof reading of future reports.

ALASKA HOUSING FINANCE CORPORATION (AHFC)

AHFC - FINDING 01-01

Federal Agency: HUD
CFDA 14.871 & 14.182

Condition found:

We tested 25 tenant files from each program; Section 8 Housing Choice Vouchers & Section 8 New Construction and Substantial Rehabilitation and found two instances where third party verification of household income was not present in the tenant's file.

Status: Partially corrected

Original Corrective Action Taken:

Staff performed a new file review to update the client income verifications.

Planned Corrective Action:

STATE OF ALASKA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
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A new policy on interim re-examinations of income is currently in development. A new lease was adopted by the AHFC Board of Directors that requires the reporting of any increase of income without the necessity of staff conducting a reexamination and rent adjustment. The timeline for completion of the new policy chapters (public housing and Section 8 Housing Choice Vouchers) is November 29, 2002

Subsequent Correction Action Taken:

A different corrective action was necessary to take into account the results of a rental integrity monitoring review done by HUD in September 2002.

Revised Planned Corrective Action:

Housing Support and Compliance entered into a contract with a consulting firm to assist in an entire re-draft of the income and rent calculation chapters governing each of the assisted housing programs. The new income and rent calculation chapters are scheduled for staff distribution the week of November 10, 2003.

AHFC - FINDING 01-06

Federal Agency: HUD
CFDA: 14.182

Condition found:

We tested 25 tenant files from the Section 8 New Construction projects and found the following: 1) two instances where tenants housed at Alpine Terrace were not properly selected from the waitlist; 2) one tenant housed at Chugach View who was not properly selected from the waitlist; and 3) three tenants housed at the Golden Towers where documentation was not maintained as to how the tenants were selected. Upon further discussion we determined that several other tenants at Alpine Terrace were not properly selected from the waitlist during the year.

Status: Corrective action was taken.

AHFC - FINDING 02-01

Federal Agency: HUD
CFDA: 14.850

Condition found:

We tested 25 tenant files and found one instance where there was no documentation that the tenant had been selected from the waitlist.

Status: Corrective action was taken.

STATE OF ALASKA
CORRECTIVE ACTION PLAN
For the Fiscal Year Ended June 30, 2003

The State of Alaska is required by OMB Circular A-133 to submit a corrective action plan for the findings in the *Statewide Single Audit for the Fiscal year Ended June 30, 2003*. The corrective action plan is incorporated in the agencies' responses to the auditor's recommendations in Section II – Recommendations and Questioned Costs. The agency response for each recommendation immediately follows the auditor's recommendation. A complete copy of each agency's response letter including attachments, if any, is also contained in Section V – APPENDICES.

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STATE OF ALASKA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2003
By State Agency

<u>Federal Agency</u>	<u>CFDA Number</u>	<u>Grant or Other Identifying Number</u>	<u>Cluster</u>	<u>Federal Program Title</u>	<u>Federal Expenditures</u>
Alaska Aerospace Development Corporation					
USDOD	12.400	DAHA51-99-2-3038		Military Construction, National Guard	8,366,650
Total Alaska Aerospace Development Corporation					<u>8,366,650</u>
Alaska Energy Authority					
USDA	10.857			State Bulk Fuel Revolving Fund Grants	3,077,888
ENERGY	81.079			Regional Biomass Energy Programs	17,386
ENERGY	81.087			Renewable Energy Research and Development	2,054,916
DC	90.100			Denali Commission Program	22,265,762
Total Alaska Energy Authority					<u>27,415,952</u>
Alaska Housing Finance Corporation					
USDA	10.410			Very Low to Moderate Income Housing Loans	64,408
HUD	14.117			Mortgage Insurance: Homes	2,146,288
HUD	14.182		S8PBC	Lower Income Housing Assistance Program: Section 8 New Construction/Substantial Rehabilitation	2,216,624
HUD	14.195		S8PBC	Section 8 Housing Assistance Payments Program: Special Allocations	5,783,308
HUD	14.227			Community Development Block Grants/Special Purpose Grants/Technical Assistance Program	150,302
HUD	14.235			Supportive Housing Program	24,692
HUD	14.238			Shelter Plus Care	111,038
HUD	14.239			HOME Investment Partnerships Program	3,553,065
HUD	14.241			Housing Opportunities for Persons with Aids	474,590
HUD	14.249			Section 8 Moderate Rehabilitation Single Room Occupancy	308,127
HUD	14.850			Public and Indian Housing	7,695,987
HUD	14.854			Public and Indian Housing Drug Elimination Program	200,450
HUD	14.855			Section 8 Rental Voucher Program	24,247,069
HUD	14.859			Public Housing: Comprehensive Grant Program	74,856
HUD	14.870			Resident Opportunity and Supportive Services	36,807
HUD	14.872			Public Housing Capital Fund	4,437,991
HUD	14.901			Healthy Homes Demonstration Grants	115,862
USDVA	64.114			Veterans Housing: Guaranteed and Insured Loans	1,173,407
ENERGY	81.041			State Energy Program	333,094
ENERGY	81.042			Weatherization Assistance for Low-Income Persons	1,663,118
ENERGY	81.119			State Energy Program Special Projects	43,068
USDHHS	93.568			Low-Income Home Energy Assistance	975,137
Total Alaska Housing Finance Corporation					<u>55,829,288</u>
Alaska Industrial Development and Export Authority					
DC	90.999			Statewide Energy Plan	17,016
Total Alaska Industrial Development and Export Authority					<u>17,016</u>
Alaska Railroad Corporation					
USDA	10.999	H.R. 4577		U.S. Department of Agriculture - Forest Service	184,239
USDOD	12.999	DTFRDV-99-G-60016		Track Realignment - Elmendorf Air Force Base and Ft. Richardson 1999 (pass-through from FRA)	1,096,950
USDOD	12.999	DTFRDV-00-G-60025		Track Realignment - Elmendorf Air Force Base 2000 (pass-through from FRA)	803,272
USDOD	12.999	DTFRDV-01-G-60031		Track Realignment - Elmendorf Air Force Base and Ft. Richardson 2001 (pass-through from FRA)	1,096,782
USDOD	12.999	DTFRDV-02-G-60035		Track Realignment - Elmendorf Air Force Base and Ft. Richardson 2002 (pass-through from FRA)	5,554,528

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<u>Federal Agency</u>	<u>CFDA Number</u>	<u>Grant or Other Identifying Number</u>	<u>Cluster</u>	<u>Federal Program Title</u>	<u>Federal Expenditures</u>
USDOI	15.999	H.R. 4578		U.S. Department of Interior	544,840
USDOT	20.500		FTC	Federal Transit: Capital Investment Grants	11,635,022
USDOT	20.507		FTC	Federal Transit: Formula Grants	5,403,993
USDOT	20.999	DTFRDV-00-G-60022		Seward Dock Intermodal Project – 2000	46,139
USDOT	20.999	DTFRDV-01-G-60029		Seward Dock Intermodal Project – 2001	450,302
USDOT	20.999	DTFRDV-99-G-60001		Capital Rehabilitation and Improvements – 1999	(9,631)
USDOT	20.999	DTFRDV-99-G-60004		Positive Train Control – 1999	(2,000,000)
USDOT	20.999	DTFRDV-99-G-60005		Anchorage International Airport Rail Passenger Station – 1999	8,791,969
USDOT	20.999	DTFRDV-00-G-60021		Capital Rehabilitation and Improvements – 2000	(2,040)
USDOT	20.999	DTFRDV-00-G-60028		Positive Train Control – 2000	(272,820)
USDOT	20.999	DTFRDV-01-G-60030		Track Rehab, Siding Access Improv. and Track Relocation – 2001	6,890,180
USDOT	20.999	DTFRDV-02-G-60032		Rail Safety and Infrastructure Improvements – 2002	13,844,151
USTreas	21.999	None		Taxpayer Relief Act of 1997 Amtrak Congressional Appropriation	3,224,137
FEMA	83.544	1316-DR-AK		U.S. Department of Emergency Management	31,500
FEMA	83.544	1423-DR-AK		U.S. Department of Emergency Management	363,065
FEMA	83.544	1445-DR-AK		U.S. Department of Emergency Management	108,000
Total Alaska Railroad Corporation					57,784,578
Alaska Student Loan Corporation					
USDVA	64.V101(223b)-P4101&P4201			Veteran's Administration Contract	56,360
USDOE	84.032		SFAC	Federal Family Education Loans	381,926
Total Alaska Student Loan Corporation					438,286
Alaska Seafood Marketing Institute					
USDA	10.601			Market Access Program	2,410,073
USDA	10.999	agreement #1		Quality Samples Program (QSP)	27,822
USDA	10.999	agreement #67		Section 108 Program	506,764
USDOC	11.313			Trade Adjustment Assistance	755,030
Total Alaska Seafood Marketing Institute					3,699,689
Alaska Court System					
USDOJ	16.541			Juvenile Justice and Delinquency Prevention: Special Emphasis	2,441
USDOJ	16.585			Drug Court Discretionary Grant Program	201,940
USDOJ	16.590			Grants to Encourage Arrest Policies and Enforcement of Protection Orders	66,128
LSC	09.902000			Technology Initiative Grant Program	13,438
USDHHS	93.586			State Court Improvement Program	118,079
USDHHS	93.652			Adoption Opportunities	116,030
Total Alaska Court System					518,056
Department of Community and Economic Development					
USAID	02.118-G-00-00-115			USAID Alaska-Sakhalin Working Group	213,562
USDA	10.665		SRC	Schools and Roads: Grants to States	8,705,414
USDA	10.672			Rural Development, Forestry, and Communities	163,218
USDOC	11.307		PWEDC	Economic Adjustment Assistance	100,167
USDOC	11.419			Coastal Zone Management Administration Awards	1,660,642
USDOC	11.477			Fisheries Disaster Relief	1,388,378
USDOD	12.112			Payments to States in Lieu of Real Estate Taxes	5,419,347
USDOD	12.999			Delta Junction Missile Defense Test Bed Facilities Impact	1,841,989

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<u>Federal Agency</u>	<u>CFDA Number</u>	<u>Grant or Other Identifying Number</u>	<u>Cluster</u>	<u>Federal Program Title</u>	<u>Federal Expenditures</u>
HUD	14.228			Community Development Block Grants/State's Program	2,571,321
HUD	14.231			Emergency Shelter Grants Program	112,999
EPA	66.606			Surveys, Studies, Investigations and Special Purpose Grants	843,685
FEMA	83.105			Community Assistance Program: State Support Services Element (CAP-SSSE)	89,426
FEMA	83.536			Flood Mitigation Assistance	143,541
DC	90.100			Denali Commission Program	2,543,846
USDHHS	93.569			Community Services Block Grant	2,625,672
USDHHS	93.571			Community Services Block Grant Discretionary Awards: Community Food and Nutrition	7,658
USCNC	94.013			Volunteers in Service to America	7,500
Total Department of Community and Economic Development					28,438,365
Department of Environmental Conservation					
USDA	10.025			Plant and Animal Disease, Pest Control, and Animal Care	4,640
USDA	10.12-25-A-4091			Cooperative Pesticide Recordkeeping Program	10,845
USDA	10.43-0109-3-0325			Regulatory oversight of Contaminated Sites cleanup	29,696
USDA	10.760	(Formerly 10.43175712)		Water and Waste Disposal Systems for Rural Communities	16,266,998
USDOC	11.45ABNAON252			Miscellaneous Inspection Service	9,723
USDOC	11.50ABNC100055			Regulatory Oversight, Pribilof Islands, Alaska	48,414
USDOC	11.NA16AB2392			DEC VSW Grants to St. Paul and St. George Islands for construction	800,000
USDOD	12.113			State Memorandum of Agreement Program for the Reimbursement of Technical Services	1,784,671
USDOD	12.USAF	Elmendorf Site cleanup		USAF Elmendorf Site Cleanup	26,037
EPA	66.001			Air Pollution Control Program Support	1,080,753
EPA	66.419			Water Pollution Control: State and Interstate Program support	162,622
EPA	66.432			State Public Water System Supervision	2,171,124
EPA	66.454			Water Quality Management Planning	101,265
EPA	66.458			Capitalization Grants for Water State Revolving Funds	8,857,672
EPA	66.463			Water Quality Cooperative Agreements	108,356
EPA	66.467			Wastewater Operator Training Grant Program (Technical Assistance)	36,998
EPA	66.468			Capitalization Grants for Drinking Water State Revolving Fund	3,214,854
EPA	66.470			Hardship Grants Program for Rural Areas	43,348
EPA	66.471			State Grants to Reimburse Operators of Small Water for Training & Certification Costs	175,291
EPA	66.472			Beach Monitoring and Notification Program Implementation Grants	76,537
EPA	66.474			Water Protection Grants to the States	42,317
EPA	66.500			Environmental Protection Consolidated Research	422,471
EPA	66.605			Performance Partnership Grants	3,969,070
EPA	66.606			Surveys, Studies, Investigations and Special Purpose Grants	33,887,200
EPA	66.608			State Information Grants	74,886
EPA	66.609			Children's Health Protection	270,421
EPA	66.700			Consolidated Pesticide Enforcement Cooperative Agreements	279,803
EPA	66.708			Pollution Prevention Grants Program	187,488
EPA	66.804			State and Tribal Underground Storage Tanks Program	186,675

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<u>Federal Agency</u>	<u>CFDA Number</u>	<u>Grant or Other Identifying Number</u>	<u>Cluster</u>	<u>Federal Program Title</u>	<u>Federal Expenditures</u>
EPA	66.805			Leaking Underground Storage Tank Trust Fund Program	412,512
EPA	66.809			Superfund State and Indian Tribe Core Program	424,573
				Cooperative Agreements	
EPA	66.LUST	Trust Cost Recovery		LUST Trust Cost Recovery	38,629
ENERGY	81.104			Office of Technology Development and Deployment for Environmental Management	300
ENERGY	81.DE-FC03-02EH02039			Amchitka Medical Screening Program	714,505
ENERGY	81.DE-FG08-99NV13726			Provide Oversight for Conduct of Amchitka Island Workers Health	286,291
ENERGY	81.DE-FG08-99NV13763			Amchitka Oversight/NEWNET	265,578
USDHHS	93.223-01-4037			Food Sanitation Inspections	4,356
USDHHS	93.223-02-4037			Food Sanitation Inspections	230,633
USDHHS	93.FD-R-002064-01			Food Safety Task Force	2,537
USDHHS	93.FD-R-18-1-OR			Risk Focused Inspection Training & Evaluation	38,326
Total Department of Environmental Conservation					76,748,415
Department of Education and Early Development					
USDA	10.550			Food Donation	2,931,477
USDA	10.553		CNC	School Breakfast Program	3,354,105
USDA	10.555		CNC	National School Lunch Program	17,389,195
USDA	10.556		CNC	Special Milk Program for Children	4,743
USDA	10.558			Child and Adult Care Food Program	5,937,963
USDA	10.559		CNC	Summer Food Service Program for Children	161,555
USDA	10.560			State Administrative Expenses for Child Nutrition	720,529
USDA	10.568		EFAC	Emergency Food Assistance Program (Administrative Costs)	69,887
USDA	10.574			Team Nutrition Grants	39,595
USDOC	11.303			Economic Development: Technical Assistance	24,000
USDOC	11.438			Pacific Coast Salmon Recovery: Pacific Salmon Treaty Program	33,443
USDOD	12.999			Troops to Teachers	147,735
HUD	14.246			Community Development Block Grants/Brownfields Economic Development Initiative	30,970
USDOL	17.249			Employment Services and Job Training Pilots: Demonstrations and Research	193,172
NFAH	45.025			Promotion of the Arts: Partnership Agreements	538,055
NFAH	45.310			State Library Program	686,287
NSF	47.076			Education and Human Resources	51,922
USDOE	84.002			Adult Education: State Grant Program	37,000
USDOE	84.010			Title I Grants to Local Educational Agencies	26,053,098
USDOE	84.011			Migrant Education: State Grant Program	6,243,947
USDOE	84.013			Title I Program for Neglected and Delinquent Children	227,709
USDOE	84.027		SEC	Special Education: Grants to States	19,592,871
USDOE	84.041			Impact Aid	25,540,902
USDOE	84.048			Vocational Education: Basic Grants to States	4,058,044
USDOE	84.063		SFAC	Federal Pell Grant Program	206,446
USDOE	84.116			Fund for the Improvement of Postsecondary Education	32,950
USDOE	84.154			Public Library Construction and Technology Enhancement	19,405
USDOE	84.161			Rehabilitation Services: Client Assistance Program	123,668
USDOE	84.173		SEC	Special Education: Preschool Grants	1,378,126
USDOE	84.181			Special Education: Grants for Infants and Families with Disabilities	8,400

STATE OF ALASKA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2003
By State Agency

<u>Federal Agency</u>	<u>CFDA Number</u>	<u>Grant or Other Identifying Number</u>	<u>Cluster</u>	<u>Federal Program Title</u>	<u>Federal Expenditures</u>
USDOE	84.184			Safe and Drug-Free Schools and Communities: National Programs	40,806
USDOE	84.185			Byrd Honors Scholarships	49,176
USDOE	84.186			Safe and Drug-Free Schools and Communities: State Grants	2,035,460
USDOE	84.194			Bilingual Education Support Services	21,788
USDOE	84.196			Education for Homeless Children and Youth	116,422
USDOE	84.213			Even Start: State Educational Agencies	1,283,290
USDOE	84.215K			Fund for the Improvement of Education	2,842,043
USDOE	84.243			Tech-Prep Education	395,707
USDOE	84.276			Goals 2000: State and Local Education Systemic Improvement Grants	204,061
USDOE	84.281			Eisenhower Professional Development State Grants	1,368,023
USDOE	84.282			Charter Schools	174,535
USDOE	84.287			Twenty-First Century Community Learning Centers	135,458
USDOE	84.298			Innovative Education Program Strategies	1,622,851
USDOE	84.303			Technology Innovation Challenge Grants	133,055
USDOE	84.318			Education Technology State Grants	1,679,314
USDOE	84.323			Special Education: State Program Improvement Grants for Children with Disabilities	574,812
USDOE	84.326			Special Education: Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	149,577
USDOE	84.330			Advanced Placement Program	133,296
USDOE	84.332			Comprehensive School Reform Demonstration	602,753
USDOE	84.334			Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	1,250,149
USDOE	84.338			Reading Excellence	3,201,386
USDOE	84.340			Class Size Reduction	2,897,852
USDOE	84.348			Title I Accountability Grants	356,709
USDOE	84.352			School Renovation Grants	1,291,606
USDOE	84.358			Rural Education	43,948
USDOE	84.365			English Language Acquisition Grants	182,407
USDOE	84.367			Improving Teacher Quality State Grants	8,842,756
USDOE	84.369			Grants for State Assessments and Related Activities	1,417,943
USDOE	84.994T			National Writing Project	20,521
USDOE	84.999			Consolidated Programs IASA	678,026
NARA	89.003			National Historical Publications and Records Grants	2,843
USDHHS	93.230			Consolidated Knowledge Development and Application (KD&A) Program	406,064
USDHHS	93.558			Temporary Assistance for Needy Families (TANF)	2,573,655
USDHHS	93.563			Child Support Enforcement	16,400
USDHHS	93.575		CCC	Child Care and Development Block Grant	28,331,626
USDHHS	93.596		CCC	Child Care Mandatory and Matching Funds of the Child Care Development Fund	6,946,598
USDHHS	93.600			Head Start	70,008
USDHHS	93.670			Child Abuse and Neglect Discretionary Activities	917,337
USDHHS	93.778		MC	Medical Assistance Program	3,160,152
USDHHS	93.938			Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	251,951
USCNCS	94.003			State Commissions	163,580
USCNCS	94.004			Learn and Serve America: School and Community Based Programs	41,470
USCNCS	94.006			AmeriCorps	1,430,544

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Federal Agency	CFDA Number	Grant or Other Identifying Number	Cluster	Federal Program Title	Federal Expenditures
USCNCS	94.007			Planning and Program Development Grants	8,132
USCNCS	94.009			Training and Technical Assistance	87,986
Total Department of Education and Early Development					193,991,275
Department of Fish and Game					
USDA	10.999			Miscellaneous U.S. Forest Service	1,175,170
USDOC	11.405			Anadromous Fish Conservation Act Program	335,110
USDOC	11.407			Interjurisdictional Fisheries Act of 1986	140,899
USDOC	11.419			Coastal Zone Management Administration Awards	541,021
USDOC	11.420			Coastal Zone Management Estuarine Research Reserves	719,248
USDOC	11.437			Pacific Fisheries Data Program	3,424,212
USDOC	11.438			Pacific Coast Salmon Recovery: Pacific Salmon Treaty Program	13,674,962
USDOC	11.439			Marine Mammal Data Program	2,621,266
USDOC	11.454			Unallied Management Projects	1,375,456
USDOC	11.477			Fisheries Disaster Relief	953,142
USDOC	11.999			Miscellaneous NOAA	2,786,286
USDOD	12.999			Miscellaneous Army	146,043
USDOI	15.222			Cooperative Inspection Agreements With States and Tribes	49,983
USDOI	15.605		F&WC	Sport Fish Restoration	13,068,251
USDOI	15.611		F&WC	Wildlife Restoration	8,458,409
USDOI	15.614			Coastal Wetlands Planning, Protection and Restoration Act	14,465
USDOI	15.615			Cooperative Endangered Species Conservation Fund	134,096
USDOI	15.625			Wildlife Conservation and Restoration	611,837
USDOI	15.634			State Wildlife Grants	1,285,214
USDOI	15.808			U.S. Geological Survey: Research and Data Acquisition	73,059
USDOI	15.999			Miscellaneous Bureau of Land Management	134,468
USDOI	15.999			Miscellaneous National Park Service	184,893
USDOI	15.999			Miscellaneous U.S. Fish and Wildlife Service	3,095,429
EPA	66.461			Wetland Program Grants	17,159
Total Department of Fish and Game					55,020,078
Department of Health and Social Services					
USDA	10.551		FSC	Food Stamps	64,260,677
USDA	10.557			Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	19,436,746
USDA	10.561		FSC	State Administrative Matching Grants for Food Stamp Program	7,666,373
USDOC	11.0022-DC-2001-14			Alaska Rural Primary Health Care Needs Assessment - Phase II	105,134
USDOC	11.0024-DC-2001-16			Code Blue (Improve Rural Emergency Health Care)	71,233
USDOJ	16.202			Offender Reentry Program	31,042
USDOJ	16.523			Juvenile Accountability Incentive Block Grants	1,607,589
USDOJ	16.540			Juvenile Justice and Delinquency Prevention: Allocation to States	475,067
USDOJ	16.541			Juvenile Justice and Delinquency Prevention: Special Emphasis	294,749
USDOJ	16.548			Title V: Delinquency Prevention Program	37,633
USDOJ	16.549			Part E: State Challenge Activities	98,491

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<u>Federal Agency</u>	<u>CFDA Number</u>	<u>Grant or Other Identifying Number</u>	<u>Cluster</u>	<u>Federal Program Title</u>	<u>Federal Expenditures</u>
USDOJ	16.710			Public Safety Partnership and Community Policing Grants	193,227
USDOJ	16.727			Enforcing Underage Drinking Laws Program	346,221
USDOJ	16.729			Drug-Free Communities Support Program Grants	1,118,614
USDOS	19.1751-100345	2001		Arctic Human Health and Environmental Contaminants	(1,282)
USDOS	19.S-LAQM-02-H0059			Supporting the "Taking Wing" Conference on Gender Equality	22,250
EPA	66.032			State Indoor Radon Grants	84,201
USDOE	84.181			Special Education: Grants for Infants and Families with Disabilities	1,976,078
USDOE	84.989			Systems Change Project to Expand Employment Opportunities for Individuals with Mental or Physical Disabilities, or Both, Who Receive Public Support	551,342
USDHHS	93.003			Public Health and Social Services Emergency Fund	409,991
USDHHS	93.110			Maternal and Child Health Federal Consolidated Programs	431,732
USDHHS	93.116			Project Grants and Cooperative Agreements for Tuberculosis Control Programs	896,179
USDHHS	93.127			Emergency Medical Services for Children	285,922
USDHHS	93.130			Primary Care Services: Resource Coordination and Development	1,104,923
USDHHS	93.136			Injury Prevention and Control Research and State and Community Based Programs	434,232
USDHHS	93.150			Projects for Assistance in Transition from Homelessness (PATH)	300,000
USDHHS	93.161			Health Program for Toxic Substances and Disease Registry	5,216
USDHHS	93.197			Childhood Lead Poisoning Prevention Projects: State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	98,671
USDHHS	93.200-97-7201			NCHS Contract	164,420
USDHHS	93.217			Family Planning: Services	308,677
USDHHS	93.223-96-4401			Mammography Inspection	(724)
USDHHS	93.223-98-4813			FDA Tobacco Enforcement Contract	180
USDHHS	93.230			Consolidated Knowledge Development and Application (KD&A) Program	7,304,215
USDHHS	93.234			Traumatic Brain Injury: State Demonstration Grant Program	66,855
USDHHS	93.235			Abstinence Education	63,607
USDHHS	93.238			Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	559
USDHHS	93.241			State Rural Hospital Flexibility Program	947,521
USDHHS	93.243			Substance Abuse and Mental Health Services: Projects of Regional and National Significance	76,516
USDHHS	93.243-97-2030			NIOSH Trauma Registry	57,451
USDHHS	93.251			Universal Newborn Hearing Screening	156,908
USDHHS	93.259			Rural Access to Emergency Devices Grant	101,906
USDHHS	93.262			Occupational Safety and Health Research Grants	126,733
USDHHS	93.268			Immunization Grants	1,711,838
USDHHS	93.283			Centers for Disease Control and Prevention: Investigations and Technical Assistance	10,207,710
USDHHS	93.301			Small Rural Hospital Improvement Grants	174,305
USDHHS	93.556			Promoting Safe and Stable Families	865,624
USDHHS	93.558			Temporary Assistance for Needy Families	42,031,046

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<u>Federal Agency</u>	<u>CFDA Number</u>	<u>Grant or Other Identifying Number</u>	<u>Cluster</u>	<u>Federal Program Title</u>	<u>Federal Expenditures</u>
USDHHS	93.568			Low-Income Home Energy Assistance (LIHEAP)	6,340,394
USDHHS	93.575		CCC	Child Care and Development Block Grant	943,273
USDHHS	93.590			Community-Based Family Resource and Support Grants	401,208
USDHHS	93.603			Adoption Incentive Payments	482,561
USDHHS	93.630			Developmental Disabilities Basic Support and Advocacy Grants	467,599
USDHHS	93.631			Developmental Disabilities Projects of National Significance	170,988
USDHHS	93.643			Children's Justice Grants to States	61,821
USDHHS	93.645			Child Welfare Services: State Grants	379,800
USDHHS	93.658			Foster Care: Title IV-E	9,353,642
USDHHS	93.659			Adoption Assistance	6,272,009
USDHHS	93.667			Social Services Block Grant	10,348,465
USDHHS	93.669			Child Abuse and Neglect State Grants	103,374
USDHHS	93.670			Child Abuse and Neglect Discretionary Activities	1,829,744
USDHHS	93.674			Chafee Foster Care Independent Living	752,356
USDHHS	93.767			State Children's Insurance Program	23,696,750
USDHHS	93.768			Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	437,912
USDHHS	93.773			Medicare: Hospital Insurance	683,254
USDHHS	93.777		MC	State Survey and Certification of Health Care Providers and Suppliers	172,048
USDHHS	93.778		MC	Medical Assistance Program	552,412,930
USDHHS	93.879			Medical Library Assistance	104
USDHHS	93.887			Health Care and Other Facilities	305,561
USDHHS	93.912			Rural Health Outreach and Rural Network Development Program	295,449
USDHHS	93.913			Grants to States for Operation of Offices of Rural Health	217,784
USDHHS	93.917			HIV Care Formula Grants	976,099
USDHHS	93.919			Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	677,635
USDHHS	93.940			HIV Prevention Activities: Health Department Based	1,507,782
USDHHS	93.944			Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	89,638
USDHHS	93.945			Assistance Programs for Chronic Disease Prevention and Control	731,904
USDHHS	93.952			Improving EMS/Trauma Care in Rural Areas	36,453
USDHHS	93.958			Block Grant for Community Mental Health Services	1,155,915
USDHHS	93.959			Block Grants for Prevention and Treatment of Substance Abuse	4,641,969
USDHHS	93.977			Preventive Health Services: Sexually Transmitted Diseases Control Grants	507,635
USDHHS	93.988			Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	544,973
USDHHS	93.991			Preventive Health and Health Services Block Grant	673,241
USDHHS	93.994			Maternal and Child Health Services Block Grant to the States	1,274,460

Total Department of Health and Social Services

795,654,328

Department of Labor and Workforce Development

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<u>Federal Agency</u>	<u>CFDA Number</u>	<u>Grant or Other Identifying Number</u>	<u>Cluster</u>	<u>Federal Program Title</u>	<u>Federal Expenditures</u>
USDOC	11.005			Census Special Tabulations and Services	24,030
USDOL	17.002			Labor Force Statistics	815,039
USDOL	17.005			Compensation and Working Conditions	173,184
USDOL	17.203			Labor Certification for Alien Workers	74,627
USDOL	17.207		ESC	Employment Service	10,193,926
USDOL	17.225			Unemployment Insurance	216,537,450
USDOL	17.245			Trade Adjustment Assistance: Workers	337,507
USDOL	17.250			Job Training Partnership Act	78,587
USDOL	17.253			Welfare-to-Work Grants to States and Localities	373,358
USDOL	17.255			Workforce Investment Act	177,482
USDOL	17.258		WIAC	WIA Adult Program	4,398,957
USDOL	17.259		WIAC	WIA Youth Activities	4,846,322
USDOL	17.260		WIAC	WIA Dislocated Workers	10,165,362
USDOL	17.261			Employment and Training Administration Pilots, Demonstrations, and Research Projects	601,490
USDOL	17.503			Occupational Safety and Health: State Program	1,287,118
USDOL	17.504			Consultation Agreements	570,864
USDOL	17.720			Employment Programs for People with Disabilities	55,418
USDOL	17.801		ESC	Disabled Veterans' Outreach Program (DVOP)	264,349
USDOL	17.804		ESC	Local Veterans' Employment Representative Program	535,416
EPA	66.606			Surveys, Studies, Investigations and Special Purpose Grants	10,159
FEMA	83.541			Disaster Unemployment Assistance (DUA)	36,375
USDOE	84.002			Adult Education: State Grant Program	973,728
USDOE	84.126			Rehabilitation Services: Vocational Rehabilitation Grants to States	8,857,587
USDOE	84.169			Independent Living: State Grants	294,336
USDOE	84.177			Rehabilitation Services: Independent Living Services for Older Individuals Who are Blind	239,220
USDOE	84.187			Supported Employment Services for Individuals with Severe Disabilities	328,537
USDOE	84.224			Assistive Technology	539,894
USDOE	84.265			Rehabilitation Training: State Vocational Rehabilitation Unit In-Service Training	30,372
USDOE	84.346			Vocational Education: Occupational and Employment Information State Grants	137,848
DC	90.100			Denali Commission Program	3,225,868
SSA	96.001		DISSIC	Social Security: Disability Insurance	1,538,022
SSA	96.006		DISSIC	Supplemental Security Income	2,500,862
Total Department of Labor and Workforce Development					270,223,294
Department of Military and Veterans' Affairs					
USDOC	11.419			Coastal Zone Management Administration Awards	36,621
USDOD	12.400			Military Construction, National Guard	1,347,495
USDOD	12.401			National Guard Military Operations and Maintenance (O&M) Projects	11,038,893
USDOD	12.404			National Guard Civilian Youth Opportunities	2,335,909
USDOJ	16.007			State Domestic Preparedness Program	472,091
USDOJ	16.A98-229-CV			Counterdrug Support Program-Asset Forfeiture	90,801
USDOT	20.703			Interagency Hazardous Materials Public Sector Training and Planning Grants	33,356
FEMA	83.516			Disaster Assistance	84,407
FEMA	83.519			Hazard Mitigation Assistance	98,858
FEMA	83.543			Individual Assistance Grants	207,820

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<u>Federal Agency</u>	<u>CFDA Number</u>	<u>Grant or Other Identifying Number</u>	<u>Cluster</u>	<u>Federal Program Title</u>	<u>Federal Expenditures</u>
FEMA	83.544			Public Assistance Grants	2,559,910
FEMA	83.548			Hazard Mitigation Grant	365,188
FEMA	83.552			Emergency Management Performance Grants	1,137,639
FEMA	83.557			Pre-Disaster Mitigation	180,349
FEMA	83.562			Emergency Operation Planning Grant	46,806
FEMA	83.563			Emergency Operations Center Physical Modification for Secure Communications Equipment	50,000
FEMA	83.564			Citizens Corps/Community Emergency Response Training	31,174
Total Department of Military and Veterans' Affairs					20,117,316
Department of Natural Resources					
USDA	10.001			Agricultural Research: Basic and Applied Research	264,266
USDA	10.025			Plant and Animal Disease, Pest Control, and Animal Care	403,401
USDA	10.156			Federal-State Marketing Improvement Program	16,192
USDA	10.162			Inspection Grading and Standardization	1,335
USDA	10.163			Market Protection and Promotion	78,985
USDA	10.664			Cooperative Forestry Assistance	2,592,358
USDA	10.905			Plant Materials for Conservation	484,284
USDA	10.L83008			Calendar Year 2001 Fire Suppression	16,706
USDA	10.L83008			Calendar Year 2002 Fire Suppression	2,755,783
USDA	10.L83008			Calendar Year 2003 Fire Suppression	250,241
USDA	10.Other			Agricultural Economic Assistance	380,660
USDA	10.Other			Calendar Year 2003 Misc Fire Billings	269,162
USDOD	12.F65501-01-M-8046			Kotzebue Rare Plant Propagation	766
USDOD	12.MOU01JSTATE052			Ft. Wainwright Interpretive Panels	2,551
USDOD	12.WC1JUW21422723			GMD Application Fees	1,036
USDOI	15.1422L953-A3-012			Joint Pipeline Coordination Office	36,555
USDOI	15.1422L953A98-0009			Development of an Electronic Access for Digital Mineral and Land Records	241,474
USDOI	15.1422LAA990023			Non-Coal AML Sites	10,000
USDOI	15.222			Cooperative Inspection Agreements with States and Tribes	880,927
USDOI	15.224			Cultural Resource Management	101,466
USDOI	15.228			Wildland Urban Interface Community & Rural Fire Assistance	24,781
USDOI	15.250			Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	182,455
USDOI	15.252			Abandoned Mine Land Reclamation (AMLR) Program	3,352,208
USDOI	15.614			Coastal Wetlands Planning, Protection and Restoration Act	553,000
USDOI	15.7018M176			Comprehensive Conservation Plans	14,000
USDOI	15.808			U.S. Geological Survey: Research and Data Acquisition	1,011,050
USDOI	15.810			National Cooperative Geologic Mapping Program	442,279
USDOI	15.904			Historic Preservation Fund Grants-In-Aid	955,251
USDOI	15.916			Outdoor Recreation: Acquisition, Development and Planning	296,127
USDOI	15.CA-02-02-06			Independence Mine	191,090
USDOI	15.CA9910-8-0050/99-01			Denali National Park Interpretative Services	6,000
USDOI	15.DDD LAA-02-0005			Cadastral Project	307,019
USDOI	15.FFB 701812G173			Davidson Ditch Land	1,960
USDOI	15.H9910030005			Stampede Road Alignment	12,043
USDOI	15.H9913020017			Iditarod Trail Improvements	1,073

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Federal Agency	CFDA Number	Grant or Other Identifying Number	Cluster	Federal Program Title	Federal Expenditures
USDOJ	15.L300CA9301			Calendar Year 2002 Misc Fire Billing	250,386
USDOJ	15.L300CA9301			Calendar Year 2003 Fire Suppression	4,461,602
USDOJ	15.L300CA9301			Calendar Year 2002 Fire Suppression	1,199,114
USDOT	20.106			Airport Improvement Program	3,549
USDOT	20.205		HPCC	Highway Planning and Construction	24,668
USDOT	20.219			Recreational Trails Program	302,972
NASA	43.NAG1301010			Remote Sensing	383,870
NASA	43.NAG1301011			Remote Sensing	518,921
ENERGY	81.089			Fossil Energy Research and Development	133,098
HOMELAI	97.015			Boating Safety Financial Assistance	549,566
HOMELAI	97.041			National Dam Safety Program	45,018
Total Department of Natural Resources					24,011,248
Department of Administration					
USDA	10.570			Nutrition Services Incentive	346,236
HUD	14.246			Community Development Block Grants/Brownfields Economic Development Initiative	39,695
USDOJ	16.541			Juvenile Justice and Delinquency Prevention: Special Emphasis	50,000
USDOJ	16.710			Public Safety Partnership and Community Policing Grants	2,000,000
USDOL	17.235			Senior Community Service Employment Program	1,649,644
GSA	39.003			Donation of Federal Surplus Personal Property	1,112,140
EPA	66.433			State Underground Water Source Protection	119,300
USDHHS	93.041			Special Programs for the Aging: Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	21,343
USDHHS	93.042			Special Programs for the Aging: Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	57,450
USDHHS	93.043			Special Programs for the Aging: Title III, Part D - Disease Prevention and Health Promotion Services	153,085
USDHHS	93.044		AC	Special Programs for the Aging: Title III, Part B - Grants for Supportive Services and Senior Centers	1,925,869
USDHHS	93.045		AC	Special Programs for the Aging: Title III, Part C - Nutrition Services	3,097,168
USDHHS	93.048			Special Programs for the Aging: Title IV and Title II - Discretionary Projects	113,948
USDHHS	93.051			Alzheimer's Disease Demonstration Grants to States	317,909
USDHHS	93.052			National Family Caregiver Support	674,415
USDHHS	93.778			Medical Assistance Program	1,604,337
USDHHS	93.779			Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations, and Evaluations	258,709
Total Department of Administration					13,541,247
Department of Corrections					
USDOJ	16.586	96-CV-VX-0002		Violent Offender Incarceration and Truth in Sentencing Incentive Grant	335,655
USDOE	84.203	R203F990010-01		Star Schools	42,763
USDOE	84.331	V331A010032		Grants to States for Incarcerated Youth Offenders	9,064
Total Department of Corrections					387,482
Department of Revenue					
USDHHS	93.563			Child Support Enforcement	16,948,986

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<u>Federal Agency</u>	<u>CFDA Number</u>	<u>Grant or Other Identifying Number</u>	<u>Cluster</u>	<u>Federal Program Title</u>	<u>Federal Expenditures</u>
USDHHS	93.597			Grants to States for Access and Visitation Programs	119,597
Total Department of Revenue					17,068,583
Department of Transportation and Public Facilities					
USDA	10.665		SRC	Schools and Roads: Grants to States	170,000
USDA	10.999	PO 43-0109-3-0356		Acquisition of right of way on section of Coffman Cove Rd costs reimb by USDA AK DOT Pj # 68690	11,277
USDOC	11.999	Lease of space no Fed Agreement #		Space leased by National Weather Service at DOTPF facility in Slana & Ernestine	1,809
USDOD	12.F65501-95C0017			Maintain Galena Airport to USAF Safety Standards	379,990
USDOD	12.F65501-96C0006			Maintain King Salmon Airport to USAF Safety Standards	311,737
USDOI	15.999			Bridge Design - Selected Alaska Communities AK DOT Pj#74975	17,326
USDOI	15.LAA010012			Dalton Highway Wayside Resurfacing	49,413
USDOI	15.MOA-N19973			Payment from BLM for aircraft tiedown fee fire suppression aircraft	2,506
USDOJ	16.585			Drug Court Discretionary Grant Program	143,635
USDOT	20 DTFA-0402P-44814			FAA agreement to install Precision Approach Path Indicator (PAPI) & Runway End Identifier Lights (REIL) at various airports	231,493
USDOT	20 DTFA-0402P-44839			FAA agreement to install Precision Approach Path Indicator (PAPI) & Runway End Identifier Lights (REIL) at various airports	8,822
USDOT	20 DTFA-AAL03P-45013			FAA agreement to install Precision Approach Path Indicator (PAPI) & Runway End Identifier Lights (REIL) at various airports	7,990
USDOT	20 DTFAWA-03-X-02009			FAA agreement to install Precision Approach Path Indicator (PAPI) & Runway End Identifier Lights (REIL) at various airports	929,925
USDOT	20.106			Airport Improvement Program	132,514,670
USDOT	20.205		HPCC	Highway Planning and Construction	404,194,065
USDOT	20.218			National Motor Carrier Safety	546,641
USDOT	20.500		FTC	Federal Transit: Capital Investment Grants	6,751,814
USDOT	20.509			Formula Grants for Other Than Urbanized Areas	915,095
USDOT	20.513			Capital Assistance Program for Elderly Persons and Persons with Disabilities	353,499
USDOT	20.514			Transit Planning & Research	209,413
USDOT	20.515			State Planning and Research	74,843
USDOT	20.600		HSC	State and Community Highway Safety	292,316
USDOT	20.601		HSC	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	681,865
USDOT	20.602		HSC	Occupant Protection	279,452
USDOT	20.603		HSC	Federal Highway Safety Data Improvements Incentive Grants	263,478
USDOT	20.604		HSC	Safety Incentive Grants for Use of Seatbelts	109,458
USDOT	20.605		HSC	Safety Incentives to Prevent Operation of Motor Vehicles By Intoxicated Persons	649,174
USDOT	20.DTFA04-81-F-81018			Pay Half of Electric Billed Through Shared Meter at Kodiak Airport	12,170
USDOT	20.DTFA04-92-89229			Prorated Share of Utilities and Repair/maintenance Cost FAA ARFF Deadhorse Combined Facility	45,362
USDOT	20.DTSA20-02-P-50067			Increased Security Checkpoint Services Purchased by FAA from AIA	725,296
USDOT	20.DTSA20-02-P-50239			Increased Security Checkpoint Services Purchased by FAA from FIA	327,749

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Federal Agency	CFDA Number	Grant or Other Identifying Number	Cluster	Federal Program Title	Federal Expenditures
USDOT	20.PO	00020015		FHWA Alaska Division for TelNet Conference - Purchase Order	10
USDOT	20.PO	00200031-000		FHWA Alaska Division for FY 01 ITS Service Plan - Purchase Order	3,825
USDOT	20-00-A-17-0049 & 02-A-17-0063			Projects contracted by Western Federal Lands Division	551,859
DC	90.100			Denali Commission	165,430
Total Department of Transportation and Public Facilities					551,933,407
Department of Public Safety					
USDA	10.91032			Chugach National Forest	14,963
USDA	10.91032			Tongass National Forest	23,925
USDOC	11.999			National Marine Fisheries Joint Enforcement Agreement	716,263
USDOJ	16.554			National Criminal History Improvement Program (NCHIP)	1,372,624
USDOJ	16.564			Crime Laboratory Improvement: Combined Offender DNA Index System Backlog Reduction	276,500
USDOJ	16.575			Crime Victim Assistance	1,276,422
USDOJ	16.576			Crime Victim Compensation	408,465
USDOJ	16.579			Byrne Formula Grant Program	2,145,827
USDOJ	16.580			Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	1,018,229
USDOJ	16.588			Violence Against Women Formula Grants	804,448
USDOJ	16.589			Rural Domestic Violence and Child Victimization Enforcement Grant Program	36,315
USDOJ	16.590			Grants to Encourage Arrest Policies and Enforcement of Protection Orders	79,477
USDOJ	16.592			Local Law Enforcement Block Grants Program	541,341
USDOJ	16.593			Residential Substance Abuse Treatment for State Prisoners	333,396
USDOJ	16.710			Residential Substance Abuse Treatment for State Prisoners	2,680,230
USDOJ	16.729			Drug Free Communities Support Program Grants	94,590
USDOJ	16.99-02-02 & 03-02			Marijuana Eradication	71,121
FEMA	83.547			First Responder Counter-Terrorism Training Assistance	126,610
DC	90.100	A-2002-01		Denali Commission Programs	147,000
USDHHS	93.558	RS630027		Temporary Assistance for Needy Families	1,470,000
USDHHS	93.671			Family Violence Prevention and Services/Grants for Battered Women's Shelters: Grants to States and Indian Tribes	811,437
Total Department of Public Safety					14,449,183
Legislative Affairs Agency					
LC	42.CRLD-0220			OpenWorld-Center for Russian Leadership Development	84,577
Total Legislative Affairs Agency					84,577
Department of Law					
USDHHS	93.775		MC	State Medicaid Fraud Control Units	351,002
Total Department of Law					351,002
Office of the Governor					

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USDOC	11.419			Coastal Zone Management Administration Awards	1,519,487
USDOC	11.452			Unallied Industry Projects	29,487
USEEOC	30.002			Employment Discrimination: State and Local Fair Employment Practices Agency Contracts	103,469
Total Office of the Governor					1,652,443
University of Alaska					
USAID	02.999			Miscellaneous	2,398,074
USAID	02.999	SUBGRANT # ARO-07		Miscellaneous - Pass-through from Mercy Corps.	31,663
USDA	10.001		R&DC	Agricultural Research - Basic and Applied Research	990,511
USDA	10.025	02-8560-0010-CA	R&DC	Plant and Animal Disease, Pest Control, and Animal Care	16,454
USDA	10.200			Miscellaneous	1,738,733
USDA	10.200		R&DC	Miscellaneous	2,177,378
USDA	10.202	51130-9729-00		Cooperative Forestry Research	28,109
USDA	10.203			Payments to Agricultural Experiment Stations Under the Hatch Act	(60)
USDA	10.203		R&DC	Payments to Agricultural Experiment Stations Under the Hatch Act	(796)
USDA	10.206	00-RA2416-AK	R&DC	Grants for Agricultural Research: Competitive Research Grants - Pass-through from University of California Davis	38,050
USDA	10.206		R&DC	Grants for Agricultural Research: Competitive Research Grants	428,189
USDA	10.207	2002-36100-06002	R&DC	Animal Health and Disease Research	3,291
USDA	10.224	2001-38426-11495		Fund for Rural America: Research, Education, and Extension Activities	57,794
USDA	10.228			Alaska Native Serving and Native Hawaiian Serving Institutions Education Grants	357,571
USDA	10.302	RCUH LTR JAN 1, 02		Initiative for Future Agriculture and Food Systems - Pass-through from University of Hawaii, HILO	13,277
USDA	10.302			Initiative for Future Agriculture and Food Systems - Pass-through from University of Idaho	75,597
USDA	10.303	2002-51110-01510		Integrated Programs	1,719
USDA	10.303	40534-6898	R&DC	Initiative for Future Agriculture and Food Systems - Pass-through from Cornell University	5,217
USDA	10.303	00RA2416-AK	R&DC	Initiative for Future Agriculture and Food Systems - Pass-through from University of California, Davis	(63)
USDA	10.500			Miscellaneous	1,648,886
USDA	10.500		R&DC	Miscellaneous	525,534
USDA	10.501	EATP10047			(727)
USDA	10.652			Forestry Research	12,557
USDA	10.652		R&DC	Forestry Research	34,766
USDA	10.769			Rural Business Enterprise Grants	94,352
USDA	10.769			Rural Business Enterprise Grants - Pass-through from Alaska One - HUD Grant	79,682
USDA	10.901	CA #74-0150-1-008	R&DC	Resource Conservation and Development	35,198
USDA	10.999			Miscellaneous	401,661
USDA	10.999	LETTER 1/9/03		Miscellaneous - Pass-through from Alaska Public Broadcasting Service, Inc.	83,456
USDA	10.999	PFG		Miscellaneous - Pass-through from Alaska Rural Partners, Inc.	5,320
USDA	10.999			Miscellaneous - Pass-through from Denali Commission, The	63,530

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USDA	10.999		R&DC	Miscellaneous	344,515
USDA	10.999	MOA DATED 11/26/02	R&DC	Miscellaneous - Pass-through from The Oceanic Institute	10,836
USDA	10.999	99-35101-7834	R&DC	Miscellaneous - Pass-through from University of Nevada, Las Vegas	(523)
USDA	10.999	Subcontract 98-104	R&DC	Miscellaneous - Pass-through from Utah State University	(2)
USDOC	11.303			Economic Development: Technical Assistance	118,479
USDOC	11.307	07-79-56068	PWEDC	Economic Adjustment Assistance	31,506
USDOC	11.417			Sea Grant Support	581,528
USDOC	11.417		R&DC	Sea Grant Support	1,490,905
USDOC	11.419	UNH 00-365	R&DC	Coastal Zone Management Administration Awards - Pass-through from University of New Hampshire CICEET	30,336
USDOC	11.420		R&DC	Coastal Zone Management Estaurine Research Reserves	14,593
USDOC	11.427		R&DC	Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	20,815
USDOC	11.430		R&DC	Undersea Research	5,839,505
USDOC	11.433	2003-5-5 CML		Marine Fisheries Initiative - Pass-through from Sloan Foundation	26,353
USDOC	11.435		R&DC	Southeast Area Monitoring and Assessment Program	28,755
USDOC	11.438	RSA EN	R&DC	Pacific Coast Salmon Recovery: Pacific Salmon Treaty Program - Pass-through from Exxon Valdez Oil Spill Trustee Cnsl	(781)
USDOC	11.439	AWARD LTR 6/17/03	R&DC	Marine Mammal Data Program - Pass-through from Aleutians East Borough - ANC	290
USDOC	11.439	NA16FX1270	R&DC	Marine Mammal Data Program - Pass-through from NOAA	848,506
USDOC	11.439	NA96FX0124 SFOS 00 135	R&DC	Marine Mammal Data Program - Pass-through from North Pacific Marine Science Foundation	(5,521)
USDOC	11.439			Marine Mammal Data Program	40,729
USDOC	11.439		R&DC	Marine Mammal Data Program	631,222
USDOC	11.439		R&DC	Marine Mammal Data Program - Pass-through from Seward Assoc for Advancement of Science (SAAMS)	113,646
USDOC	11.444	40HCNF100143	R&DC	Aquaculture Program	24,758
USDOC	11.460		R&DC	Special Oceanic and Atmospheric Projects	841,862
USDOC	11.472		R&DC	Unallied Science Program - Pass-through from North Pacific Research Board	21,100
USDOC	11.472		R&DC	Unallied Science Program - Pass-through from Seward Assoc for Advancement of Science (SAAMS)	306,376
USDOC	11.478	NA16OP1428		Center for Sponsored Coastal Ocean Research: Coastal Ocean Program	16,822
USDOC	11.478	NA16OP2795	R&DC	Center for Sponsored Coastal Ocean Research: Coastal Ocean Program	2,641
USDOC	11.480	NA16RG1724		National Ocean Service Intern Program	25,799
USDOC	11.480	#10 UNDER NA16FX2629	R&DC	National Ocean Service Intern Program - Pass-through from North Pacific Marine Science Foundation	60,621
USDOC	11.550	02-02-98135		Public Telecommunications Facilities: Planning and Construction	(1,520)
USDOC	11.552	02-60-100003		Technology Opportunities	150,180
USDOC	11.999		R&DC	Miscellaneous	132,529

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USDOC	11.999			Miscellaneous	51,675
USDOC	11.999	LETTER 4-11-03		Miscellaneous - Pass-through from Alaska Marine Safety Education Association	6,520
USDOC	11.999	AGREEMENT		Miscellaneous - Pass-through from Denali Commision, The	10,629
USDOC	11.999	AAR-400 SUBAWARD	R&DC	Miscellaneous - Pass-through from Embry-Riddle Aeronautical University	4,554
USDOC	11.999		R&DC	Miscellaneous - Pass-through from North Pacific Marine Science Foundation	68,748
USDOC	11.999		R&DC	Miscellaneous - Pass-through from North Pacific Research Board	96,744
USDOC	11.999		R&DC	Miscellaneous - Pass-through from Seward Assoc for Advancement of Science (SAAMS)	183,757
USDOD	12.002			Procurement Technical Assistance For Business Firms	273,418
USDOD	12.114		R&DC	Collaborative Research and Development - Pass-through from University of Mississippi	762,662
USDOD	12.300	LETTER DATED 10/23/02		Basic and Applied Scientific Research - Pass-through from Consortium for Oceanographic Research & Education	15,520
USDOD	12.300			Basic and Applied Scientific Research	167,031
USDOD	12.300		R&DC	Basic and Applied Scientific Research	1,283,357
USDOD	12.300		R&DC	Basic and Applied Scientific Research - Pass-through from John Hopkins University, The	2,732,139
USDOD	12.400		R&DC	Military Construction, National Guard - Pass-through from State of Alaska	1,105,520
USDOD	12.420		R&DC	Military Medical Research and Development	186,176
USDOD	12.999	F65501-02-P-0084		Miscellaneous	9,950
USDOD	12.999			Miscellaneous - Pass-through from Oklahoma State University	133,801
USDOD	12.999		R&DC	Miscellaneous	4,663,080
USDOD	12.999	4800-8	R&DC	Miscellaneous - Pass-through from Calspan - UB Research Center, Inc.	(17,769)
USDOD	12.999		R&DC	Miscellaneous - Pass-through from John Hopkins University, The	(1,162)
USDOD	12.999	M000010	R&DC	Miscellaneous - Pass-through from University of Michigan	264,147
HUD	14.000	B-99-SP-AK-0001		Miscellaneous	488,260
HUD	14.243	2-298 SUB-GRANT		Opportunities for Youth: Youthbuild Program - Pass-through from National Youth Sports Program	45,175
HUD	14.246			Community Development Block Grants / Brownfields Economic Development Initiative	3,390,320
HUD	14.511	COPC-AK-98-0006		Community Outreach Partnership Center Program	208
HUD	14.515			Alaska Native / Native Hawaiian Institutions Assisting Communities	170,424
USDOI	15.024	SERVICE AGREEMENT		Indian Self-Determination Contract Support - Pass-through from Orutsararmuit Native Council	(473)
USDOI	15.034	E004403095		Agriculture on Indian Lands	1,160
USDOI	15.043	CA9910-99-041	R&DC	Indian Child and Family Education	6,844
USDOI	15.221		R&DC	Cooperative Agreements for Research in Public Lands Management	15,769
USDOI	15.222	LBA022177		Cooperative Inspection Agreements with States and Tribes	7,786
USDOI	15.224		R&DC	Cultural Resource Management	10,891

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USDOI	15.250	RSA EN 1032014		Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining - Pass-through from State of Alaska	5,000
USDOI	15.608	30842 Subcontract	R&DC	Fish and Wildlife Management Assistance - Pas-through from LGL Limited	7,033
USDOI	15.608		R&DC	Fish and Wildlife Management Assistance	81,369
USDOI	15.617	70181-1-G111	R&DC	Wildlife Conservation and Appreciation	848
USDOI	15.630		R&DC	Coastal Program	10,045
USDOI	15.805		R&DC	Assistance to State Water Resources Research Institutes	71,451
USDOI	15.807		R&DC	Earthquake Hazards Reduction Program	1,049,356
USDOI	15.808		R&DC	U.S. Geological Survey: Research and Data Acquisition	3,081,282
USDOI	15.922	02-00-GP-252		Native American Graves Protection and Repatriation Act	(116)
USDOI	15.999	2002-004-013 NFWF SUB	R&DC	Miscellaneous - Pass-through from Bureau of Land Management	34,913
USDOI	15.999	1435-01-00-CA-31083	R&DC	Miscellaneous - Pass-through from USDI Minerals Management Services	33,028
USDOI	15.999			Miscellaneous	219,220
USDOI	15.999		R&DC	Miscellaneous	2,279,145
USDOI	15.999	LTR 4/25/02 RODMAN	R&DC	Miscellaneous - Pass-through from Anchorage Fire Department	29,185
USDOI	15.999	02-01-NA-0261	R&DC	Miscellaneous - Pass-through from Ounalashka Corporation	2,416
USDOI	15.999	AGRMT 7/9/02	R&DC	Miscellaneous - Pass-through from Seward Assoc for Advancement of Science (SAAMS)	59,874
USDOI	15.999	473556	R&DC	Miscellaneous - Pass-through from University of Washington	15,517
USDOI	15.DDD	1422L953-A97-0017 LAA-02-0015		Operation of ARLIS (Alaska Resources Library & Information Services)	884,546
USDOJ	16.550		R&DC	State Justice Statistics Program for Statistical Analysis Centers	68,911
USDOJ	16.560	2000-WT-VX-0013	R&DC	National Institute of Justice Research, Evaluation, and Development Project Grants	69,745
USDOJ	16.565	SUBCONTRACT NIOJ 2003-45	R&DC	National Institute of Justice Domestic Anti-Terrorism Technology Development Program - Pass-through from University of Oklahoma	78,625
USDOJ	16.592	1999-LB-VX-0002	R&DC	Local Law Enforcement Block Grants Program	(18)
USDOJ	16.595		R&DC	Executive Office for Weed and Seed - Pass-through from East Anchorage Weed & Seed Initiative	25,119
USDOJ	16.609	GRANT 2003-GP-CX-0006	R&DC	Community Prosecution and Project Safe Neighborhoods	16,661
USDOJ	16.710	98UMWX1530		Public Safety Partnership and Community Policing Grants	8,197
USDOJ	16.712			Police Corps - Pass-through from Fairbanks Police Department	40,129
USDOJ	16.999	97PRWX0566		Miscellaneous	(3)
USDOJ	16.999		R&DC	Miscellaneous - Pass-through from National Opinion Research Center	129,126
USDOL	17.249	AH-10857-00-60		Employment Services and Job Training Pilots: Demonstrations and Research - Pass-through from Workforce Development Office	409,813
USDOL	17.260		WIAC	WIA Dislocated Workers	910,875

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USDOL	17.261			Employment and Training Administration Pilots, Demonstrations, and Research Projects	1,017,602
USDOL	17.600			Miscellaneous	46,833
USDOL	17.999	PFG		Miscellaneous	9,775
USDOL	17.999	MOA DATED 05/03/02		Miscellaneous - Pass-through from Bethel Native Corporation	73,970
USDOT	20.108	AGREEMENT NO. 01-G-017		Aviation Research Grants	12,301
USDOT	20.108	SUBCONTRACT 12/20/02	R&DC	Aviation Research Grants - Pass-through from Embry-Riddle Aeronautical University	34,872
USDOT	20.108		R&DC	Aviation Research Grants	37,123
USDOT	20.205	159972.B1.04.40	HPCC	Highway Planning and Construction - Pass-through from CH2MHill	10,089
USDOT	20.215	03-447552-NSTI-UAA-AK P304115		Highway Training and Education - Pass-through from South Carolina State University	6,754
USDOT	20.600	LOA	HSC	State and Community Highway Safety - Pass-through from Anchorage Safe Communities	(209)
USDOT	20.701	SUBCONTRACT 217281	R&DC	University Transportation Centers Program - Pass-through from University of Washington	5,846
USDOT	20.999			Miscellaneous - Pass-through from Embry-Riddle Aeronautical University	14,802
USDOT	20.999	SUBCONTRACT 111601	R&DC	Miscellaneous - Pass-through from Embry-Riddle Aeronautical University	34,336
GSA	39.009		R&DC	Federal Citizen Information Center	4,662,997
NASA	43.001		R&DC	Aerospace Education Services Program	679,183
NASA	43.001		R&DC	Aerospace Education Services Program - Pass-through from JPL	47,548
NASA	43.001	478959	R&DC	Aerospace Education Services Program - Pass-through from University of Washington	25,092
NASA	43.002	NAG5-11226	R&DC	Technology Transfer	16,366
NASA	43.999			Miscellaneous - Pass-through from University of Montana	30,208
NASA	43.999		R&DC	Miscellaneous	13,931,327
NASA	43.999	NAG11055,PO1-0000441082	R&DC	Miscellaneous - Pass-through from University of California Berkeley	8,286
NASA	43.999		R&DC	Miscellaneous - Pass-through from University of Massachusetts Dartmouth	793,263
NFAH	45.024	00-4400-4097		Promotion of the Arts: Grants to Organizations and Individuals	44,766
NFAH	45.024	1-5500-6074	R&DC	Promotion of the Arts: Grants to Organizations and Individuals	5,634
NFAH	45.129	GRANT #15-01		Promotion of the Humanities: Federal / State Partnership - Pass-through from Alaska Humanities Forum	474
NFAH	45.129	GRANT 17-02	R&DC	Promotion of the Humanities: Federal / State Partnership - Pass-through from Alaska Humanities Forum	7,034
NFAH	45.149			Promotion of the Humanities: Division of Preservation and Access	62,381
NFAH	45.164	GM-25980-99		Promotion of the Humanities: Public Programs	(168)
NFAH	45.166	HE-20050-01		Promotion of the Humanities: Extending the Reach Grants to Underserved Areas	5,165
NFAH	45.302	IM-00022-00		Museum Assessment Program	622
NFAH	45.999	PA-24162-02		Miscellaneous	29,732
NFAH	45.999	FED02-023		Miscellaneous - Pass-through from National Film Preservation Foundation	2,858

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NFAH	45.999	PFG	R&DC	Miscellaneous - Pass-through from Alaska Humanities Forum	(4,059)
NSF	47.041		R&DC	Engineering Grants	389,977
NSF	47.049			Mathematical and Physical Sciences	66,380
NSF	47.049		R&DC	Mathematical and Physical Sciences	314,962
NSF	47.049	PENDING	R&DC	Mathematical and Physical Sciences - Pass-through from North Pacific Research Board	9,265
NSF	47.050			Geosciences	22,566
NSF	47.050			Geosciences - Pass-through from University of Nevada, Reno	179,704
NSF	47.050		R&DC	Geosciences	3,602,123
NSF	47.050		R&DC	Geosciences - Pass-through from Marine Biological Laboratory	84,057
NSF	47.050	53-000045	R&DC	Geosciences - Pass-through from SRI International	13,918
NSF	47.050	S02-39004 ASSUMPT	R&DC	Geosciences - Pass-through from UCAR Office of Programs	16,065
NSF	47.050	F004262	R&DC	Geosciences - Pass-through from University of Michigan	1,100
NSF	47.050	AGRMT #010429-1	R&DC	Geosciences - Pass-through from University of Pittsburgh	7,191
NSF	47.050	SUBCONTRACT C029979	R&DC	Geosciences - Pass-through from Utah State University	5,516
NSF	47.070			Computer and Information Science and Engineering	296,279
NSF	47.070		R&DC	Computer and Information Science and Engineering	205,124
NSF	47.074	SA3418-22395PG 500211PO#	R&DC	Biological Sciences - Pass-through from University of California Berkeley	12,728
NSF	47.074		R&DC	Biological Sciences	1,212,976
NSF	47.074	99221642	R&DC	Biological Sciences - Pass-through from Marine Biological Laboratory	1,141
NSF	47.074	S900300 ACCT 444721-00001	R&DC	Biological Sciences - Pass-through from Texas A & M University Research Foundation	2,824
NSF	47.074	UF02018	R&DC	Biological Sciences - Pass-through from University of Florida	101,745
NSF	47.074	UNC-CH ACCT# 5-37526	R&DC	Biological Sciences - Pass-through from University of North Carolina at Chapel Hill	21,437
NSF	47.074			Biological Sciences	76,133
NSF	47.075			Social, Behavioral, and Economic Sciences	66,344
NSF	47.075	SUBCONTRACT AGRMT DTD 02-13-01		Social, Behavioral, and Economic Sciences - Pass-through from National Research Council	3,824
NSF	47.075		R&DC	Social, Behavioral, and Economic Sciences	3,247
NSF	47.075	SA0310094	R&DC	Social, Behavioral, and Economic Sciences - Pass-through from University of Arkansas	4,325
NSF	47.076			Education and Human Resources	1,757,591
NSF	47.076			Education and Human Resources - Pass-through from Alaska Federation of Natives Inc.	(10,843)
NSF	47.076		R&DC	Education and Human Resources	3,796,085
NSF	47.076		R&DC	Education and Human Resources - Pass-through from Alaska Federation of Natives Inc.	333,926
NSF	47.078			Polar Programs	950,447
NSF	47.078	20012148-000 OP		Polar Programs - Pass-through from North Slope Borough	665
NSF	47.078		R&DC	Polar Programs	11,396,387
NSF	47.078	UTA03-14816	R&DC	Polar Programs - Pass-through from University of Texas at Austin	23,715

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NSF	47.078	250234	R&DC	Polar Programs - Pass-through from University of Washington	34,234
NSF	47.078	A100253	R&DC	Polar Programs - Pass-through from Woods Hole Oceanographic Institution	64,070
NSF	47.999	SUBCONTRACT NO. 01-198B	R&DC	Miscellaneous - Pass-through from Idaho State University	19,208
NSF	47.999	OCE9731391		Miscellaneous	(3,896)
NSF	47.999	AGREEMENT 7/1/02		Miscellaneous - Pass-through from Alaska Federation of Natives Inc.	66,553
NSF	47.999		R&DC	Miscellaneous	1,041,195
NSF	47.999	PO 7099 3yrs	R&DC	Miscellaneous - Pass-through from Marine Biological Laboratory	(3,636)
NSF	47.999	PFG	R&DC	Miscellaneous - Pass-through from Sea of Dreams Foundation, Inc.	37,272
NSF	47.999	D979617287A	R&DC	Miscellaneous - Pass-through from University of California Irvine	(755)
SBA	59.005	SBAHQ-99-R-0021		Business Development Assistance to Small Business Management and Technical Assistance	40,953
SBA	59.007			Small Business Development Center	193,650
SBA	59.037			Small Business Development Center	463,546
EPA	66.400	R826103-01	R&DC	Miscellaneous	2
EPA	66.460	EN1890702		Nonpoint Source Implementation Grants - Pass-through from Watershed Management	(216)
EPA	66.461		R&DC	Wetland Program Development Grants	68,161
EPA	66.463	CP-97015901-0	R&DC	Water Quality Cooperative Agreements	25,611
EPA	66.500	R-82982501-0	R&DC	Miscellaneous	1,751
EPA	66.606			Surveys, Studies, Investigations and Special Purpose Grants	488,334
EPA	66.606		R&DC	Surveys, Studies, Investigations and Special Purpose Grants	221,389
EPA	66.606		R&DC	Surveys, Studies, Investigations and Special Purpose Grants - Pass-through from Kenai Watershed Forum	60,111
EPA	66.951	NE-83057601-0	R&DC	Environmental Education Grants	18,078
EPA	66.999	U-91565801		Miscellaneous	3,996
EPA	66.999	EGR357B	R&DC	Miscellaneous - Pass-through from Northern Arizona University	7,632
ENERGY	81.049	DE-FG03-03ER63530	R&DC	Office of Science Financial Assistance Program	61,828
ENERGY	81.049	PG-7433-01		Office of Science Financial Assistance Program - Pass-through from University of Montana	17,432
ENERGY	81.049	SUBCONTRACT #1, 02-008	R&DC	Office of Science Financial Assistance Program - Pass-through from Columbia University	50,448
ENERGY	81.087	DE-FG51-01R021248	R&DC	Renewable Energy Research and Development	641
ENERGY	81.089		R&DC	Fossil Energy Research and Development	219,703
ENERGY	81.089	#4742	R&DC	Fossil Energy Research and Development - Pass-through from BP Exploration AK Inc	110,738
ENERGY	81.089	409284-A-R8	R&DC	Fossil Energy Research and Development - Pass-through from Pacific Northwest National Laboratory	48,485
ENERGY	81.089		R&DC	Fossil Energy Research and Development - Pass-through from Sandia National Laboratories	204,308
ENERGY	81.089		R&DC	Fossil Energy Research and Development Pacific Northwest National Laboratory	94,795
ENERGY	81.104		R&DC	Office of Technology Development and Deployment for Environmental Management - Pass-through from Institute for Responsible Management, Inc.	134,880

STATE OF ALASKA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2003
By State Agency

<u>Federal Agency</u>	<u>CFDA Number</u>	<u>Grant or Other Identifying Number</u>	<u>Cluster</u>	<u>Federal Program Title</u>	<u>Federal Expenditures</u>
ENERGY	81.113	CONTRACT 409909-A-R8		Office of Technology Development and Deployment for Environmental Management - Pass-through from Battelle Pacific Northwest Lab	340
ENERGY	81.113	UM03-02-074 ASSUMPT	R&DC	Office of Technology Development and Deployment for Environmental Management - Pass-through from University of Mississippi	2
ENERGY	81.999			Miscellaneous - Pass-through from Inland Northwest Research Alliance	189,012
ENERGY	81.999		R&DC	Miscellaneous	1,876,475
ENERGY	81.999	AGREE. DTD NOV99; AMEND#1	R&DC	Miscellaneous - Pass-through from Alaska State Dist. Council. of Laborers	30,343
ENERGY	81.999	321287-A-R1	R&DC	Miscellaneous - Pass-through from Battelle Pacific Northwest Lab	(9,472)
ENERGY	81.999		R&DC	Miscellaneous - Pass-through from University of California	88,266
USIA	82.999			Miscellaneous	121,972
FEMA	83.012	EMW-2000-CA-0397		Hazardous Materials Assistance Program	3,350
FEMA	83.554			Public Assistance Grants	178,222
USDOE	84.007		SFAC	Federal Supplemental Educational Opportunity Grants	549,474
USDOE	84.024	H024B60061		Early Education for Children with Disabilities	42,890
USDOE	84.031			Higher Education: Institutional Aid	3,547,212
USDOE	84.032		SFAC	Federal Family Education Loans	27,835,883
USDOE	84.033		SFAC	Federal Work-Study Program	721,706
USDOE	84.042		TRIOC	TRIO: Student Support Services	270,159
USDOE	84.044		TRIOC	TRIO: Talent Search	628,616
USDOE	84.047		TRIOC	TRIO: Upward Bound	1,372,603
USDOE	84.063		SFAC	Federal Pell Grant Program	8,421,336
USDOE	84.066		TRIOC	TRIO - Educational Opportunity Centers	555,340
USDOE	84.116			Fund for the Improvement of Postsecondary Education	890,741
USDOE	84.116	P116Z010123		Fund for the Improvement of Postsecondary Education - Pass-through from Galena City School District	41,114
USDOE	84.116	431986		Fund for the Improvement of Postsecondary Education - Pass-through from University of Washington	8,896
USDOE	84.153	P153A970063		Business and International Education Projects	(658)
USDOE	84.153	P153A950091	R&DC	Business and International Education Projects	(3,862)
USDOE	84.195			Bilingual Education: Professional Development	762,572
USDOE	84.195	T195 B000096		Bilingual Education: Professional Development - Pass-through from Anchorage School District	27,476
USDOE	84.215	0530602	R&DC	Fund for the Improvement of Education	20,775
USDOE	84.215	R215K020096		Fund for the Improvement of Education	79,943
USDOE	84.215	FY01-113PO01, FY02-394 PO02		Fund for the Improvement of Education- Pass-through from Copper River School District	29,117
USDOE	84.281	PETC 72110		Eisenhower Professional Development State Grants	8,370
USDOE	84.297	S297A000008	R&DC	Native Hawaiian Curriculum Development, Teacher Training and Recruitment	444,542
USDOE	84.299			Indian Education: Special Programs	28,440
USDOE	84.303			Technology Innovation Challenge Grants	78,380
USDOE	84.303			Technology Innovation Challenge Grants - Pass-through from Chugach School District	419,128
USDOE	84.306	R306N010012	R&DC	National Institute on the Education of At-Risk Students	273,677

STATE OF ALASKA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2003
By State Agency

<u>Federal Agency</u>	<u>CFDA Number</u>	<u>Grant or Other Identifying Number</u>	<u>Cluster</u>	<u>Federal Program Title</u>	<u>Federal Expenditures</u>
USDOE	84.320			Alaska Native Educational Planning, Curriculum Development, Teacher Training, and Recruitment Program	1,318,842
USDOE	84.321	S321A990009		Alaska Native Home Based Education for Preschool Children	81,286
USDOE	84.321	MOA		Alaska Native Home Based Education for Preschool Children - Pass-through from Council of Athabascan Tribal Govts.	(2,704)
USDOE	84.322		R&DC	Alaska Native Student Enrichment Program	321,177
USDOE	84.325			Special Education: Personnel Preparation to Improve Services and Results for Children with Disabilities	328,779
USDOE	84.325		R&DC	Special Education: Personnel Preparation to Improve Services and Results for Children with Disabilities - Pass-through from 2001 Special Olympics World Winter Games AK	27,679
USDOE	84.334			Gaining Early Awareness and Readiness for Undergraduate Programs - Pass-through from Anchorage School District	18,884
USDOE	84.336			Teacher Quality Enhancement Grants	903,217
USDOE	84.342			Preparing Tomorrow's Teachers to Use Technology	413,435
USDOE	84.342	CONTRACT DTD 7/02		Preparing Tomorrow's Teachers to Use Technology - Pass-through from Internatl Society for Technology in Education	89,597
USDOE	84.356	S356A020029		Alaska Native Educational Programs	73,938
USDOE	84.356	S356A020049	R&DC	Alaska Native Educational Programs	100,578
USDOE	84.356	AGREEMENT DATED 1/2003	R&DC	Alaska Native Educational Programs - Pass-through from Alaska Humanities Forum	18,382
USDOE	84.363			Alaska Native Educational Programs	166,775
USDOE	84.811A	RSA EN 063345			355,709
USDOE	84.999	LETTER DATED APRIL 28,02		Miscellaneous - Pass-through from Association of American Colleges and Universities	2,039
USDOE	84.999	92 -AK01		Miscellaneous - Pass-through from National Writing Project Corporation	32,660
DC	90.100	0022-DC-2001-I4B		Denali Commission Program	22,974
USDHHS	93.113		R&DC	Biological Response to Environmental Health Hazards	88,910
USDHHS	93.115	CONSULT AGREE 9/2001	R&DC	Biometry and Risk Estimation - Health Risks from Environmental Exposures - Pass-through from Aleutian Pribilof Islands Association, Inc.	1,634
USDHHS	93.157	SUBCON # 423393		Centers of Excellence - Pass-through from University of Washington	9,717
USDHHS	93.173	1 R03 DC03986-01	R&DC	Research Related to Deafness and Communication Disorders	6,538
USDHHS	93.178			Nursing Workforce Diversity	186,146
USDHHS	93.189	NO. 600134		Health Education and Training Centers - Pass-through from University of Washington	96,693
USDHHS	93.211	ANTHC-03-C-5239		Rural Telemedicine Grants - Pass-through from Ak Native Tribal Health Consortium	71,580
USDHHS	93.230	AGRT DTD8/30/01 1H79T112887-01	R&DC	Consolidated Knowledge Development and Application Program - Pass-through from Cook Inlet Council on Alcohol and Drug Abuse	2,467
USDHHS	93.230	CONTRACT DTD 5-23-2000	R&DC	Consolidated Knowledge Development and Application Program - Pass-through from Copper River Native Association	6,604

STATE OF ALASKA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2003
By State Agency

<u>Federal Agency</u>	<u>CFDA Number</u>	<u>Grant or Other Identifying Number</u>	<u>Cluster</u>	<u>Federal Program Title</u>	<u>Federal Expenditures</u>
USDHHS	93.230	241-23622G-3101	R&DC	Consolidated Knowledge Development and Application Program - Pass-through from Municipality of Anchorage	29,330
USDHHS	93.230			Consolidated Knowledge Development and Application Program - Pass-through from Fairbanks Native Association	278,673
USDHHS	93.230			Consolidated Knowledge Development and Application Program - Pass-through from State of Alaska	629,041
USDHHS	93.230		R&DC	Consolidated Knowledge Development and Application Program - Pass-through from State of Alaska	415,820
USDHHS	93.273	PS#676898	R&DC	Alcohol Research Programs - Pass-through from University of Connecticut	(54)
USDHHS	93.273		R&DC	Alcohol Research Programs	445,565
USDHHS	93.279	5 R29 DA10872-04	R&DC	Drug Abuse Research Programs	9,868
USDHHS	93.279	PFG	R&DC	Drug Abuse Research Programs - Pass-through from Univ of New Mexico Health Science Center	4,274
USDHHS	93.279			Drug Abuse Research Programs - Pass-through from Univ of New Mexico Health Science Center	74,624
USDHHS	93.358	2 A10 HP 00194-03		Advanced Education Nursing Traineeships	37,946
USDHHS	93.361	SUBCON #560795	R&DC	Nursing Research - Pass-through from University of Washington	9,252
USDHHS	93.389		R&DC	Research Infrastructure	3,601,139
USDHHS	93.632	#90DD0492/05		University Centers for Excellence in Developmental Disabilities Education, Research, and Service	379,342
USDHHS	93.670	90XA0024/01		Child Abuse and Neglect Discretionary Activities	221,345
USDHHS	93.822			Health Careers Opportunity Program	194,396
USDHHS	93.822			Health Careers Opportunity Program - Pass-through from University of Washington	60,724
USDHHS	93.824		R&DC	Basic / Core Area Health Education Centers - Pass-through from University of Washington	57,186
USDHHS	93.848	5R29DK45711-03	R&DC	Digestive Diseases and Nutrition Research	32
USDHHS	93.848	PO#29995F	R&DC	Digestive Diseases and Nutrition Research - Pass-through from Washington University	49,251
USDHHS	93.854		R&DC	Biological Basis Research in the Neurosciences	1,576,456
USDHHS	93.891		R&DC	Alcohol Research Center Grants - Pass-through from University of Connecticut	47,215
USDHHS	93.912			Rural Health Outreach and Rural Network Development Program	209,800
USDHHS	93.928	ANTHC-03-U-6877	R&DC	Special Projects of National Significance - Pass-through from Ak Native Tribal Health Consortium	60,121
USDHHS	93.999			Miscellaneous	652,339
USDHHS	93.999	PROFESSIONAL SVCS CONTRACT		Miscellaneous - Pass-through from Alaska Federation of Natives Inc.	41,515
USDHHS	93.999			Miscellaneous - Pass-through from Fairbanks Native Association	32,402
USDHHS	93.999			Miscellaneous Pass-through from University of Washington	34,693
USDHHS	93.999		R&DC	Miscellaneous	137,619
USDHHS	93.999	243-00-C-2011	R&DC	Miscellaneous - Pass-through from Alaska Area Native Health Services	31,663
USDHHS	93.999	ANTHC-02-U-4771	R&DC	Miscellaneous Pass-through from Ak Native Tribal Health Consortium	17,176

STATE OF ALASKA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Fiscal Year Ended June 30, 2003
 By State Agency

<u>Federal Agency</u>	<u>CFDA Number</u>	<u>Grant or Other Identifying Number</u>	<u>Cluster</u>	<u>Federal Program Title</u>	<u>Federal Expenditures</u>
USDHHS	93.999	CDC SUBCON 200-2002-00433	R&DC	Miscellaneous Pass-through from Center to Protect Worker's Rights	16,215
USCNCS	94.005			Learn and Serve America: Higher Education	88,539
SSA	96.008	16-T-10001-10-03		Social Security: Benefits Planning, Assistance, and Outreach Program	31,180
Total University of Alaska					<u>163,012,767</u>
Total Federal Program Assistance					<u>2,380,754,525</u>

STATEWIDE ABBREVIATIONS

A

AAC	Alaska Administrative Code
AAL	Actuarial Accrued Liabilities
AADC	Alaska Aerospace Development Corporation
AAM	Alaska Administrative Manual
ABA	Alaska Bar Association
ACOA	Alaska Commission on the Aging
AEA	Alaska Energy Authority
AHFC	Alaska Housing Finance Corporation
AIA	Anchorage International Airport
AIAS	Alaska International Airport System
AIDEA	Alaska Industrial Development and Export Authority
AIDS	Acquired Immunodeficiency Virus Syndrome
AJE	Adjusting Journal Entries
AK	Alaska
AKPAY	Alaska State Payroll System
AKSAS	Alaska State Accounting System
AMBBA	Alaska Municipal Bond Bank Authority
AMHTA	Alaska Mental Health Trust Authority
AMLR	Abandoned Mine Land Reclamation
ANTHC	Alaska Native Tribal Health Corporation
AOMB	Alaska Office of Management and Budget
APFC	Alaska Permanent Fund Corporation
AR	Accounts Receivable
ARFF	Aircraft Rescue and Firefighting
ARLIS	Alaska Resources Library and Information Services
ARRC	Alaska Railroad Corporation
AS	Alaska Statute
ASLC	Alaska Student Loan Program
ASMI	Alaska Seafood Marketing Institute
ASPIB	Alaska State Pension Investment Board
AST	Alaska State Troopers
ASTE	Alaska Science and Technology Endowment
ASTF	Alaska Science and Technology Foundation
AVTEC	Alaska Vocational Technical Center

B

BLM	Bureau of Land Management
BMA	Bond Market Association

STATEWIDE ABBREVIATIONS (*Cont.*)

C

CAFR	Comprehensive Annual Financial Report
CAP-SSSE	Community Assistance Program: State Support Services Element
CBRF	Constitutional Budget Reserve Fund
CCC	Child Care Cluster
CCDF	Child Care Development Fund
CCMMF	Child Care Mandatory and Matching Funds
CDVSA	Council on Domestic Violence and Sexual Assault
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CIP	Capital Improvement Projects
CMH	Community Mental Health
CMIA	Cash Management Improvement Act of 1990
CMS	Centers for Medicare and Medicaid Services
COP	Certificates of Participation
COURT	Alaska Court System
CSED	Child Support Enforcement Division

D

DAS	Division of Administrative Services
DC	Denali Commission program
DCED	Department of Commerce and Economic Development
DCP	Deferred Compensation Plan
DCRA	Department of Community and Regional Affairs
DEC	Department of Environmental Conservation
DED	Division of Early Development (see Early Development)
DEED	Department of Education and Early Development
DES	Division of Emergency Services
DFG	Department of Fish and Game
DFYS	Division of Family and Youth Services
DGS	Division of General Services
DHCS	Division of Health Care Services
DHSS	Department of Health and Social Services
DLWD	Department of Labor and Workforce Development
DMA	Division of Medical Assistance
DMHDD	Division of Mental Health and Developmental Disabilities
DMVA	Department of Military and Veterans Affairs
DNR	Department of Natural Resources
DOA	Department of Administration
DOC	Department of Corrections
DOF	Division of Finance
DOL	Department of Law
DOR	Department of Revenue

STATEWIDE ABBREVIATIONS (*Cont.*)

DOTPF	Department of Transportation and Public Facilities
DPA	Division of Public Assistance
DPH	Division of Public Health
DPS	Department of Public Safety
DSH	Disproportionate Share Hospital
DSS	Division of Senior Services
DUA	Disaster Unemployment Assistance
DVOP	Disabled Veterans' Outreach Program

E

ED	Early Development (see Division of Early Development)
EMS	Emergency Medical Services
ENERGY	U.S. Department of Energy
EPA	U.S. Environmental Protection Agency
EPORS	Elected Public Officers' Retirement System
ESEA	Elementary and Secondary Education Act
ESS	Education Support Services

F

F&M	Facilities and Maintenance
FASB	Financial Accounting Standards Board
FE	Funding Excess
FEMA	Federal Emergency Management Agency
FFELP	Federal Family Education Loan Program
FFY	Federal Fiscal Year
FHWA	Federal Highway Administration
FIA	Fairbanks International Airport
FIFO	First in first out
FSSLA	First Special Session Law of Alaska
FVPSP	Family Violence Prevention and Services Program
FY	Fiscal Year

G

GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
GEAR-UP	Gaining Early Awareness and Readiness for Undergraduate Programs
GF	General Fund
GNMA	Government National Mortgage Association
GSA	General Services Administration

STATEWIDE ABBREVIATIONS (*Cont.*)

H

HCB	Home and Community-Based Agency
HIPAA	Health Insurance Portability and Accountability Act
HIV	Human Immunodeficiency Virus
HUD	U.S. Department of Housing and Urban Development

I

IEVS	Income Eligibility and Verification System
IHS	Indian Health Service
ILP	Infant Learning Program
IRS	Internal Revenue System
ITBE	International Trade and Business Endowment
ITQSG	Improving Teacher Quality State Grants

J

JGTRRA	Job Growth Relief Reconciliation Act
JRS	Judicial Retirement System
JUCE	Juneau Claims Eligibility

K

KD&A	Knowledge, Development and Application Program
KLC	Kodiak Launch Complex

L

LBA	Legislative Budget and Audit Committee
LC	Library of Congress
LEA	Local Education Agencies
LIBOR	London Interbank Offered Rate
LIHEAP	Low-Income Home Energy Assistance
LUST	Leaking Underground Storage Tanks

M

MD&A	Management's Discussion and Analysis
MEBA	Marine Engineers' Beneficial Association (Pension Plan)
Medicaid	Medical Assistance Program
MMIS	Medicaid Management Information Systems
MOA	Memorandum of Agreement
MOU	Memorandum of Understanding
MRDD	Mentally Retarded/Developmentally Disabled
MSA	Master Settlement Agreement and Final Judgment

STATEWIDE ABBREVIATIONS (*Cont.*)

N

NARA	National Archives and Records Administration
NASA	National Aeronautics and Space Administration
NCHIP	National Criminal History Improvement Program
NFAH	National Foundation on the Arts and the Humanities
NGA	Notice of Grant Award
NGNMRS	Alaska National Guard and Alaska Naval Militia Retirement System
NICU	Neonatal Intensive Care Unit
NMRT	Northwest Marine Retirement Trust
NOAA	National Oceanic and Atmospheric Administration
NOICC	National Occupational Information Coordinating Committee
NPO	Net pension obligation
NPR	National Petroleum Reserve
NSF	National Science Foundation
NTS	Nutrition, Transportation, and Support Services program
NTSC	Northern Tobacco Securitization Corporation

O

O&M	Operations and Maintenance
OCS	Office of Children's Services
OG	Office of the Governor (Alaska)
OMB	U.S. Office of Management and Budget

P

PAPI	Precision Approach Path Indicator
PATH	Projects for Assistance in Transition from Homelessness
PCA	Personal Care Assistant
PERS	Public Employees' Retirement System
PVE	Petroleum Violation Escrow

Q

QSP	Quality Sample Program – Forest Service
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R

REIL	Runway End Identifier Lights
RHF	Retiree Health Fund
RICR	Restricted Indirect Cost Rate
RMTS	Random Motion Time Study
RSA	Reimbursable Services Agreement

S

SAAMS	Seward Association for Advancement of Science
SBA	Small Business Administration
SBS	Supplemental Benefits System (Alaska)

STATEWIDE ABBREVIATIONS (*Cont.*)

SBJPA	Small Business Job Protection Act of 1996
SCHIP	State Children’s Insurance Program
SEP	Senior Employment Program
SIR	Self-Insured Retention
SLA	Session Law of Alaska
SFY	State Fiscal Year
SOP	Standard Operating Procedures
SPCS	State Property Control System
SSA	Social Security Administration
SSSLA	Second Special Session Law of Alaska
SURS	Surveillance and Utilization Review System

T

TA	Travel Authorization
TANF	Temporary Assistance for Needy Families
TLS	Teaching and Learning Support
TRS	Teachers’ Retirement System
TSR	Tobacco Settlement Revenues

U

UAAL	Unfunded Actuarial Accrued Liabilities
UI	Unemployment Insurance
UofA	University of Alaska
USAID	U.S. Agency for International Development
USCNCs	U.S. Corporation for National and Community Services
USDA	U.S. Department of Agriculture
USDHHS	U.S. Department of Health and Human Services
USDOC	U.S. Department of Commerce
USDOD	U.S. Department of Defense
USDOE	U.S. Department of Education
USDOl	U.S. Department of the Interior
USDOJ	U.S. Department of Justice
USDOL	U.S. Department of Labor
USDOS	U.S. Department of State
USDOT	U.S. Department of Transportation
USDVA	U.S. Department of Veterans Affairs
USEEOC	U.S. Equal Employment Opportunity Commission
USGSA	U.S. General Services Administrator
USDHHS	U.S. Health and Human Services
USIA	U.S. Information Agency
USTREAS	U.S. Treasury

STATEWIDE ABBREVIATIONS (*Cont.*)

V

VAWA	Violence Against Women Act
VSW	Village Safe Water

W

WAFD	Western Alaska Fisheries Disaster
WIA	Workforce Investment Act
WIC	Women, Infants, and Children Special Supplemental Nutrition Program

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September 10, 2004

Ms. Pat Davidson, Legislative Auditor
Legislative Budget and Audit Committee
Alaska State Legislature
P.O. Box 113300
Juneau, AK 99811-3300

Dear Ms. Davidson:

Re: Recommendation No. 1, FY 03 Statewide Single Audit, Office of the Governor

Thank you for the opportunity to comment on the Division of Legislative Audit's recommendation pertaining to the Office of Management and Budget:

The Office of Management and Budget (OMB) should submit only those revised programs that meet criteria in AS 37.07.080(h) to the Legislative Budget and Audit Committee for approval.

OMB agrees with your recommendation. We believe, however, that our action in submitting two revised programs with funding from the Jobs Growth Tax Relief Reconciliation Act (JGTRRA) of 2003 for consideration by the Legislative Budget and Audit Committee at their July 9, 2003 meeting was entirely appropriate.

Governor Murkowski, in his June 12, 2003, operating budget letter to Speaker Kott and President Therriault, specifically identified how the yet-to-be-received \$25 million would be used: \$10 million for assistance to low-income seniors and \$15 million for communities. The federal funds were received by the state on June 25, 2003. The Department of Administration, Division of Finance then correctly deferred the \$25 million for the Governor's stated purposes.

Ms. Pat Davidson
September 10, 2004
Page 2

OMB does not plan to seek a supplemental appropriation from the legislature to change the fund source of that \$25 million from federal funds to general funds.

Sincerely,

Cheryl Frasca
Director

September 10, 2004

Pat Davidson
Legislative Auditor
Division of Legislative Audit
P.O. Box 113300
Juneau, AK 99811-3300

Dear Ms. Davidson:

Re: State of Alaska, Single Audit for the Fiscal Year ended June 30, 2003

Thank you for the opportunity to reply to the preliminary audit report on the State of Alaska Single Audit for the Fiscal year ended June 30, 2003.

Recommendation No. 1

The Division of Finance (DOF) director should continue to seek resolution of internal control weaknesses identified for time and attendance records in the payroll system, AKPAY.

The Department of Administration recognizes the importance of duty segregation for time and attendance records. Policies governing segregation of time and attendance duties are outlined in section 260.060 of the Alaska Administrative Manual. Procedures for implementing the policies are contained in Section 3 of the Payroll Procedures Manual published by the Division of Finance.

This recommendation points out a design flaw in our current payroll system, AKPAY. It does not enforce duty segregation with edits or reports. This is not the only problem with this software, nor does it pose the most risk. Our backlog of fixes and enhancement requests is substantial, characteristic of a software product nearing the end of its useful life. We are constantly striving to keep it operational and current within vendor maintenance requirements.

Our long-term solution is to replace AKPAY with current integrated software. During fiscal year 2003, the department led a statewide effort to evaluate replacement options for payroll and other administrative systems used to support state government. The resulting business case, published in August 2003, provides some basis for executive decisions in setting future direction

in this strategic area. Any new systems implemented by the state will meet current standards related to accounting controls, including addressing the weakness identified with this finding.

Thank you again for the opportunity to respond to your recommendation.

Sincerely,

Ray Matiashowski
Commissioner

RM/db

cc: Kevin Brooks
Deputy Commissioner

Eric Swanson, Director
Division of Administrative Services

Kim Garner, Director
Division of Finance

STATE OF ALASKA

Department of Education & Early Development

Office of the Commissioner

FRANK H. MURKOWSKI, GOVERNOR

*Goldbelt Place
801 West Tenth Street, Suite 200
Juneau, Alaska 99801-1894
(907) 465-2800
(907) 465-4156 Fax*

September 13, 2004

Pat Davidson, Legislative Auditor
Division of Legislative Audit
P.O. Box 113300
Juneau, AK 99811-3300

Dear Ms. Davidson:

The Department of Education & Early Development appreciates the opportunity to respond to the audit recommendations in the preliminary FY 03 Statewide Single Audit report.

Recommendation No. 3

The Division of Education Support Services (ESS) assistant director should ensure that the schedule of expenditures of federal awards (federal schedule) is prepared in accordance with state and federal requirements.

The department agrees with recommendation No. 3 and is currently drafting departmental procedures with supporting exhibits for the federal schedule process. The department will review methodology, documentation, and the review process to ensure that the federal schedule is prepared in accordance with state and federal requirements.

Recommendation No. 4

The Teaching and Learning Support (TLS) director should ensure record management and retention procedures are adequate for compliance with federal regulations.

The department agrees with Recommendation No. 4 and will notify all division staff that all financial and programmatic information be retained for three years.

Recommendation No. 5

The TLS director should establish procedures to ensure that eligibility determinations for subgrantees are consistently applied.

The department does not agree with the findings of the audit pertaining to Recommendation No. 5 for the following reasons:

- Federal approval was given for the continuation of 2-year higher education grants, authorized under the Improving America's Schools Act, but carrying over into No Child Left Behind (NCLB) under Title II A, Subpart 3, In order to continue, the partnerships had to adhere to the new regulations of NCLB, which went into effect on July 1, 2002.
- NCLB did not provide any regulations or guidance for methods to be used to determine the 20% poverty threshold. The department used its best judgment and expertise to determine what data to use to determine the 20% poverty threshold for continuance of the two-year grants. The department issued no grants that were out of compliance with the NCLB statutes.
- Legislative Audit's assertion that the district in question did not meet the definition of "high need district" without eliminating a portion of the district's data would have required that NCLB had provided the department with a specific methodology by which to determine the 20% poverty threshold. This was not the case.
- NCLB did not include a requirement that the department had to use only one method for determining the poverty data. NCLB stipulates that a partnership must contain a high-need LEA. A high-need LEA is defined as one having not fewer than 10,000 children from families with incomes below the poverty line or for which not less than 20% of the children are from families with incomes below the poverty line. Since Juneau does not have 10,000 children, the issue in this case was having not less than 20% from families with incomes below the poverty line. The NCLB act does not indicate what standard should be used to determine the 20% mark. When questioned about their poverty data, the curriculum coordinator of the Juneau School District (JSD) said that they use free and reduced lunch data. JSD estimated the poverty level to be 21.5% because that was the average of all the elementary schools. When asked why they don't consider the data from secondary schools she said that the data is unreliable because although the program exists in those schools, the students do not sign up. In order to get their lunches the students have to go to the nurse's office and the lunches are not very appealing. Since many of the students in the high school are siblings of those in elementary school the Juneau School District uses the 21.5%.
- Based on the poverty data available and the lack of accurate secondary poverty data provided to the department and the district's estimate that the districts overall poverty level was over 20%, the department applied the 21.5% poverty rate for this grant process.

The State of Alaska has worked in earnest to implement all provisions of NCLB since it became law. The act is over 1,000 pages. Department staff, as well as U. S. Department of Education staff, focused on Title I and Assessment and Accountability sections of NCLB first, as they changed the most from previous law and had the most consequences attached to them. This Title II A, Subpart 3 grant, while not of the magnitude of Title I, was also implemented with careful consideration. Our implementation of this grant program corresponds in every way with the NCLB law.

Recommendation No. 6

The TLS director should ensure that subrecipient monitoring activities are adequately documented.

The department agrees that some of the districts' monitoring documents were incomplete, even though the monitoring visits occurred and letters to the district superintendents documented compliance or non/partial compliance with No Child Left Behind programs. The Director of Teaching and Learning Support (TLS) will work with the Title I/No Child Left Behind Administrator and the Deputy Director of TLS to ensure that all monitoring documents, letters and other supporting information are filed properly and accessible within the department for federal and audit purposes.

Recommendation No. 7

The TLS director should establish procedures to ensure that private school participation in ITQSG services is provided in accordance with program requirements.

The department agrees with the need for procedures that ensure that private school participation in ITQSG services is provided in accordance with program requirements.

The No Child Left Behind statute is complex and over 1,000 pages in length. Subsequent regulations and guidance documents are at least 500 pages. The audit finding relates to one NCLB requirement for the Title II A Teacher Quality program that was not addressed in the district monitoring process.

The department will ensure that a process is established for future monitoring visits that verifies Title II A private school participation, which is the requirement in question. The Deputy Director, Title I/NCLB Administrator, the Grants Administrator for Title II A, and the Program Manager for Title II A will ensure this requirement is met.

Recommendation No. 8

The deputy commissioner should develop and implement procedures to ensure that timely management decisions are issued to subrecipients for all audit findings.

The department agrees with the need for updated subrecipient procedures and practices, but the department disagrees that this issue with \$33,000 in questioned costs creates a federal single audit recommendation and \$33,000 in questioned cost to USDHSS.

The department agrees that the subrecipient monitoring program needs updated procedures and implementation. The department will review the subrecipient requirements, develop written procedures and documentation requirements, and implement procedures to ensure management decisions are issued timely and questioned costs are resolved for all subrecipient federal audit findings.

- During the interim, while EED is drafting formal procedures, EED will immediately implement the following procedure:
- Within 30 days after receipt of a subrecipient audit, EED will list each subrecipient audit received and identify any recommendations or questioned costs in a spreadsheet.
- EED will issue a management decision, as defined in A-133 on any applicable subrecipient recommendations or questioned costs within 6 months from receipt of audit.
- In addition EED will continue ongoing subrecipient monitoring practices while new procedures are developed and implemented.

The department agrees that the item identified was not resolved within 6 months of receipt of audit. However, the department disagrees that this item constitutes questioned costs on EED's federal audit. In accordance with A-133 Subpart C 315 (4) the audit findings on the subrecipient's audit are still valid and the auditee has not been relieved of their responsibility for the questioned costs. The department communicated with both the independent auditor and the auditee and the December 31, 2003 audit due to the department in the near future includes on the schedule of prior audit findings the \$33,000 as outstanding.

The department sent a formal letter to the subrecipient on April 8, 2004. The auditee responded that they did not agree with the full dollar amount of questioned costs. The department has contacted the program manager, now in another department, and will ask the auditee to present documentation and then EED will collaborate with the program manager to determine the amount of disallowed costs. The department is currently working on resolution of this item with the sub-recipient.

Recommendation No. 9

The ESS assistant director should ensure equipment management procedures meet state and federal requirements.

The department agrees with this recommendation is developing equipment management procedures that meet state and federal requirements.

Recommendation No. 10

The ESS assistant director should ensure sufficient supporting documentation exists for the transfer of expenditures between legal appropriations.

The department agrees and believes that sufficient procedures are in place to ensure supporting documentation is attached to adjusting journal entries (AJEs) processed. Additional training in this area will be provided to staff to ensure that procedures are followed.

Recommendation No. 11

The ESS assistant director should take measures to resolve revenue shortfalls.

The department agrees with the recommendation and will request ratification at the next available opportunity.

Recommendation No. 12

ESS should develop a cost allocation plan to support administrative overhead costs billed to capital projects, revise billing procedures, and lapse excess general fund receipts.

The department agrees that the administrative overhead cost allocation plan associated with management of capital projects needed review and updating. There was no overhead rate applied to current capital appropriations. The fund equity account balance within the state general fund is being transferred via journal entry to the state general fund on July 1, 2004 thereby closing the fund equity account. The department has resolved funding the facilities unit that oversees capital projects.

Department of Health and Social Services

Additionally, Recommendation No. 25 in Department of Health and Social Services is also addressed to DEED.

Recommendation No. 25

The administrative claiming program is a Medicaid component under the Department of Health and Social Services (DHSS). The Department of Education & Early Development's (EED) role is limited to collecting school district data for DHSS.

EED does not believe that the contract work performed by the department on behalf of DHSS should be presented as a federal single audit finding to EED. EED needs the assurance provided in federal law that DHSS will manage the State's Medicaid programs.

Federal law is specific in assigning the authority and responsibility of Medicaid to a single state agency. Federal Medicaid law requires an interagency agreement between the State Medicaid agency and the state Department of Education. EED does not have a relationship with the federal Medicaid program for approvals, audit matters or technical assistance. The federal Medicaid agency does not include EED in correspondence or resolution of federal single audit findings; single audit findings and resolutions go through the state Medicaid agency.

The department relies on DHSS to be the lead agency, to manage the administrative claims program and provide the department with any necessary changes in law, updates or other information pertaining to the administrative claiming program. If EED's audit includes a federal single audit finding, EED will have been made responsible for those duties federal Medicaid assigns to DHSS. EED will not be provided the assurance of a state Medicaid agency and EED

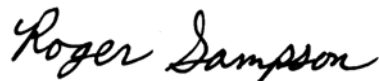
will not be able to rely on DHSS to manage the program. At the same time, EED is not legally allowed to operate the Medicaid claims program directly.

EED does agree that “DHSS’ Division of Health Care Services director and the Department of Education and Early Development’s (DEED) Division of Teaching and Learning Support director should work together to improve procedures for claiming reimbursement of Medicaid school-based administrative costs to ensure costs are claimed in accordance with federal law.”

EED will be proactive in supporting the administrative claiming program. EED will make necessary corrections and changes as recommended and in order to fully comply with federal requirements. EED will continue to work cooperatively with DHSS in identifying and communicating issues, contributing staff knowledge and actively monitoring the administrative claiming environment. EED will accomplish these objectives through continued communication with DHSS, signing an updated interagency agreement in compliance with the May 2003 administrative claiming manual, participating in administrative claiming training in June 2004 and reviewing all components, procedures and documentation assigned to EED for the administrative claiming program.

The department requests that EED’s participation be encompassed, as outlined in federal law, through an interagency agreement with DHSS and that the federal single audit finding be removed from EED’s audit. A federal single audit finding in EED’s audit will change the role of the authoritative party to the federal Medicaid program.

Sincerely,

A handwritten signature in cursive script that reads "Roger Sampson".

Roger Sampson
Commissioner

September 8, 2004

Pat Davidson, CPA
Legislative Auditor
Division of Legislative Audit
P.O. Box 113300
Juneau, AK 99811

Dear Ms. Davidson:

Thank you for the opportunity to respond to the Statewide Single Audit for Fiscal Year Ending, June 30, 2003. Our response to the recommendations contained within the report is as follows:

Recommendation No. 13

The Department of Health and Social Services (DHSS) finance officer should improve the controls over categorization and allocation of allowable claims.

The department concurs with the recommendation. The finance officer has established internal controls by “password protecting” the cost allocation spreadsheet after its deemed final. Access will be limited to two staff people, the finance officer and the accountant IV responsible for implementation. Additionally, the federal unit will continue to work with the information technology staff to ensure the spreadsheets are safeguarded to prevent changes occurring.

The federal reporting unit has processed some decreasing federal claim adjustments. The remaining decreasing claims will be reflected on the September 30, 2004 federal financial reports.

Recommendation No. 14

The DHSS assistance commissioners responsible for finance and management services should ensure staff provides accurate and reliable information for implementing the cost allocation plan and that the information is obtained in compliance with federal requirements.

The department concurs with the recommendation. Effective July 1, 2004 the Office of Children Services and the Division of Public Assistance implemented a computerized random moment time study that randomly selects 2500 samples for each quarter. Implementation of the computerized software will ensure that at least 1900 valid samples are used as outlined in the FY 02 recommendation.

Recommendation No. 15

DHSS's finance officer should ensure that transfers of expenditures between appropriations are performed in accordance with state statutes.

The department concurs with the recommendation. DHSS strives to ensure that all applicable statutes are adhered to. In the case cited, the RSA expenditures paid for clients requiring treatment for behavioral health related problems. The majority of this RSA paid for the disproportionate share match for single point of entry services to specific hospitals for behavioral health related services. The amount referenced \$885,359, was also used as state match for valid claims processed through the MMIS for behavioral health services. The department acknowledges that the RSA description could have been clearer to alleviate any misconception that these funds were inappropriately transferred.

Recommendation No. 16

The DHSS finance officer should take measures to resolve revenue shortfall issues.

DHSS has resolved all revenue shortfall issues. Our actions to resolve are the following:

AR 22550-02 Family and Youth Services Management – A revenue shortfall no longer exists. DHSS believes the revenue transfer is appropriate (See prior year recommendation No. 20). The balance was resolved with additional federal revenue collections.

AR 22553-02 Family and Youth Services Staff Training - A revenue shortfall no longer exists. DHSS believes the revenue transfer is appropriate (See prior year recommendation No. 20).

AR 22520-03 Medical Assistance – A revenue shortfall totaling \$13,754,000 exists within this appropriation. This is a calculated difference due to the DHSS's position regarding Recommendation No. 15 above. DHSS will request ratification during the next Legislative session.

AR 22541-03 Family and Youth Services – A shortfall no longer exists. Revenues were incorrectly posted to the SFY 04 appropriation which was earned in SFY 03.

AR 22601-03 Miscellaneous Claims – A shortfall no longer exists. DHSS claimed the federal revenue earned.

AR 23686-03 Capital Upgrades to the EIS and AR 23745-03AR 23745-03 Deferred Maintenance, Renewal, Replacement and Equipment – The revenue shortfalls result from discrepancies with the capital improvement receipts billing and direct charging federal programs for personal service time (using positive time keeping records). We have transfer excess federal revenue to the capital appropriations to remove the revenue shortfall.

Recommendation No. 17

The internal auditor should implement procedures to ensure subrecipient information provided to the Office of the Governor, Office of Management and Budget (AOMB) is accurate and that federal single audit reports are reviewed timely.

The Department concurs. Historically, the Department has not had standardized accounting and reporting process for federal subrecipient payments. Each granting division maintained their own record of federal monies passed through to subrecipient agencies. In FY 2004 the Department consolidated the administrative functions for all departmental grants in the Grants and Contracts Support Team. The Grants and Contracts Support Team is currently developing an electronic grants (eGrants) program that will have the capability to track and report federal subrecipient payments, by CFDA number, to individual grantees. This system should provide accurate, timely, and consistent subrecipient information across the Department grant programs.

The consolidation of the grant administration functions in the Grants and Contracts Support Team should also help considerably in the timely review of federal single audit reports. The Audit Section has implemented a process that prioritizes the review of federal single audit reports that contain findings and questioned costs. This process, along with the grant files and administrative staff being consolidated in the Grants and Contracts Support Team, should improve the timely review of federal single audits.

Recommendation No. 18

We recommend DHSS administrative managers for the Division of Public Health (DPH) and the Office of Children's Services (OCS) ensure personal services expenditures charged to the federal programs comply with federal cost principals.

The department concurs with the recommendation. The DPH administrative manager will continue to work with its employees to ensure that adequate positive time records are maintained. Currently, the DPH administrative manager is developing a timesheet for all employees identified as working on multiple benefiting programs. The WIC and ILP programs were part of DPH during SFY 03. Effective July 1, 2003 (SFY 04) these programs were transferred to OCS. DHSS's public assistance cost allocation plan was significantly revised to incorporate the transfer of existing federal programs to other divisions.

Recommendation No. 19

The health program manager of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) within the DHSS Office of Children's Services should ensure that food costs are net of rebates earned.

The department concurs with the recommendation. Effective, July 1, 2003 the WIC program transferred to the Office of Children's Services from the Division of Public Health the adjusting journal entry was not processed due to the new division's unfamiliarity with the program's financial requirements.

The DHSS federal reporting unit will work with the federal agency to determine how to resolve the questioned costs.

Recommendation No. 20

DHSS' finance officer should work with program staff to ensure that grant overpayments are refunded in a timely manner and the appropriate prior period adjustments are performed to reduce federal expenditures.

DHSS concurs with the recommendation. Effective, January 2004, DHSS established the grants and contracts unit (GCU). The GCU has implemented processes requiring the grantee to spend the majority of its initial advance prior to receiving future payments. If the grantee did not spend the predetermined amount, the advance payment is reduced appropriately or not made until the quarterly expenditure reports reflect the appropriate amount of expenditures.

DHSS will process decreasing claim adjustments for the questioned costs totaling \$35,787.

Recommendation No. 21

The Office of Children's Services (OCS) director should establish procedures to ensure that ILP subrecipients allocated indirect costs to federally funded grants in accordance with federal program guidelines.

The department concurs with the recommendation. The GCU will work with OCS to ensure the Infant Learning Program grantees comply with departmental and federal regulations regarding the appropriate mechanism for charging indirect costs to the grants.

Recommendation No. 22

The DPH administrative manager should enforce procedures to ensure personal service expenditures charged to federal programs comply with federal cost principals.

The department concurs with the recommendation. The DPH administrative manager will continue to work with its employees to ensure that adequate positive time records are maintained. Currently, the DPH administrative manager is developing a timesheet for all employees identified as working on multiple benefiting programs.

Recommendation No. 23

We recommend the director of the Division of Health Care Services (DHCS) improve internal controls over maintenance of the Juneau Claims Eligibility (JUCE) database.

The department concurs with the recommendation. Currently, DHCS has one person with extensive training and experience with the JUCE database. We have, however, trained back-up within the division though it is not dedicated to this task and maintains other functions within the department. This HCS staff member can, with the help of the existing procedure manual, download and verify data from MMIS, process all standard monthly and quarterly reports, update projections, and complete all but the most difficult ad hoc data pulls.

In addition, maintenance of the JUCE database is contracted out to Wostman and Associates of Juneau. This local company built the system and is on contract to provide support to the HCS regarding all aspects of the system including data pulls if necessary. In addition, most existing data pulls are saved and well-documented electronically.

Recommendation No. 24

The commissioner for DHSS should emphasize strong internal controls over the Medicaid program.

The DHSS concurs with the Legislative audit recommendations regarding emphasis on strong internal controls over the Medicaid program. The Division of Health Care Services continues to identify and strengthen recommended controls to the best of its ability under current circumstances. The Department expects much greater flexibility with the new Medicaid Management Information System.

Recommendation No. 25

DHSS' Division of Health Care Services director and the Department of Education and Early Development's (DEED) Division of Teaching and Learning Support director should work together to improve procedures for claiming reimbursement of Medicaid school-based administrative costs to ensure costs are claimed in accordance with federal law.

The department concurs with the recommendation. Concurrent with this legislative audit was a Center for Medicare and Medicaid Services (CMS) technical assistance review, where many of the same issues were brought forth. During this review many of these issues were researched and corrected. At the request of DHSS, DEED has identified a means by which to survey non-certificated staff. Non-certificated employees were included in the January – March time study sample pool. Additionally, a new time study has been implemented and now distinguishes between both Medicaid and non-Medicaid time and utilizes the survey codes within the federal guidance. During the month of April, DHSS contracted with a trainer from the Oregon Medicaid program to provide training to district business managers, finance officers, and a few educators statewide. CMS also participated in the training. The training focused primarily on the coding and how to distinguish Medicaid from non-Medicaid time. Additional quarterly training sessions are being scheduled next year, with statewide education conferences as one venue. We have also developed specific training curriculum aimed at teachers, school finance offices and business managers, and a 'train the trainer' approach.

Interagency Agreement: HCS is currently revising the interagency agreement which clearly delineates responsibilities of both Departments.

Calculation Methodology: DHSS agrees that including school drop out rates in the calculation methodology of Medicaid eligible school children would be more accurate, there are other considerations which indicate this may not be an equitable application to the formula. School Average Daily Membership is calculated at one point in time for the entire year, and does not take into account the drop out rate, nor does it take into account new children entering the school system. Applying drop out rates, without applying new admission rates would not produce a true and accurate percentage of school children. However, DHSS will research the dropout rate and consider its application to the methodology, if material.

Recommendation No. 26

The director of the Division of Health Care Services, formerly known as Division of Medical Assistance (DMA), should ensure that disproportionate share hospital (DSH) payments are made in accordance with federal guidelines.

The department agrees that payments should be made in accordance with federal guidelines, but disagrees with this finding because we believe the department was in compliance. DHCS relied upon opinions from Covington and Burling, a Washington D.C. law firm specializing in Medicaid law, and our state attorneys who supported the payment as allowable. DHCS and the Department of Corrections entered into an agreement dated June 28, 2002. The State Medicaid Director letter, discouraging these types of payments was issued August 16, 2002. DHCS believes the payment is appropriate due to the timing of the guidance. However, since CMS has issued the Director letter, the Department has ceased payments for prisoner care as compliance remains questionable.

Recommendation No. 27

DHSS's director of the Division of Health Care Services (DHCS) should take action to improve controls over the processing and payment of personal care service claims.

The department concurs. In the past year, several actions have been taken, and additional improvements have been planned.

Regulations: The department added provisions to the recently adopted regulations (they have been in development for several years), lowering the number of hours of service per week that could be provided to a recipient without a prior authorization from 56 to 35 hours. This will help ensure that people don't receive excessive amounts of care.

The Department intends to begin developing additional regulations for the personal care program to ensure appropriate use of services and provide for more effective program controls. Although the final provisions have not yet been determined, proposals for consideration include:

- Eliminating or restricting the provision of stand-by assistance
- Tying recipient eligibility to clear standards of assistance needs
- Further limiting the conditions under which family members can provide care
- Move from annual to semi-annual assessments
- Adopt a more refined and quantifiable assessment tool
- Prior authorize all PCA services
- Require all personal care assistants to enroll as rendering providers (to provide for more accountability and a better audit trail)

Provider Audits: Department of Health and Social Services staff has begun targeted audits of personal care providers. Also, under the provisions of SB 41, the firm of Myers and Stauffer has begun conducting audits of several providers, including some personal care agencies.

State Assumption of Assessment and Plan of Care Development: The Department is in the process of hiring several non-perm employees to assume responsibility for assessing the clients and developing their care plans. This will help reduce inappropriate use of personal care service, by consistent and accurate determination of time for task standards.

Agency Oversight: In an effort to improve routine monitoring and oversight of provider agencies, the DSDS will add one non-perm staff to the DSDS, QA Unit. This staff person will be dedicated to the PCA program so that all activities in the PCA services will be linked. This staff will also work closely with DSDS program managers to provide data for tracking and trending.

MMIS Changes: While some changes to the MMIS cannot be made until regulations have been changed, the department is moving forward with some changes to the MMIS immediately. For example, the MMIS will no longer allow for span-date billing, in which a single claim can be submitted for multiple days of service. Requiring single date of service is the first step to ensure that all MMIS edits on service limits are applied correctly.

Recommendation No. 28

We recommend the DCHS director improve procedures over the calculation of the Medicaid upper payment limit.

The Department concurs. We are working towards correcting the problem and will be making necessary changes to the calculation for future years. The Department is reviewing UPL calculations for all hospitals for accuracy.

If you have questions concerning the information contained within this letter, please feel free to contact Michelle Grose at 465-1690 or by email at Michelle_Grose@health.state.ak.us.

Sincerely,

Joel Gilbertson, Commissioner
Department of Health and Social Services

P. O. Box 21149
Juneau, AK 99802-1149
Phone: (907)465-2700
Fax: (907)465-2784

OFFICE OF THE COMMISSIONER

September 9, 2004

HAND DELIVERED

Ms. Pat Davidson
Legislative Audit Division
State of Alaska
6th Floor, State Office Building
Juneau, Alaska 99801

Dear Ms. Davidson:

Thank you for the opportunity to review and comment on the Division of Legislative Audit's recommendation that the Department of Labor and Workforce Development (DOLWD) should eliminate the practice of transferring revenues earned in one fiscal year to the next fiscal year's appropriation.

For the reasons cited in the enclosed memorandum from Administrative Services Director Guy Bell, DOLWD must respectfully disagree with the legislative auditor's analysis. However, out of respect for the concerns expressed by the legislative auditor, in the future years the department will seek legislative approval of revenue carry-forward through the appropriation process.

Sincerely,

Greg O'Claray
Commissioner

Enclosure

MEMORANDUM

State of Alaska

DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT

Administrative Services Division

TO: Greg O'Claray, Commissioner

DATE: September 8, 2004

PHONE: 465-5981

FROM: Guy Bell, Director

SUBJECT: Legislative Audit
Response

My staff and I have reviewed the Division of Legislative Audit's recommendation that the Department of Labor and Workforce Development (DOLWD) should eliminate the practice of transferring revenues earned in one fiscal year to the next fiscal year's appropriation.

After consulting with experts in this field, including the state's cost allocation consultant, we must respectfully disagree with the legislative auditor's analysis and conclusion. However, I recommend that we make this matter a non-issue in the future by seeking legislative approval of revenue carry-forward through the appropriation process. A detailed analysis follows.

The department's cost allocation plan is based on a federally approved method requiring over or under collections in any given year to be an adjustment to future periods.

The federal government's OMB circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," establishes indirect cost plan principles and standards. The DOLWD Divisions of Administrative Services and Vocational Rehabilitation use a federally approved "fixed with carry-forward" indirect cost allocation plan. This method is best described in A-87, Attachment C, G.3 and 4 (see also A-87, Attachment E, B.6):

Allocated central service costs are usually negotiated and approved for a future fiscal year on a "fixed with carry-forward" basis. Under this procedure, the fixed amounts for the future year covered by agreement are not subject to adjustment for that year. However, when the actual costs of the year involved become known, the differences between the fixed amounts previously approved and the actual costs will be carried forward and used as an adjustment to the fixed amounts established for a later year.

DOLWD submits an indirect cost plan (ICP) to its cognizant federal agency, the U.S. Department of Labor, for approval of a rate to recover indirect costs. The ICP includes

all allowable indirect costs, including those incurred on behalf of DOLWD by other departments. Examples of costs incurred by other departments on DOLWD's behalf are the Statewide Cost Allocation Plan (SWCAP), audit costs of the Division of Legislative Audit (incurred by them on DOLWD's behalf but not billed to it), and lease costs (paid by the Department of Administration for its leases, but not billed to DOLWD).

The rate is the result of dividing the indirect cost pool (costs to be recovered) by the base (in DOLWD's case, the personal services expenditures of the department, excluding those in the pool). The ICP has two elements of cost for both the pool and the base. The first is the budgeted expenditures for the plan year; and the second is the "true up" or "carry forward" adjustment, which is a reconciliation of the actual expenditures from two years prior to what was planned in that ICP. For example, the FY 2004 ICP incorporates the FY 2004 budget for indirect costs, and an adjustment to reflect the FY 2002 actual indirect costs compared to what was planned for in the FY 2002 ICP.

Although the ICP contains all allowable costs, the department's policy is to bill for and collect only the part of the rate approved in the plan to recover this department's costs. The reason for the policy is that DOLWD's grants, with one exception, are not "cost plus." So if a grant is for \$1,000, both the direct and indirect costs must be paid from that \$1,000. For example, if the indirect is \$100, that leaves \$900 for direct costs, but if the indirect is \$150, that leaves only \$850 for the direct costs of the program.

The receipts questioned by the legislative auditor are the result of indirect collections in FY 2003, exceeding FY 2003 actual expenditures and the difference being transferred to future years. However, because of the two elements of costs that are contained in each ICP, a part of these collections resulted from expenditures from two years ago (FY 2001) and the audit year (FY 2003), and also from expenditures that will be incurred two years hence (FY 2005). The ones collected now but incurred in future years may also be referred to as deferred revenue. These funds are not yet recognizable as revenue, because they are the result of the difference between estimated and actual expenses and should be recorded as a liability for future expenses, or deferred revenue.

That these estimated payments are unearned deferred revenue is evidenced in that future indirect costs will be reduced or increased when the indirect cost plan adjusts future payments to reflect overpayments (deferred revenue) or underpayments (receivable).

In FY 2003, the department did not collect and post indirect costs in keeping with its established policy although the department did stay within both State and Federal guidelines. First, the department collected a higher rate than needed to recover department indirect costs by mistakenly including a portion of statewide costs in its charge to federal programs. Second, the department did not perform an analysis/reconciliation at the end of the fiscal year to determine, of the total amount rolled forward, how much resulted from costs that were paid on behalf of DOLWD by other departments, and how much was a recovery of indirect costs - including deferred revenue for future years. We now believe the result should have been an adjustment to reflect the amounts received in excess of the underlying costs as deferred revenue.

At the end of this fiscal year, the department followed DOLWD policy and is nearly done with its analysis. The first step was to determine the amount of indirect collections that related to payments based on the department's internal indirect rate that were in excess of actual indirect costs. Of that amount, we then calculated how much of the excess revenue from the current and all prior years was the result of billing a higher rate than needed to recover the department's indirect costs, and how much resulted from other normal variance factors such as budgeted amounts versus "true up" or the use of a rounded rate. Of the amount that resulted from using a higher than needed rate to recover only the department's indirect costs, we determined how much can be reclassified as direct receipts of the program(s) and, wherever it was/is possible to do so, an adjustment has been (or will be) made to reclassify them as such. This is in keeping with the department policy of putting as much as possible of the available funding into the programs, and using only the amount necessary for indirect costs.

Any amount remaining after this action is taken, that resulted from billing for a higher rate than needed, will devolve to the General Fund to offset DOLWD's share of other departments' indirect expenses.

Of the amount of excess collections that relates to normal variances (again, such as the rounded rate or the budgeted versus actuals), the department will do a journal entry that will recognize it as deferred revenue. Adjusting this amount as a liability (deferred revenue) is appropriate in that DOLWD's approved indirect rate caused an over collection of its actual costs, which in future indirect cost proposals will necessitate a rate less than the department's actual indirect costs. When we have this reduced rate in a subsequent year, the department will do a journal entry to recognize the previously reported deferred revenue as earned revenue in that year.

Remitting collections for the amounts related to the statewide cost allocation plan to the general fund if it is not possible to put those dollars back into the department's programs, and booking collections in excess of actual costs on the department's portion of indirect costs as deferred revenue, will more clearly demonstrate the underlying activity. It will also provide users of the financial information the clearest picture of what is truly occurring while more accurately following the federal accounting standards the department reports under.

Once the Division of Administrative Services completes its reconciliation as outlined above, the analysis and results will be forwarded to the Divisions of Legislative Audit and Finance.



STATE OF ALASKA

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

Office of the Commissioner

FRANK MURKOWSKI, GOVERNOR

P.O. Box 5800
Building 49000
Ft. Richardson
Camp Denali, AK 99505

September 7, 2004

Pat Davidson
Alaska State Legislature
Legislative Budget and Audit Committee
Division of Legislative Audit
Juneau, AK 99811-3300

Dear Ms. Davidson

RE: Audit Control Number 02-40004-04

Thank you for the opportunity to respond to the Preliminary Audit Report for fiscal year ending June 30, 2003. The Department of Military and Veterans Affairs concurs with the audit. We appreciate the expertise and professionalism shown throughout this audit. We were also very pleased there were no recommendations for our department.

Sincerely,

Craig E. Campbell
Commissioner/Adjutant General

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES
OFFICE OF THE COMMISSIONER

FRANK H. MURKOWSKI, GOVERNOR

- 400 WILLOUGHBY AVENUE
JUNEAU, ALASKA 99801-1796
PHONE: (907) 465-2400
FAX: (907) 465-3886
- 550 WEST 7TH AVENUE, SUITE 1400
ANCHORAGE, ALASKA 99501-3650
PHONE: (907) 269-8431
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August 19, 2004

Pat Davidson, Legislative Auditor
Legislative Budget and Audit Committee
Division of Legislative Audit
P.O. Box 113300
Juneau, Alaska 99811-3300

Re: August 18, 2004 audit #02-40004-04

Dear Ms. Davidson:

We received a copy of your "CONFIDENTIAL" preliminary audit report "Statewide Single Audit for Fiscal Year Ending, June 30, 2003".

The department concurs with the recommendation for DNR:

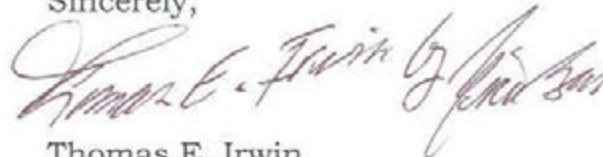
Recommendation No. 30

The Support Services Division (SSD) director should implement procedures to ensure personal services expenditures charges to federal program comply with federal cost principles.

We will ensure that semiannual certifications are completed and on file for employees working solely on a single federal program or cost objective.

We appreciate the opportunity to address this recommendation. Please let us know if you have any further questions or wish any additional comment.

Sincerely,



Thomas E. Irwin
Commissioner

cc: Richard LeFebvre, Deputy Commissioner
Nico Bus, Acting Director, Support Services
Bill Andrews, Chief of Financial Operations

STATE OF ALASKA

DEPARTMENT OF FISH AND GAME

OFFICE OF THE COMMISSIONER

FRANK H. MURKOWSKI, GOVERNOR

P.O. BOX 25528
JUNEAU, AK 99802-5528
PHONE: (907) 465-6141
FAX: (907) 465-2332

September 8, 2004

Ms. Pat Davidson, CPA
Legislative Auditor
Division of Legislative Audit
P.O. Box 113300
Juneau, AK 99811-3300

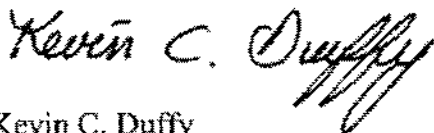
Dear Ms. Davidson:

Thank you for the opportunity to respond to the preliminary *Statewide Single Audit for Fiscal Year Ending June 30, 2003*.

We are pleased the department had no reportable conditions or associated recommendations to address in your most recent review of our financial and Federal compliance operations.

We sincerely appreciate the hard work and professionalism demonstrated by your auditors throughout the course of the audit and look forward to our next review.

Sincerely,



Kevin C. Duffy
Commissioner

cc: Tom Lawson, Director, Division of Administrative Services
Kevin Buckland, Finance Officer, Division of Administrative Services



State of Alaska
Department of
Public Safety

Frank H. Murkowski, Governor
William Tandeske, Commissioner

August 19, 2004

Pat Davidson
Legislative Auditor
Division of Legislative Audit
P.O. Box 113300
Juneau, AK 99811-3300

Dear Ms. Davidson:

RE: Statewide Single Audit for Fiscal Year Ending June 30, 2003, Recommendation 3

Thank you for the opportunity to comment on your recommendation. As I earlier indicated to your staff, the department agrees with the recommendation and will implement it as described below.

Recommendation No. 31

The executive director of the Council on Domestic Violence and Sexual Assault (CDVSA) should develop and implement procedures to ensure federal funds are distributed to subrecipients in compliance with federal requirements.

Effective with FY05 funding, CDVSA will prepare an assessment of all agencies that receive Family Violence Prevention and Services Program (FVPSP) funding and determine the ratio of FVPSP funds to total state and federal funds granted to the agency in the previous years. This information will be used when determining grant awards.

Sincerely,

William Tandeske
Commissioner

cc: Dan Spencer, Director, Administrative Services

410 Willoughby Ave., Ste 303
Juneau, AK 99801-1795
PHONE: (907) 465-5065
FAX: (907) 465-5070
<http://www.state.ak.us/dec/home.htm>

OFFICE OF THE COMMISSIONER

September 7, 2004

Pat Davidson
Legislative Auditor
Division of Legislative Audit
Legislative Budget and Audit Committee
Alaska State Legislature

Dear Ms. Davidson:

RE: Statewide Single Audit for Fiscal Year Ending, June 30, 2003, Department of
Environmental Conservation (DEC)

We have reviewed the findings and recommendations in the above referenced report, and appreciate this opportunity to respond. The report provides DEC with a good opportunity to review our current procedures and we believe the information in this letter will help to clarify a number of issues, and inform you about our intended actions. We have responded to the recommendations included in the report and offer our suggestions and solutions.

Recommendation No. 32

The Department of Environmental Conservation (DEC) Finance Officer and Village Safe Water (VSW) Program Manager should work with the State's cash manager to establish VSW disbursement procedures which maximize conservation of the State's general fund (GF).

This recommendation centers on the prescribed practice of advancing project funding to either the VSW accounting firm or the Alaska Native Tribal Health Consortium (ANTHC). We will review our policies and procedures and look at ways to improve our cash management practices regarding the advancement of funding for VSW projects.

While it is true that VSW procedures for advances were originally established over a decade ago, it is not accurate to say that communication technology has significantly reduced the handicap of construction activities and associated requests for project funding in rural Alaska. If anything, the handicap has grown larger because of the complexities entailed with managing multiple state and federal sources of project funding, which was not the case a decade ago.

Contrary to your recommendation, there is a great deal more required in making an advance than the transfer and receipt of funding, which admittedly requires little time. In particular, each request for a transfer of funds requires that the VSW Program Manager and Grant Manager each confirm that a number of grant requirements are being met. These grant requirements have been established

to ensure program compliance with the multiple federal funding sources, and to promote continued safe, sustainable operation of rural sanitation facilities. For example, the VSW Program Manager works closely with the Manager for the Department of Community and Economic Development's Rural Utility Business Advisor (RUBA) program in reviewing requests for most advances. The RUBA program provides information about Essential Capacity Indicators (ECIs) for every community that receives a VSW grant, and notifies VSW about concerns. Requests for funding advances may be denied if ECIs are not being adequately addressed by the grantee.

Because of the attention and time required to adequately review each request for a funding advance, and the continuing demands of rural construction management in Alaska, we do not agree with your recommendation to advance funds on a semimonthly basis. This is because of the increased risk associated with the advancement of funds for projects where sustainability is in question.

We acknowledge that in most cases there is no need to provide advances for an entire construction season, and that the VSW procedures need to be reviewed, and revised to reflect a consistent process entailing more frequent advances. It is our intent at this time to review this process in attempt to identify ways to that may reduce the period of time for which advances are now issued.

Recommendation No. 33

The DEC Finance Officer and the VSW Program Manager should revise the accounting procedures for VSW grants administered by the ANTHC to allow proper financial statement presentation in the State's Comprehensive Annual Financial Report.

The Department supports this recommendation and will work with ANTHC to develop a yearend report which reflects actual expenditures of VSW funding and actual balances remaining.

Recommendation No. 34

The DEC Finance Officer should implement procedures to ensure personal services expenditures charged to the EPA Infrastructure Grants comply with federal cost principles.

The Department supports this recommendation. Steps are being taken to ensure that those employees funded 100% by a federal grant will complete bi-annual certifications. Additionally, for those funded by multiply funding sources, actual hours worked on a particular project will be reflected on the employee timesheet.

Recommendation No. 35

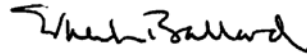
The VSW Program Manager should work with project engineers to strengthen internal controls over the VSW procurement process.

The Department supports this recommendation. The Division of Water has created a procurement specialist position to support the VSW program to provide the kind of support and guidance needed to strengthen both internal controls and provide training and oversight for project engineers and superintendents. We share your interest in achieving practices which are fully consistent with

procurement policies.

Thank you for providing this opportunity to comment on your findings and recommendations. If you have any questions or need additional information regarding the audit response, please contact Gary Zepp at (907) 465-5289.

Sincerely,

A handwritten signature in black ink, appearing to read "Ernesta Ballard". The signature is fluid and cursive, with a prominent initial "E".

Ernesta Ballard
Commissioner

Enclosure

cc: Mike Maher, Director, Division of Administrative Services/ADEC
Dan Easton, Director, Division of Water/ADEC

3132 CHANNEL DRIVE
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OFFICE OF THE COMMISSIONER

September 7, 2004

Pat Davidson, CPA, Legislative Auditor
Legislative Budget and Audit Committee
Division of Legislative Audit
P.O. Box 113300
Juneau, AK 99811-3300

Dear Ms. Davidson:

Thank you for allowing me to respond to the findings and recommendations pertaining to the Department of Transportation and Public Facilities contained in preliminary audit report Statewide Single Audit for the Fiscal Year Ending, June 30, 2003. The following are our comments:

Recommendation 36

The Department of Transportation and Public Facilities (DOT&PF), Division of Administrative Services (DAS) finance officer should improve the procedures to accurately report capital assets.

The Department of Transportation and Public Facilities (DOT&PF) concurs with this recommendation. This program is relatively new to the Department.

The Department initially reported infrastructure costs in FY 2002. During the FY 2002 audit areas of confusion in recording assets were identified. Because of the timing of that audit report, implementation of recommended training could not take place until FY2004. During FY 2004, training was provided to the employees who categorize the projects. Issues identified in the current audit have been clarified with the regional project control offices and will continue to be part of our training. In addition, the accountant responsible for infrastructure reporting completes two reviews of the structure to verify proper classifications. A review of projects is conducted in early spring to determine proper classification of Work in Progress. A second review is conducted of project scopes for closed projects to ensure they meet all the criteria for capitalization.

Sincerely,

Mike Barton
Commissioner

cc: Bob Janes, CPA, Internal Review, DOT&PF

Gordon Keith, Central Regional Director, DOT&PF
John MacKinnon, Deputy Commissioner of Highways & Public Facilities, DOT&PF
Andrew Niemiec, Northern Regional Director, DOT&PF
Gary Paxton, Southeast Regional Director, DOT&PF
Nancy Slagle, Director, Division of Administrative Services, DOT&PF



September 7, 2004

Pat Davidson, Legislative Auditor
Alaska State Legislature
Division of Legislative Audit
Juneau, AK 99811-330

Dear Pat Davidson,

Please find attached our response, concurrence, and status for the fiscal year 2003 audit findings. The attached summary scheduled will also be included in the FY04 Federal Single Audit reports. Please call if you need any further assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "Pat Ladner", with a long horizontal flourish extending to the right.

Pat Ladner
President & CEO

Encl:

**Alaska Aerospace Development Corporation
Summary Schedule for FY03 Audit Findings**

Finding 03-01

Condition Found: The Alaska Aerospace Development Corporation did not timely file Federal Grant reports for the Kodiak Launch Complex Grant.

Response to Condition: Concur with audit finding.

Status: Finding has been corrected in fiscal year 2004. AADC received approval from the National Guard for extended grant reporting due date.

Finding 03-02

Condition Found: The Alaska Aerospace Development Corporation reported incorrect expenditures on the Kodiak Launch Complex SF-272 grant reports.

Response to Condition: Concur with audit finding.

Status: Finding has been corrected in fiscal year 2004. The differences related to MIPR monies received and expended. These items were resolved during FY04 and corrected on the submitted grant reports.

Finding 03-03

Condition Found: The Alaska Aerospace Development Corporation incorrectly reported \$1,533,923 of expenditures on the Kodiak Launch Complex SF-272 grant reports.

Response to Condition: Concur with audit finding, but an explanation is warranted. It should be clarified that this is a reporting issue and not questioned costs. This finding stems from incorrect reporting indirect allocation and not from misappropriations of assets.

Status: Finding has been corrected in fiscal year 2004. The differences related to MIPR monies received and expended. These items were resolved during FY04 and corrected on the submitted grant reports.

September 15, 2004

Members of the Legislative Budget
and Audit Committee:

Agency responses to audit recommendations have been incorporated into this report twice. First, agency responses appear in Section II with the audit recommendations themselves, then again in Section V of this report. The agencies response for Alaska Housing Finance Corporation and the University of Alaska recommendations are from those agencies' separately issued single audit reports. Copies of those reports can be obtained directly from the Alaska Housing Finance Corporation and the University of Alaska.

We have also reviewed the responses submitted by various agencies to the recommendations made in this report. Generally the responses concur with the recommendations. There are, however, responses to ten of these recommendations which we believe warrant further comments.

Recommendation No. 1

Alaska's Office of Management and Budget (AOMB) should submit only those revised programs that meet criteria in AS 37.07.080(h) to the Legislative Budget and Audit Committee for approval.

Legislative Audit's Additional Comments

We have read the Office of the Governor's response to this recommendation and nothing contained in the response has provided sufficient information to persuade us to change this recommendation.

While communications between the Administration and the Legislature is critical, this communication does not alleviate the need for proper financial reporting or adherence to the various legal provisions of the appropriation process.

Recommendation No. 5

The TLS director should establish procedures to ensure that eligibility determinations for subgrantees are consistently applied.

Legislative Audit's Additional Comments

We have read DEED's response to this recommendation and nothing contained in the response has provided sufficient information to persuade us to remove or revise this recommendation.

Recommendation No. 8

The deputy commissioner should develop and implement procedures to ensure that timely management decisions are issued to subrecipients for all audit findings.

Legislative Audit's Additional Comments

We have read DEED's response to this recommendation and nothing contained in the response has provided sufficient information to persuade us to remove or revise this recommendation. However, we offer the following comments.

The Federal awarding agency, not Division of Legislative Audit (DLA), determines the allowability of questioned costs. It is DLA's responsibility to determine whether state agencies have fulfilled their subrecipient monitoring responsibilities.

It appears that DEED is taking steps to resolve this audit finding. DLA will follow up on actions taken by DEED to resolve this finding during the FY 04 Statewide Single Audit.

We reaffirm our finding and recommendation.

Recommendation No. 14

The DHSS assistant commissioner responsible for finance and management services should ensure staff provides accurate and reliable information for implementing the cost allocation plan and that the information is obtained in compliance with federal requirements.

Legislative Audit's Additional Comments

We have reviewed DHSS' response to this recommendation and offer the following comment. While the department did provide a corrective action for one of the findings in this recommendation, it did not address a corrective action plan for the other two findings. Specifically, the unaddressed corrective actions relate to the department's methodology for allocating OCS' (previously DFYS) administrative costs and department-wide information service costs.

Recommendation No. 15

DHSS' finance officer should ensure that transfers of expenditures between appropriations are performed in accordance with state statutes.

Legislative Audit's Additional Comments

We have reviewed DHSS' response to this recommendation and nothing contained in the response provided sufficient information to persuade us to remove or revise this recommendation.

We disagree with DHSS that clarifying the RSA description would address this finding. If the department is going to charge the behavioral health appropriation for the state match portion of behavioral health related MMIS transactions, the department needs to specifically identify the MMIS transactions. Without specifically identifying the transactions, DHSS has inappropriately used the RSA to transfer expenditure authority between appropriations.

Recommendation No. 16

The DHSS finance officer should take measures to resolve revenue shortfall issues.

Legislative Audit's Additional Comments

We have reviewed DHSS' response and nothing contained in the response provided sufficient information to persuade us to remove this recommendation. We continue to believe transferring revenues between appropriations, to resolve shortfalls, is not appropriate.

Recommendation No. 25

DHSS' Division of Health Care Services director and the Department of Education and Early Development's (DEED) Division of Teaching and Learning Support director should work together to improve procedures for claiming reimbursement of Medicaid school-based administrative costs to ensure costs are claimed in accordance with federal law.

Legislative Audit's Additional Comments

We have read DEED's response to this recommendation and offer the following comments. We agree with DEED that the responsibility for this finding rests with the Department of Health and Social Services. We asked that DEED respond to this recommendation because, while they are not responsible for the finding, they will be part of the corrective action.

Recommendation No. 26

The Division of Health Care Services (DHCS) director should ensure that disproportionate share hospital (DSH) payments are made in accordance with federal guidelines.

Legislative Audit's Additional Comments

We have reviewed DHSS' response to this recommendation and nothing contained in the response provided sufficient information to persuade us to reconsider this recommendation.

Recommendation No. 29

The Division of Administrative Services (DAS) director should eliminate the practice of transferring revenues earned in one fiscal year to the next fiscal year's appropriation.

Legislative Audit's Additional Comments

We have read DLWD's response to this recommendation and nothing contained in the response has provided sufficient information to persuade us to remove or revise this recommendation. However we offer the following comments.

In a July 2004 meeting sponsored by the National Association of State Auditors, Comptrollers and Treasurer's Committee on Accounting, Reporting and Auditing, generally accepted accounting principles related to revenue recognition of indirect costs was discussed. Participants of this meeting included members and staff of the governmental accounting standards board and representatives from other states familiar with governmental accounting practices. The consensus of this meeting was that for a fixed rate, as used by DLWD, indirect costs are recognized as earned when they are collected. Therefore, we reaffirm our finding and recommendation.

However, we agree with the department that if the legislature, through the appropriation process, allows DLWD to recognize revenues received in prior years to satisfy the revenue requirements of current appropriations then this matter becomes "*a non-issue in the future*".

Recommendation No. 32

The Department of Environmental Conservation (DEC) finance officer and Village Safe Water (VSW) program manager should work with the State's cash manager to establish VSW disbursement procedures which maximize conservation of the State's general fund (GF).

Legislative Audit's Additional Comments

We have read DEC's response to this recommendation and nothing contained in the response has provided sufficient information to persuade us to remove or revise this recommendation.

DEC acknowledges that some improvements can be made on the cash management aspect of the Village Safe Water program. We encourage DEC to minimize the dollar amount and duration for any cash advances while maintaining the necessary internal controls for both cash advances and expenditures.

In summary, we reaffirm the findings and recommendations presented in this report.

Pat Davidson, CPA
Legislative Auditor