

Report Highlights

Why DLA Performed This Audit

The audit was requested to examine and report on the corporation's appropriations, spending, and available balances. Additionally, auditors were asked to determine whether appropriated funds were spent in compliance with legislative restrictions and whether significant spending decisions were approved by the board of directors.

What DLA Recommends

1. The corporation's board should include an Alaska veterans' preference in its procurement procedures.
2. The corporation's president should create procedures to ensure contracts are approved by, or communicated to, the board in accordance with board bylaws.
3. The corporation's board should formally approve the operating budget annually.

A Special Review of the Department of Commerce, Community, and Economic Development, Alaska Gasline Development Corporation Select Financial Issues

July 31, 2018

Audit Control Number 08-30088-19

REPORT CONCLUSIONS

The audit addresses the Alaska Gasline Development Corporation's (corporation) funding and spending in terms of its two gas development projects: the integrated interstate gas infrastructure project (AK LNG) and the small diameter in-state pipeline project (ASAP). Since establishment in May 2010, the legislature appropriated to the corporation a net total of \$479.8 million for the two projects which earned an additional \$5.7 million in interest. From these revenues, the corporation expended \$433.3 million and, as of July 24, 2018, had an estimated available balance of \$52.2 million.

The corporation's statutes and appropriation bills impose two main conditions on funding: (1) appropriations should be spent to carry out the corporation's purposes, powers, and duties, and (2) funding for the two projects should not be comingled. The audit found that the corporation's spending generally complied with these restrictions, with one exception. The audit identified \$150,000 of ASAP costs that were incorrectly coded to the AK LNG fund. This error was corrected once identified by auditors. The audit also found the corporation's procurement procedures lacked an Alaska veterans' preference. (Recommendation 1)

The audit evaluated board approval of spending decisions in three operational areas: contracts, budgets, and hiring decisions. Prior to April 2016, there was no requirement for the board to approve contracts. Beginning in April 2016 large dollar contracts should have been either approved by or communicated to the board. The audit found no evidence the board approved or was specifically notified of the

large dollar contracts, including those of embedded contractors and consultants. (Recommendation 2)

In accordance with corporation bylaws and procedures, the board was required to approve operating and capital budgets. The audit found two operating and several capital budgets were not properly approved. The corporation had addressed the deficiencies associated with capital budgets prior to the audit, but deficiencies related to operating budget approval were not corrected. (Recommendation 3)

Corporation bylaws only require the board approve the hiring of the corporation's president. The audit found the board approved hiring decisions in accordance with bylaws.

ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



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October 4, 2018

Members of the Legislative Budget
and Audit Committee:

In accordance with the provisions of Title 24, we have reviewed the activities of the Alaska Gasline Development Corporation and the attached report is submitted for your review.

DEPARTMENT OF COMMERCE, COMMUNITY, AND
ECONOMIC DEVELOPMENT
ALASKA GASLINE DEVELOPMENT CORPORATION
SELECT FINANCIAL ISSUES

July 31, 2018

Audit Control Number
08-30088-19

The audit examines and reports on the corporation's appropriations, spending, and available balance. Additionally, the audit evaluates whether appropriated funds were spent in compliance with legislative restrictions and whether significant spending decisions were approved by the board of directors.

The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Fieldwork procedures utilized in the course of developing the findings and recommendations presented in this report are discussed in the Objectives, Scope, and Methodology.

A handwritten signature in blue ink, appearing to read "Kris Curtis".

Kris Curtis, CPA, CISA
Legislative Auditor

ABBREVIATIONS

AAC	Alaska Administrative Code
ACN	Audit Control Number
AFE	Authorization for Expenditure
AGIA	Alaska Gasline Inducement Act
AHFC	Alaska Housing Finance Corporation
AHCC	Alaska Housing Capital Corporation
AK LNG	Alaska Liquefied Natural Gas
ANGDA	Alaska Natural Gas Development Authority
AS	Alaska Statute
ASAP	Alaska Stand Alone Pipeline
BLM	Bureau of Land Management
CISA	Certified Information Systems Auditor
corporation	Alaska Gasline Development Corporation
CPA	Certified Public Accountant
DCCED	Department of Commerce, Community, and Economic Development
DLA	Division of Legislative Audit
EIS	Environmental Impact Statement
FEED	Front End Engineering Design
FERC	Federal Energy Regulatory Commission
FY	Fiscal Year
GAO	Government Accountability Office
HB	House Bill
LNG	Liquefied Natural Gas
MSA	Master Service Agreement
SB	Senate Bill
SEIS	Supplemental Environmental Impact Statement
SGDA	Stranded Gas Development Act
TCF	Trillion Cubic Feet
UGF	Unrestricted General Fund

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ORGANIZATION AND FUNCTION

Alaska Gasline Development Corporation

The Alaska Gasline Development Corporation (corporation) is a public corporation and government instrumentality located for administrative purposes in the Department of Commerce, Community, and Economic Development, but having a legal existence independent of and separate from the State. The self-defined mission of the corporation is to “maximize the benefit of Alaska’s vast North Slope natural gas resource through the development of infrastructure necessary to move the gas into local and international markets.” The corporation’s statutory purpose is shown in Exhibit 2 (next page).

Exhibit 1

Alaska Gasline Development Corporation Board Members as of July 31, 2018

Dave Cruz, Chairman
Public Member

Hugh Short, Vice Chairman
Public Member

Joey Merrick, Secretary-Treasurer
Public Member

David Wight
Public Member

Warren Christian
Public Member

Heidi Drygas
*Department of Labor and Workforce
Development Commissioner*

Marc Luiken
*Department of Transportation and Public
Facilities Commissioner*

Source: Office of the Governor, Boards and Commissions website.

As discussed in AS 31.25.020 and AS 31.25.030, the corporation is governed by a seven-member board of directors — five public members and two principal department heads of the State of Alaska (see Exhibit 1). Board members are appointed by the governor and confirmed by the legislature. Public members serve staggered five-year terms and are selected for their expertise and experience in disciplines critical to the corporation’s purpose including finance, pipeline construction and operations, gas marketing, and large project construction management. The public members receive \$400 compensation for each day spent on official business of the corporation. The board must meet at least once every three months.

The board appoints and sets the compensation for the president, who may not be a member of the board and who serves at the board’s pleasure. The president is the principal executive officer

Exhibit 2

Alaska Gasline Development Corporation Purpose per AS 31.25.005

The corporation shall, for the benefit of the state, to the fullest extent possible,

- 1) develop and have primary responsibility for developing natural gas pipelines, an Alaska liquefied natural gas project, and other transportation mechanisms to deliver natural gas in-state for the maximum benefit of the people of the state;
- 2) when developing natural gas pipelines, an Alaska liquefied natural gas project, and other transportation mechanisms to deliver natural gas in-state, provide economic benefits in the state and revenue to the state;
- 3) assist the Department of Natural Resources and the Department of Revenue to maximize the value of the state's royalty natural gas, natural gas delivered to the state as payment of tax, and other natural gas received by the state;
- 4) advance an in-state natural gas pipeline as described in the July 1, 2011, project plan prepared under former AS 38.34.040 by the corporation while a subsidiary of the Alaska Housing Finance Corporation, with modifications determined by the corporation to be appropriate to develop, finance, construct, and operate an in-state natural gas pipeline in a safe, prudent, economical, and efficient manner, for the purpose of making natural gas, including propane and other hydrocarbons associated with natural gas other than oil, available to Fairbanks, the Southcentral region of the state, and other communities in the state at the lowest rates possible;
- 5) advance an Alaska liquefied natural gas project by developing infrastructure and providing related services, including services related to transportation, liquefaction, a marine terminal, marketing, and commercial support; if the corporation provides a service under this paragraph to the state, a public corporation or instrumentality of the state, a political subdivision of the state, or another entity of the state, the corporation may not charge a fee for the service in an amount greater than the amount necessary to reimburse the corporation for the cost of the service;
- 6) endeavor to develop natural gas pipelines and other transportation mechanisms to deliver natural gas, including propane and other hydrocarbons associated with natural gas other than oil, to public utility and industrial customers in areas of the state to which the natural gas, including propane and other hydrocarbons associated with natural gas other than oil, may be delivered at commercially reasonable rates; and
- 7) endeavor to develop natural gas pipelines and other transportation mechanisms that offer commercially reasonable rates for shippers and access for shippers who produce natural gas, including propane and other hydrocarbons associated with natural gas other than oil, in the state.

of the corporation, and, subject to the direction of the board, supervises and controls the business and affairs of the corporation.

The president hires corporation employees and engages advisors and consultants. The corporation relies on both employees and embedded contractors to perform daily operations. Embedded contractors hired on a temporary contract are personnel that work in the corporation's office and use the corporation's equipment. Total personal services and embedded contractor expenditures for FY 15 through FY 18 are shown in Exhibit 3.

Exhibit 3

Corporation Employee Personal Services and Embedded Contractor Expenditures FY 15 through FY 18				
	FY 15	FY 16	FY 17	FY 18
Employee Personal Services	\$5,467,665	\$6,346,374	\$8,320,509	\$5,050,235
Embedded Contractors	<u>10,722,678</u>	<u>6,213,678</u>	<u>7,002,394</u>	<u>7,028,932</u>
Total	\$16,190,343	\$12,560,052	\$15,322,903	\$12,079,167

Source: Corporation's financial records.

The corporation's FY 19 operating budget totaled \$10.4 million and included one non-permanent position and 25 permanent positions.

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BACKGROUND INFORMATION

Liquefied Natural Gas (LNG) Development Process

No two LNG projects are the same, as the commercial and technical aspects vary from project to project and from country to country. However, according to the U.S. Department of Energy,¹ there are general developmental phases that an LNG project follows. These phases are described below:

- *Discovery* of a gas field results in a preliminary reserve estimate to determine if reserves are sufficient to support an LNG project.
- *Screening and evaluation* results in an initial description of a potential LNG project. Project design considerations include potential LNG plant sites, the size of the LNG liquefaction and purification facilities and their initial number, as well as possible pipeline routes to the potential plant sites and pipeline sizing. Initial cost estimates are made based on benchmark cost data. LNG market opportunities are assessed and LNG price forecasts are secured. A range of economic scenarios are developed to help optimize and assess attractiveness of the potential project and determine whether the potential project merits proceeding.
- *Pre-Front End Engineering Design or Pre-FEED* moves from selecting concepts toward more detailed engineering resulting in preliminary designs for the intended project and a better estimation of the project costs. During this phase, a developer secures state and federal government approval for the project, develops a business and financing plan, assesses potential commercial viability, and secures permits and land-use agreements.
- *Front End Engineering Design or FEED* confirms the commercial viability, substantially refines the project design, and produces the detailed information necessary to prepare bidding documents for selection of an engineering, procurement, and construction contractor. The financing is secured; stakeholder and commercial agreements are signed. Based on the available information, the final investment decision is made.

¹U.S. Department of Energy. *Understanding Natural Gas and LNG Options. Global Edition.* (September 2017).

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- *Engineering, Procurement, and Construction* involves the production of final engineering designs and drawings, arrangement of materials and equipment procurement, construction of the pipeline, LNG plant and export facilities, and preparation for operations.

Gas Permitting Process

According to a Government Accountability Office (GAO) report,² both the interstate and intrastate pipeline permitting processes are complex in that the processes can involve multiple federal, state, and local agencies, as well as public interest groups and citizens. The interstate process is coordinated by the Federal Energy Regulatory Commission (FERC) which is charged with evaluating whether a pipeline route should be approved. FERC coordinates with a variety of federal, state, and local agencies responsible for protecting natural, historic, or cultural resources in order to complete an environmental analysis of proposed interstate natural gas pipelines. For projects that have a significant effect on the environment, the analysis is called an environmental impact statement (EIS).

To obtain federal approval, an interstate gasline developer submits an application for a certificate of public convenience and necessity to FERC. FERC, along with any cooperating agencies, prepares a draft EIS. While FERC may issue the certificate of public convenience and necessity before all federal permits, certificates, or authorizations are complete, it will not grant the authority to construct a pipeline without these federal authorizations. Pipeline companies must coordinate with the relevant agencies to ensure that these permits, certifications, and authorizations are completed.

If an intrastate natural gas pipeline construction project does not cross a state border or result in an LNG export, then the responsibility for approval of pipeline routes falls to the individual states, and FERC does not play a role in the permitting process. The permitting process for these pipelines varies from state to state and may involve

²GAO. *Pipeline Permitting. Interstate and Intrastate Natural Gas Permitting Processes Include Multiple Steps, and Time Frames Vary.* GAO-13-221 (February 2013).

many federal, state, and local stakeholders. Intrastate pipelines that have a significant effect on the environment also require an EIS.

Alaska North Slope Gas Resources

The Alaska North Slope region includes the area shown on the map in Exhibit 4. According to U.S. Department of Energy, the amount of proven Alaska North Slope gas reserves is 35 trillion cubic feet (TCF). The additional gas reserves through exploration are estimated to be approximately 135 TCF, or about four times the current known gas reserves. However, this estimate does not take into account reserves growth within existing fields nor the unconventional gas potential of

Exhibit 4

Alaska North Slope Region



Source: Natural Energy Technology Laboratory, U.S. Department of Energy.

Historical State of Alaska North Slope Natural Gas Development Initiatives

coal bed natural gas or gas hydrates.³ The corporation's management estimates there is potentially over 200 TCF in "yet to find" natural gas resources on the Alaska North Slope.

On March 12, 1968, a drilling rig in Prudhoe Bay struck the Sadlerochit formation, which was estimated to total over 20 TCF of saleable natural gas. Since 1968, multiple public and private entities have initiated efforts to bring Alaska North Slope natural gas to a commercial market. Proposed projects have ranged from using pipelines to tankers, trucks, and airplanes.

During the 1970s, U.S. and Canadian producers worked on three competing interstate projects to transport gas to the continental U.S. The State of Alaska conducted studies and expressed support for specific projects, but was not directly involved. In the 1980s and 1990s private pipeline efforts changed focus to international export projects. However, none of the proposed projects were taken to construction.

To spur the development of untapped reserves of Alaska North Slope gas, the State legislature established in 1998, and re-established in 2003, the Stranded Gas Development Act (SGDA). This act was created to reduce the front-end financial risk for a gas pipeline developer by allowing the State the flexibility to set up a payment contract with the company rather than using the existing tax and royalty schedules. It also allowed the State to take royalty in kind or in value. In January 2004, three North Slope producers (ExxonMobil, BP, and ConocoPhillips) jointly submitted a formal SGDA project application. By May 2006, negotiations between the producers and the State resulted in a publicly released draft contract. The Department of Revenue's review of the draft contract required amendments to the SGDA. Concerns regarding the extent of State concessions were raised and the bill to amend the SGDA did not pass the legislature, ending the SGDA initiative.

³U.S. Department of Energy, National Energy Technology Laboratory. *Alaska North Slope Oil and Gas A Promising Future or an Area in Decline?* (2007).

In 2002, a public initiative created the Alaska Natural Gas Development Authority (ANGDA), a public corporation with the mission to acquire and condition North Slope natural gas, and construct a pipeline to transport the gas from the North Slope to Prince William Sound. ANGDA proposed a smaller capacity lateral (spur) pipeline to link from whatever major North Slope pipeline was selected to Southcentral Alaska (Anchorage and other locations). The project was dependent on the success of a larger pipeline project. In 2010, ANGDA was included in the Joint In-State Gasline Development Team created within the Alaska Housing Finance Corporation (AHFC) to assist with the development of the in-state pipeline project. In 2013, the bill⁴ that separated the Alaska Gasline Development Corporation from the AHFC also repealed ANGDA's enabling statutes.

Concurrent with ANGDA's activities, the State established the Alaska Gasline Inducement Act (AGIA) in 2007, which sought to encourage private industry to undertake major natural gas pipeline projects by providing State reimbursement of up to \$500 million in project development costs. Five entities submitted applications for AGIA.⁵ In 2008 the State completed its review of the applications and determined that only TransCanada's proposal to transport natural gas to the continental U.S. via a connection to Canadian pipelines met AGIA requirements. In August 2008, the legislature passed HB 3001 to approve the issuance of an AGIA license for the TransCanada proposal. TransCanada's AGIA license required a complete application to be filed with FERC by October 2012. In May 2012 the State granted TransCanada a two-year deadline extension to give more time to explore the best market for Alaska gas. In 2014, the State and TransCanada terminated the AGIA agreement due to abundant natural gas production in the continental U.S. and shifted focus to an Alaska LNG export project.

⁴House Bill 4 (Chapter 11 SLA 13).

⁵Applications were submitted by TransCanada Alaska Company, the Little Susitna Construction Company, the Alaska Gasline Port Authority, ANGDA, and AEnergy LLC.

Alaska Gasline Development Corporation Projects

AGIA did not preclude other entities or the State from pursuing other pipeline projects. For example, ENSTAR Natural Gas Company worked on a small-diameter “bullet” pipeline project from the North Slope to Cook Inlet. In response to declining Cook Inlet gas supply and high interior Alaska energy costs, the legislature initiated a publicly financed effort in 2009 to explore the feasibility of developing an in-state pipeline effectively taking over the ENSTAR initiative. The in-state gasline project coordinator position within Office of the Governor was created to oversee the development of the Stand Alone Gas Pipeline Project (also referred to as Bullet Line).

Established in 2010, the Alaska Gasline Development Corporation (corporation) is the latest chapter in Alaska’s history of North Slope natural gas development. A detailed description of the corporation is provided in the Organization and Function section of this report. At the time of this audit, the corporation was working on two projects: the Alaska Stand Alone Pipeline project (ASAP) and Alaska Liquefied Natural Gas (AK LNG) project. The AK LNG project is the corporation’s main priority; however, management continues maintaining the readiness of ASAP as the State’s backup project.⁶ These projects are described below.

- *ASAP (Alaska Stand Alone Pipeline)*

ASAP, formerly referred to as the Stand Alone Gas Pipeline Project or Bullet Line, is Alaska’s intrastate small diameter natural gas pipeline project. The proposed project is comprised of a natural gas conditioning facility capable of producing an annual average of 500 million standard cubic feet per day of utility-grade natural gas at peak capacity and a 1,480 pound per square inch natural gas pipeline. The pipeline would consist of a 733-mile-long, 36-inch-diameter natural gas transmission mainline extending from the gas conditioning facility near Prudhoe Bay south to a connection

⁶Corporation’s press release dated September 28, 2015.

with the existing ENSTAR pipeline system in the Matanuska-Susitna Borough. A 30-mile-long, 12-inch-diameter lateral pipeline will connect the mainline to Fairbanks. The total installed cost is estimated to be \$10 billion.⁷

The proposed ASAP route generally parallels the Trans-Alaska Pipeline System and Dalton Highway corridor to Livengood, northwest of Fairbanks. At Livengood, the mainline route would continue south, to the west of Fairbanks and Nenana. Under the corporation's current proposal, the pipeline would bypass Denali National Park and Preserve to the east and then generally parallel the Parks Highway corridor to Willow, continuing south to its connection into ENSTAR's distribution system at Milepost 39 of the Beluga Pipeline southwest of Big Lake.

In 2012, the U.S. Army Corps of Engineers issued ASAP's final EIS. However, due to changes in the gas composition, width and length of the gas line, and other factors, the corporation and the U.S. Army Corps of Engineers began work on a Supplemental EIS (SEIS) in 2014.

The U.S. Army Corps of Engineers, in cooperation with other federal entities prepared the draft SEIS in early 2017 and presented it for public review and comment. In June 2018, the Notice of Availability for the final SEIS was published in the Federal Register with the public comment period. As of the end of July 2018, the Record of Decision for the project had not been issued. According to corporation management, if a final SEIS is issued in 2018, the construction of the pipeline could be initiated as early as 2019 with delivery of gas by 2023.

⁷Based on a cost estimate developed by the corporation in December 2014.

Exhibit 5

AK LNG Project Route and Components



Source: Corporation's website.

- *AK LNG (Alaska Liquefied Natural Gas Pipeline)*

As shown in Exhibit 5, the AK LNG project is an integrated interstate gas infrastructure project with three major components: a gas treatment plant located in Prudhoe Bay, an 807-mile pipeline to Southcentral Alaska, and a natural gas liquefaction plant in Nikiski, Alaska. The AK LNG project is expected to produce an average 3.5 billion cubic feet of gas per day.⁸ If built, the pipeline will provide natural gas to Alaska communities through off-take points along the route.

The AK LNG project started in March 2012 as a joint effort by ExxonMobil, TransCanada, BP, and ConocoPhillips. In January 2014 the State joined the venture by entering into an agreement with the existing participants. In July 2014, the corporation signed a Joint Venture Agreement to conduct the AK LNG Pre-FEED work. In accordance with this agreement, the State owned 25 percent of the project and designated TransCanada to hold and manage the State's interest in the midstream activities (gas treatment plant, gas pipeline, and transmission lines) and the corporation to hold and manage the downstream activities (LNG plant).

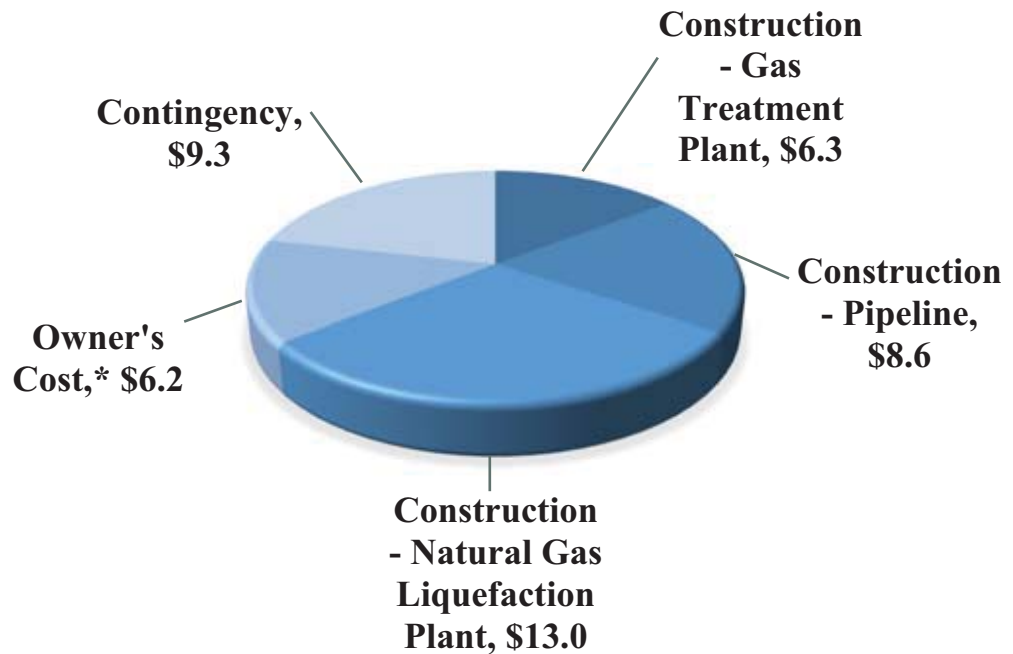
According to the corporation's management, the split ownership presented structural governance issues that the State found difficult to resolve. The issues included the determination of how the State's interest would be presented in integrated votes – i.e. issues related to the entire project. To rectify the split ownership issue, in May 2016 the State reimbursed TransCanada for incurred project expenses in the amount of \$64.4 million and acquired the portions of the project held and managed by TransCanada.

As a part of the Pre-FEED work, ExxonMobil, BP, ConocoPhillips, and the corporation requested an independent contractor, Wood Mackenzie, produce an AK LNG competitiveness study. The study published in August 2016 concluded that “the competitiveness of the Alaska LNG project ranks poorly when compared to competing LNG projects that could supply North Asia, specifically, Japan,

⁸2017 corporation annual report.

Exhibit 6

AK LNG Project Estimated Costs (in Billions)



Source: March 8, 2018, corporation board meeting packet.

*Owner's cost is comprised of costs associated with a project management team, insurance, operating organization and training, and start-up.

South Korea, China and Taiwan.” The study provided options to restructure the project to make it more competitive, including the increase of the State’s project ownership to take advantage of its tax exempt status.⁹ In December 2016, ExxonMobil, BP, and ConocoPhillips withdrew from the project, the Joint Venture Agreement was terminated, and the corporation assumed sole ownership and leadership of the AK LNG project.

The AK LNG project’s Pre-FEED phase was completed in 2016.¹⁰ Corporation management estimated the cost to complete the AK LNG project at \$43.4 billion. The cost components are outlined in Exhibit 6.

⁹Mackenzie. 2016. *AK LNG Competitiveness Study*.

¹⁰2017 corporation annual report.

In April 2017, the corporation submitted to FERC a formal application for the authorization to site, construct, and operate the AK LNG project. In March 2018, FERC issued the Notice of Schedule for Environmental Review of the Alaska LNG Project. Based on the schedule, the final EIS should be issued in December 2019 and the federal authorization decision deadline is March 2020.

The corporation signed several agreements related to LNG distribution, financing, and supply. In the summer of 2017, the corporation began establishing agreements with potential LNG buyers in the Asia-Pacific region. In March 2018, the corporation engaged the Bank of China and Goldman Sachs to assist with raising equity and debt financing for the project. In May 2018, an original binding supplier agreement with BP was signed.

Authorizing Legislation for Corporation Projects

The corporation's purpose and objectives are defined by three main legislative bills. Each of these bills is described below; the projects affected by each bill are specified in brackets.

- *HB 369 (ASAP)*

On April 26, 2010, HB 369 (Chapter 7 SLA 10) was introduced in an effort to expedite the process for an in-state only natural gas pipeline. Before HB 369, two separate State entities were working on in-state gasline projects (ANGDA and the in-state gasline project coordinator). To coordinate the efforts and leverage the best ideas, the bill created a Joint In-State Gasline Development Team within AHFC consisting of five members representing different State entities.¹¹ The AHFC president was responsible for overseeing all aspects of the project and chairing the development team.

HB 369 required the Joint In-State Gasline Development Team to produce and deliver to the legislature by July 1, 2011, a project plan,

¹¹The Joint In-State Gasline Development Team was comprised of the Department of Transportation and Public Facilities commissioner, the Alaska Railroad Corporation board chair, the ANGDA chief executive officer, the in-state gasline project coordinator, and the AHFC president.

which specified and documented how an in-state natural gas pipeline could be designed, financed, constructed, and made operational by December 31, 2015. The bill included provisions that any project-related assets acquired or developed be available for transfer or sale to the entity best able to complete the project.

The team assumed the executive authority over and managerial responsibility for all project-related activities, including work previously completed, work in process, and work for which money had been encumbered. The Joint In-State Gasline Development Team was allowed to take all action necessary to complete its responsibilities.

The bill also allowed AHFC to create a subsidiary corporation for the purpose of planning, constructing, and financing in-state natural gas pipeline projects. This subsidiary became the Alaska Gasline Development Corporation and was exempted from the State Procurement Code (AS 36.30).

The initial work by the Joint In-State Gasline Development Team culminated in the ASAP plan, which was originally delivered to the legislature in July 2011, and then refined and re-proposed in January 2013.

- *HB 4 (ASAP)*

On May 22, 2013, the legislature passed HB 4 (Chapter 11 SLA 13) which made significant changes to the corporation's structure, governance, and level of funding available for the in-state pipeline. The legislature separated the corporation from AHFC and made it an independent public corporation of the State and government instrumentality located for administrative purposes in the Department of Commerce, Community, and Economic Development, but having a legal existence independent of and separate from the State. HB 4 also established the corporation's governing structure.

The corporation's purposes were defined to include advancing and developing an in-state natural gas pipeline and other transportation

mechanisms to deliver natural gas to the public. Additionally, AS 31.25.080 granted the corporation numerous powers including “all acts and things necessary, convenient, or desirable to carry out the powers expressly granted or necessarily implied in this chapter.”

In conjunction with the requirement to develop an in-state natural gas pipeline, HB 4 prohibited the corporation from developing or constructing a natural gas pipeline competing with a pipeline project under AGIA and required the corporation to coordinate with and accommodate the developers of a large-diameter natural gas pipeline.

HB 4 exempted the corporation from the State Procurement Code; however, the board was required to adopt and publish procedures to govern procurement by the corporation. The procurement procedures were to include an Alaska veterans’ preference consistent with AS 36.30.175 (section of the State Procurement Code).

Additionally, HB 4 created an in-state natural gas pipeline fund (ASAP fund) consisting of appropriated money. The bill stated that interest and other income received on money in the fund may be appropriated to the fund. The corporation was allowed to use the ASAP fund money without further appropriation for the cost of managing the fund and for the planning, financing, development, acquisition, maintenance, construction, and operation of an in-state natural gas pipeline. However, the operating budget of the corporation was made subject to the Executive Budget Act (AS 37.07).

- *SB 138 (AK LNG)*

The next significant change in the corporation’s purpose occurred on May 8, 2014, with the passage of SB 138 (Chapter 14 SLA 14), which expanded the corporation’s statutory purpose to include advancing an AK LNG project. To address this new purpose, the powers of the corporation were increased to include acquiring an ownership or participation interest in an AK LNG project, natural gas treatment facilities, natural gas pipeline facilities, liquefaction facilities, marine terminal facilities, or an entity or joint venture that has an ownership interest in or is engaged in the planning, financing, acquisition,

maintenance, construction, and operation of an AK LNG project. Additionally, the corporation was allowed to enter into contracts relating to an AK LNG project.

SB 138 created an AK LNG project fund to finance the cost of an AK LNG project. The bill allowed interest and other income received on money in the fund to remain in the fund. The corporation was allowed to use AK LNG fund money without further appropriation for managing the fund, for purposes related to an AK LNG project, and for transferring net revenue received by the corporation related to equity interests, contracts, and other activities to the appropriate fund as determined by the Department of Revenue commissioner in consultation with the Department of Natural Resources commissioner.

REPORT CONCLUSIONS

The audit examines and reports on the Alaska Gasline Development Corporation's (corporation) appropriations, spending, and available balance. Additionally, the audit evaluates whether appropriated funds were spent in compliance with legislative restrictions and whether significant spending decisions were approved by the board of directors.

Audit conclusions address the corporation's funding and spending in terms of its two gas development projects: the integrated interstate gas infrastructure (AK LNG) project and the small diameter in-state pipeline project (ASAP). Since the corporation was established in May 2010, the legislature appropriated to the corporation a net total of \$479.8 million for the two projects which earned an additional \$5.7 million in interest. From these revenues, the corporation expended \$433.3 million and, as of July 24, 2018, had an estimated available balance of \$52.2 million.

The corporation's statutes and appropriation bills impose two main conditions on the funding: (1) appropriations should be spent to carry out the corporation's purposes, powers, and duties, and (2) funding for the two projects should not be comingled. The audit found that the corporation's spending generally complied with these restrictions, with one exception. The audit identified \$150,000 of ASAP costs that were incorrectly coded to the AK LNG fund. This error was corrected once identified by auditors. The audit also found the corporation's procurement procedures lacked an Alaska veterans' preference. (Recommendation 1)

The audit evaluated board approvals of spending decisions in three operational areas: contracts, budgets, and hiring decisions. Prior to April 2016, there was no requirement for the board to approve contracts. Beginning in April 2016 large dollar contracts should have been either approved by or communicated to the board. The audit found no evidence the board approved or was specifically notified of the large dollar contracts, including those of embedded contractors and consultants. (Recommendation 2)

From May 2010 through July 2018, the corporation was appropriated a net \$479.8 million: \$225 million for ASAP and \$254.8 million for AK LNG.

In accordance with corporation bylaws and procedures, the board was required to approve operating and capital budgets. The audit found two operating and several capital budgets were not properly approved. The corporation had addressed the deficiencies associated with capital budgets prior to the audit, but deficiencies related to operating budget approval were not corrected. (Recommendation 3)

Corporation bylaws only require the board approve the hiring of the corporation's president. The audit found the board approved hiring decisions in accordance with bylaws.

Since May 2010 the corporation was appropriated a total of \$637.9 million: \$257.7 million from the unrestricted general fund receipts, \$376.0 million from Alaska Housing Capital Corporation (AHCC) receipts, and \$4.2 million from statutory designated program receipts. Additionally, the legislature reappropriated and transferred corporation funding. Specifically, in 2014, \$1.1 million was appropriated from the ASAP fund to three State departments; in 2015, \$157.0 million was reappropriated from the ASAP fund to the public education fund; in 2016, \$26.0 million was transferred from the ASAP fund to the AK LNG fund; and, in 2018, an estimated \$12.0 million was authorized for transfer from the ASAP fund to the AK LNG fund. As shown in Exhibit 7, as of July 24, 2018 the corporation received a net \$479.8 million in funding, with an estimated net \$225.0 million being appropriated for ASAP and \$254.8 million for the AK LNG project.

Exhibit 7

Corporation Appropriations FY 11 through FY 19					
Bill	AR Type	Bill Effective Date	Project ASAP	Project AK LNG	Funding Source and Comments
HB 300	Operating	7/1/2010	\$15,640,600	\$-	Unrestricted general fund (UGF) receipts were appropriated to Alaska Housing Finance Corporation for one year of operations.
SB 46	Capital	5/17/2011	7,200,000	-	Unrestricted general fund receipts were appropriated for the continued legislative project plan preparation.
SB 46	Capital	7/1/2011	21,000,000	-	Unrestricted general fund receipts were appropriated for the second year of operations.
SB 160	Capital	7/1/2012	21,000,000	-	AHCC receipts were appropriated to cover the third year of operations.
HB 65	Operating Fund Capitalization	7/1/2013	330,000,000	-	AHCC receipts were appropriated to capitalize the ASAP fund.
HB 65	Operating	7/1/2013	(1,104,900)	-	ASAP funds were appropriated to three State departments; the appropriation amount reduced the corporation's available balance.
SB 18	Operating Fund Capitalization	7/1/2013	25,000,000	-	AHCC receipts were appropriated to capitalize the ASAP fund.
SB 119	Operating Fund Capitalization	4/20/2014	-	69,834,500	Unrestricted general fund receipts were appropriated to capitalize the AK LNG fund.
HB 2001	Operating Fund Transfer	7/1/2015	(157,000,000)	-	ASAP funds were reappropriated to Public Education Fund.
HB 72	Operating	7/1/2015	(8,986,700)	-	ASAP funds were appropriated to Department of Natural Resources for North Slope Gas Commercialization.
SB 3001	Operating Fund Capitalization	11/6/2015	1,300,000	2,900,000	Statutory designated program receipts received as reimbursement for costs of field work paid from the AK LNG and ASAP funds were appropriated to those funds.
SB 3001	Operating Fund Capitalization	11/6/2015	-	64,371,417	Unrestricted general fund receipts in an estimated amount of \$68,455,000 were appropriated to purchase portion of the AK LNG project held and managed by TransCanada. The actual amount to buy out TransCanada's interest was \$64,371,417.
SB 3001	Operating Fund Capitalization	11/6/2015	-	75,600,000	Unrestricted general fund receipts were appropriated to pay for the State's share of AK LNG Pre-Front End Engineering Design work.
SB 138	Operating	6/28/2016	8,986,700	-	ASAP funding source was replaced with UGF receipts for DNR's North Slope Gas Commercialization (originally appropriated in HB 72).
SB 138	Operating Fund Capitalization	6/30/2016	(26,000,000)	26,000,000	ASAP funds were transferred to AK LNG fund.
SB 138	Operating Fund Capitalization	6/30/2016	-	4,100,000	Unrestricted general fund receipts were appropriated to capitalize the AK LNG fund.
HB 286	Operating Fund Capitalization	7/1/2018	(12,000,000)	12,000,000	ASAP funds were transferred to AK LNG fund in estimated amount of \$12 million. Actual transfer amount depends on the remaining balance of ASAP funds after all ASAP obligations are paid.
Total			\$225,035,700	\$254,805,917	

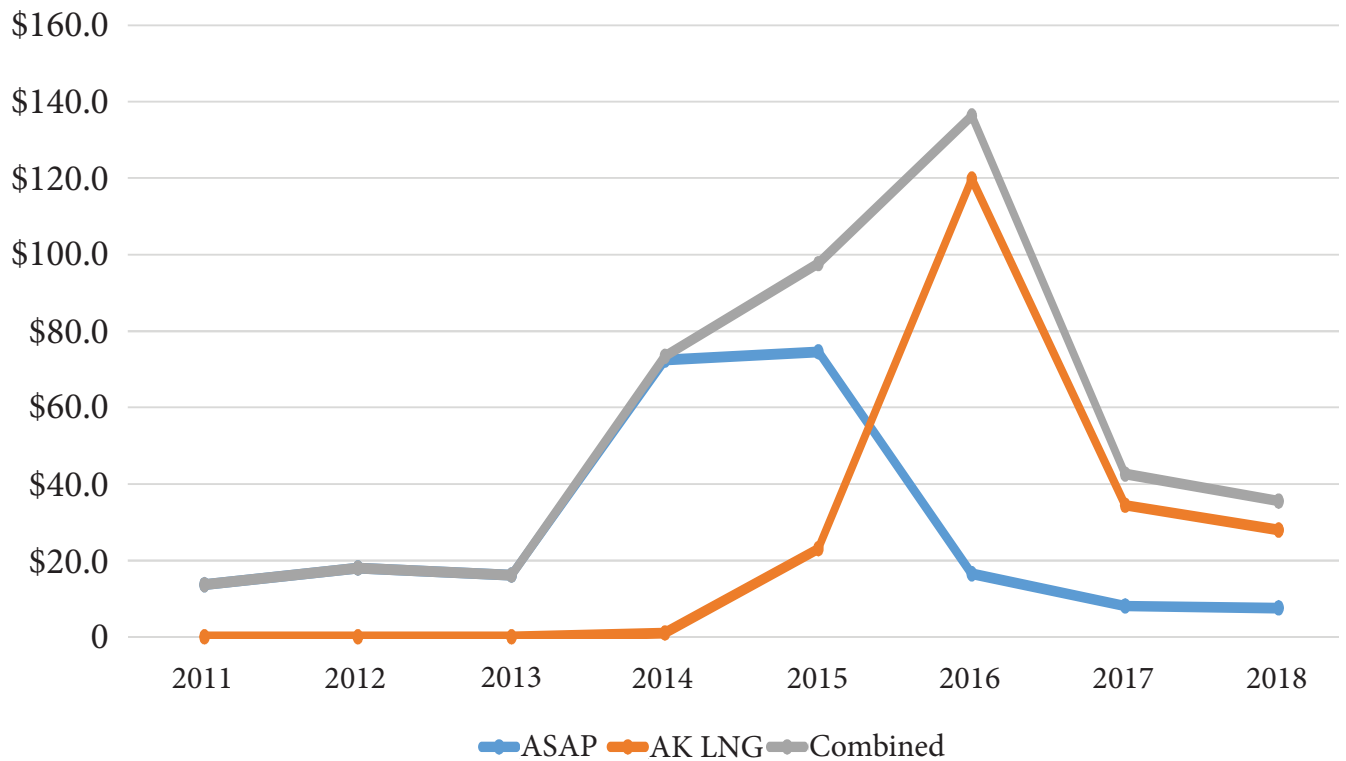
Source: Compiled from legislation.

As of July 24, 2018, the corporation had an estimated available balance of \$52.2 million.

One of the audit objectives was to present a cumulative reconciliation of appropriations, spending, and available balance by project. Appendix A of this report shows the reconciliation and available balances. As of July 24, 2018,¹² the corporation expended approximately \$433.3 million on two projects: \$227.0 million on ASAP and \$206.3 million on the AK LNG project. Exhibit 8 shows the corporation's spending by fiscal year.

Exhibit 8

Corporate Spending by Fiscal Year (In Millions)



Source: Corporation's audited financial statements and accounting records.

The ASAP expenditures spiked in FY 14 and FY 15. According to the corporation's management, ASAP expenditures were high during those fiscal years because the corporation initiated the

¹²The FY 18 amounts are presented based on unaudited accounting records as of July 24, 2018 before all closing journal entries were processed.

Supplemental Environmental Impact Statement process with the U.S. Army Corps of Engineers. Additionally, the project facilities and pipeline engineering were progressed toward a Class 3 cost estimate¹³ and extensive facility engineering work was completed.

Significant AK LNG project expenditures were incurred in FY 16 when the corporation purchased TransCanada's share of the project for \$64.4 million and paid the majority of the joint venture billings, totaling \$45.4 million.

The available ASAP balance as of the end of FY 18 was \$13.8 million. Per HB 286 (Chapter 17 SLA 18), the unexpended and unobligated portion of this balance should be transferred to the AK LNG fund. As of July 24, 2018 the corporation's combined balance was \$52.2 million.

The audit was not able to determine if the president's statements made on November 15, 2016, were accurate.

The audit request cited the corporation's president informing the Editorial Board of Alaska Dispatch News that "he had \$100 million to spend on a liquefied natural gas and/or pipeline project going forward." The request for this audit asked for a determination as to whether this statement was correct. The audit was not able to determine the specific context in which the statement was made. It was unclear whether the amount cited by the president referred to the funds available to be expended on the AK LNG project alone or available to be expended on both projects. Thus, the audit question could not be answered. However, auditors identified that, as of November 15, 2016, the corporation's available balance was approximately \$109.1 million: \$26.5 million was available for ASAP and \$82.6 million for the AK LNG project.

¹³Class 3 estimates are generally prepared to form the basis for budget authorization, appropriation, and/or funding. As such, the estimates form the initial control estimates against which all actual costs and resources will be monitored.

With one exception, the audit found the corporation complied with restrictions imposed on funding; however, a lack of detailed Alaska Housing Finance Corporation (AHFC) expenditure records allowed only limited assurance over compliance.

As described in the Background Information section, the corporation worked on two gas development projects: a small diameter in-state pipeline project (ASAP) and an integrated LNG export (AK LNG) project. The corporation's statutes and appropriation bills impose two main conditions on the funding: (1) appropriations should be spent to carry out the corporation's purposes, powers, and duties, and (2) projects' funds should not be comingled. The audit tested contracts and transactions to evaluate compliance with those two conditions and found, with one exception, the corporation complied with legislative requirements.

Condition 1: Appropriations should be spent to carry out corporation's purposes, powers, and duties.

Within the boundaries of each project, the corporation was granted relatively broad discretion to expend appropriated funds. In accordance with AS 31.25.080, which outlines the corporation's powers and duties, the corporation can "do all acts and things necessary, convenient, or desirable to carry out the powers expressly granted or necessarily implied" by the corporation's purposes, powers, and duties.

The audit performed two types of procedures to test whether the corporation's expenditures were directly linked to the corporation's purposes, powers, and duties. The procedures varied based on the timeframes and record availability:

- During the period of May 2010 through June 2014, the corporation's administrative support was provided by AHFC. The detailed transaction documentation was not available for this timeframe due to AHFC's record retention schedule. Thus, the audit was not able to evaluate actual spending of the appropriated funds. To provide some limited assurance on the corporation's activity from May 2010 through June 2014, the audit reviewed 115 professional services contracts and contract amendments for a total amount of \$53.6 million. All reviewed contracts met the corporation's legislative purposes and were within the corporation's powers and duties.

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- After July 2014, the corporation separated most administrative functions from AHFC and started processing its accounting transactions. Auditors tested a sample of 45 expenditure transactions (38 selected randomly and seven selected judgmentally) totaling \$92.9 million. These transactions were processed by the corporation from FY 15 through March 31, 2018. All tested transactions met the corporation's purpose and were within its powers and duties.

Condition 2: Projects' funds should not be comingled.

In accordance with statutes, the use of corporation funds should be directly linked to each of the two projects and the funding should not be comingled. The money in the ASAP fund can only be used "for the cost of managing the fund and for the planning, financing, development, acquisition, maintenance, construction, and operation of the in-state natural gas pipeline."¹⁴

The money in the AK LNG fund can only be used

*for the purpose of managing the fund, for purposes related to an Alaska liquefied natural gas project, and for the purpose of transferring net revenue received by the corporation related to equity interests, contracts, and other activities to the appropriate fund of the state as determined by the commissioner of revenue in consultation with the commissioner of natural resources.*¹⁵

The audit examined support for the 45 expenditure transactions described above to determine whether expenditures were charged to the correct funding source.¹⁶ Testing identified one expenditure

¹⁴Alaska Statute 31.25.100.

¹⁵Alaska Statute 31.25.110.

¹⁶Testing covered the period of FY 15 through March 31, 2018. Expenditure transactions before FY 15 were processed by AHFC and the detailed support was not available per AHFC's record retention schedule. However, the corporation did not start representing the State in the AK LNG project until FY 14; therefore, FY 14 is the first year transactions processed by the AHFC would have been subject to the testing for correct funding source. Furthermore, minimal expenditures (\$1,052,000) were charged to the AK LNG fund during FY 14 when compared to subsequent periods.

transaction charged to the wrong fund. The transaction was a \$25,000 reimbursement to the Bureau of Land Management (BLM) for ASAP-related costs which had been charged incorrectly to the AK LNG fund. The corporation's management reported that before the tested transaction was processed, a new agreement with the BLM for the AK LNG project was signed and the fund coding for all BLM transactions was incorrectly updated in the corporation's accounting system from ASAP to AK LNG. As a result, seven ASAP-related BLM invoices and reimbursements totaling a net \$150,000 (including the tested transaction), received after the new BLM agreement was signed, were coded incorrectly to the AK LNG fund. Once identified by the auditor, errors were corrected by the corporation's personnel, and fund balances are accurately presented in Appendix A.

The corporation's procurement procedures did not provide for an Alaska veterans' preference.

House Bill 4 (Chapter 11 SLA 13), which separated the corporation from AHFC, required the corporation to provide an Alaska veterans' preference when procuring services. Specifically, AS 31.25.040(b) states:

The board shall adopt and publish procedures to govern the procurement by the corporation of supplies, services, professional services, and construction. The procurement procedures must provide for an Alaska veterans' preference that is consistent with the Alaska veterans' preference in AS 36.30.175.

Concurrent with the passage of HB 4, the State Procurement Code was revised and the Alaska veterans' preference in AS 36.30.175 was repealed and relocated to AS 36.30.321, a section of statute that housed several procurement preferences. Corporation management recognized that AS 36.30.175 was repealed but did not recognize that the preference was moved to a different section of statute and retained. Consequently, the corporation's procurement procedures were designed without the Alaska veterans' preference and did not comply with law. (Recommendation 1)

The board of directors did not approve the corporations' contracts.

The audit found that although requirements for contract approval evolved throughout the life of the corporation, the actual approval processes remained substantially the same – the corporation's management, and not the board, approved contracts. In the first six years of the corporation's operations, management approval was consistent with the board's authorized approval processes. However, since April 2016 material contracts should have been approved by or communicated to the board, but were not.

The corporation was organized in May 2010 as a subsidiary of the AHFC. Between May 2010 and April 2016, the corporation's contracts were required to be approved by the president or executives with valid delegations of authority. The audit reviewed meeting minutes and verified that no contracts were specifically approved by the board during this timeframe.

On April 19, 2016, the board approved new bylaws, which included a requirement for contracts above \$5 million (either individually or in the aggregate) to be authorized by the board. Additionally, for any contract that could reasonably be expected to require expenditures of more than \$1 million but not more than \$5 million, the president must notify the board members.

The majority of the corporation's contractual expenditures are incurred for vendors who sign Master Service Agreements (MSA). An MSA is a binding agreement between the corporation and the vendor to a standard set of terms and conditions that govern the engagement and execution of a contract, which does not include a total contract amount. Upon signing an MSA, the corporation may engage a contractor to perform specific services outlined in a task order, that includes the scope of work, deliverables, and not-to-exceed amount. Because a contractor may provide multiple services and work on several projects, an MSA may have several task orders associated with it.

The corporation had no procedures for accumulating task orders by vendor to identify contracts that exceeded board approval and

communication thresholds. Furthermore, task orders' not-to-exceed amounts were adjusted to equal actual expenditures at the end of each task order. Thus, no historical records existed that would allow the auditors to evaluate the originally authorized not-to-exceed amounts.

Because not-to-exceed amounts by vendor for each fiscal year could not be identified, the audit relied on the actual expenditure data to evaluate compliance. The combined FY 17 and FY 18¹⁷ (through March 31, 2018) vendor expenditures were reviewed and no vendors paid over \$5 million were identified. However, nine vendors (shown in Exhibit 9) were paid between \$1 million and \$5 million during this timeframe. These nine vendors should have been reported to the board; however, the board was not specifically notified. (Recommendation 2)

The board of directors did not consistently approve the corporations' budgets.

During the audit period, the corporation produced and approved three types of budgets: operating, capital, and AK LNG joint venture. Preparation and approval of these budgets followed different processes in accordance with applicable laws, policies, and agreements. The audit concluded that AK LNG joint venture budgets were adequately approved. However, operating and capital budgets were not consistently approved. Each budget type and level of compliance is described below.

- *Operating Budget Approval*

In accordance with AS 31.25.140, the corporation's operating budget is subject to the Executive Budget Act, which requires the corporation to prepare "the budget requested to carry out the [corporation's] proposed plans in the succeeding fiscal year."¹⁸ There was no formal budget approval requirement while the corporation was an AHFC

¹⁷Bylaws requiring the board's approval of contracts were effective April 19, 2016. The audit analyzed FY 17 and FY 18 expenditures (through March 31, 2018) which did not include expenditures incurred in May and June of 2016. May and June 2016 expenditures were likely incurred under task orders predating the bylaw change.

¹⁸Alaska Statute 37.07.050.

Exhibit 9**Vendors with Total Cumulative Expenditures
between \$1 and \$5 Million
FY 17 through FY 18**

Vendor	FY 17	FY 18	Total
exp Energy Services Inc.	\$1,958,788	\$1,718,956	\$3,677,744
State of Alaska, Department of Law	\$1,670,397	\$1,784,015	\$3,454,412
Hawk Consultants, LLC	\$2,190,151	\$1,198,022	\$3,388,173
ERM-Alaska, Inc.	\$1,208,909	\$2,103,405	\$3,312,314
Michael Baker International, Inc.	\$ 990,427	\$1,419,489	\$2,409,916
CH2M Hill Alaska, Inc.	\$1,026,550	\$ 575,740	\$1,602,290
SJ&JL Calais Office I LLC	\$ 829,870	\$ 668,868	\$1,498,738
Petrotechnical Resources of Alaska, LLC	\$ 302,450	\$ 829,962	\$1,132,412
Axiom Environmental	\$ 596,551	\$ 526,676	\$1,123,227

Source: Corporation's accounting records.

subsidiary. After separation from the AHFC, the corporation adopted a Governance Framework effective January 9, 2014, stating that operating budget should be proposed by the president in July and approved by the board in August. The corporation's bylaws effective April 19, 2016, reaffirmed the board approval requirement.

The review of meeting minutes since the corporation's inception in May 2010 through March 2018 showed that the board did not formally approve the FY 15 and FY 18 annual operating budgets. Based on the minutes, both budgets were presented to the board but were not voted on. According to the corporation's management, motions to vote on the budgets were not provided to the board due to human error. (Recommendation 3)

- *Capital Budget Approval*

There was no capital budget approval process until January 2014. On January 9, 2014, the corporation adopted the Governance Framework

requiring the board to approve capital budgets comprised of “the portion of the overall project anticipated to be spent in the upcoming fiscal year.” The corporation’s bylaws effective April 19, 2016, reaffirmed the board approval requirement for the capital budgets.

Capital budgets are approved by the board through the Authorization for Expenditure (AFE) process. AFE documents are prepared by the corporation’s management outlining the scope of proposed projects, the budget, and, as applicable, a listing of potential contractors to be used. Before FY 17, AFEs were prepared for specific sections of a project (e.g. ASAP pipeline, ASAP facilities, Supplemental Environmental Impact Statements). The Governance Framework required individual AFEs over \$2 million to be approved by the board. From FY 14 through FY 16, the corporation’s board approved eight AFEs. In review of the AFE support, three issues were identified:

- AFE 15-002 (Open Season Management - Sussex) was approved on September 24, 2014; however, the start of services date on the AFE was July 15, 2013. Thus, the AFE was approved a year after the scope of work should have started. Corporation management could not explain the late approval.
- No AFEs were approved covering the period of July 1, 2016, through December 31, 2016. Corporation management could not explain the gap in the AFE approvals.
- Costs of all embedded contractors were not included in the AFEs before FY 17. Thus, the embedded contractors’ expenditures incurred in FY 15 and FY 16 totaling \$10.7 million and \$6.2 million respectively, were not subject to the board’s approval. According to the corporation’s management, embedded contractors were not included in the AFEs due to human error.

In FY 17, the corporation’s management redesigned the AFE process and moved away from more specific AFEs to AFEs covering major functions of the organization. In February 2017, three AFEs were approved by the board: commercial, regulatory, and communications.

The new AFEs were broader in scope, contained the total capital budget for a year and a half of operations, and provided management discretion in how to expend funds within the three functional areas. No approval errors were identified in the recent AFEs approved in FY 17 and in testing of related transactions.

- *AK LNG Budgets Associated with Joint Venture Agreement Approval*

With the passage of SB 138 (Chapter 14 SLA 14) on May 8, 2014, the corporation's statutory purpose was expanded to include advancing the AK LNG project through participation in a joint venture with ExxonMobil, TransCanada, BP, and ConocoPhillips. The funding for the joint venture came from appropriations to the AK LNG fund and was not subject to further legislative approval.

Preparation of an AK LNG joint venture annual budget was a collaborative process involving the parties to the agreement. The joint venture lead party (ExxonMobil) developed the budget and the representatives from other parties approved it. Once approved, the lead party made monthly requests for advance payments from each participant. Per review of meeting minutes, the corporation's management presented the board with proposed AK LNG project work plans and budgets for calendar years 2015 and 2016 and the board approved the corporation's portion of expenditures.

Board of directors approved the hiring of corporation presidents and some senior executive management but did not approve contracts for embedded contractors.

The audit was asked to determine whether the board of directors was aware of and approved contracts for senior executive employees and consultants. The audit defined senior executive employees as the corporation's president and executive management team (vice presidents and an executive advisor); consultants were defined as embedded contractors. As shown in the Organization and Function section of this report (Exhibit 3), the combined embedded contractors' costs exceeded personal services expenditures in FY 15 through FY 18.

The corporation's bylaws (adopted in 2010, 2013, and 2016) require the president to be appointed by the board. From May 2010 through November 2015, the corporation was managed by Dan Fauske and from June 2016 by Keith Meyer. The board approved appointments of both presidents and the acting president responsible for the corporation's management during the interim.

All iterations of the bylaws allowed the president to hire corporation personnel, including the executive management team. Despite this policy, the review of meeting minutes shows that until September 2014, the board was active in approving executive personnel appointments.¹⁹ On September 24, 2014, the board approved a motion allowing the corporation's president to resume hiring of personnel without the board's approval. After this motion, the board did not approve hiring decisions of the corporation's personnel, which was consistent with bylaws.

Hiring of embedded contractors was not approved by the board. As discussed above, all contracts, including contracts with embedded contractors, were approved by management.

¹⁹For example, the board approved the appointments of a vice president at the June 14, 2010 meeting; another vice president at the March 9, 2011, meeting; and, hiring of the AK LNG program director (vice president for AK LNG and administrative services) at the July 10, 2014, meeting.

FINDINGS AND RECOMMENDATIONS

Recommendation No. 1:

The board should incorporate an Alaska veterans' preference into its procurement procedures.

Beginning in FY 14, the Alaska Gasline Development Corporation's (corporation) procurement procedures did not include an Alaska veterans' preference.

AS 31.25.040(b) states,

The board shall adopt and publish procedures to govern the procurement by the corporation of supplies, services, professional services, and construction. The procurement procedures must provide for an Alaska veterans' preference that is consistent with the Alaska veterans' preference in AS 36.30.175.

According to management, at the time HB 4 created the corporation as an independent entity and established AS 31.25.040(b) above, the State Procurement Code was revised and the Alaska veterans' preference in AS 36.30.175 was repealed and relocated to AS 36.30.321, a section of statute that housed several procurement preferences. Corporation management recognized that AS 36.30.175 was repealed but did not recognize that the preference was moved to a different section of statute and retained. Consequently, the corporation's procurement procedures were designed without the Alaska veterans' preference. Lack of veterans' preference in the corporation's procurement procedures may have resulted in Alaska veterans not being awarded contracts.

We recommend the board incorporate an Alaska veterans' preference into its procurement procedures.

Recommendation No. 2:

The corporation's president should create procedures to ensure contracts are approved by or communicated to the board in accordance with board bylaws.

The audit identified nine vendors paid between \$1 million and \$5 million from FY 17 through March 31, 2018.²⁰ These nine vendors should have been reported to the board, but were not. Lack of specific notification may have impeded the ability of the board to make informed decisions.

The corporation's bylaws adopted on April 19, 2016, require the board's approval before the corporation enters into any contract or expends any money for a discrete purpose that can reasonably be expected to require the expenditure of more than \$5 million (either individually or in the aggregate) of corporation funds. Additionally, for any contracts that can reasonably be expected to require expenditures of more than \$1 million but not more than \$5 million, the president must notify the board members but need not obtain approval for the contract.

The board was not specifically notified of the contractors' expenditures because the corporation does not have procedures for estimating and evaluating the total amount to be paid to a vendor. The majority of the corporation's contractual expenditures are incurred for vendors who signed Master Service Agreements (MSA).²¹ Upon signing an MSA, the corporation may then engage a contractor to perform specific services outlined by a task order, which includes the scope of work, deliverables, and a not-to-exceed amount. Because a contractor may provide multiple services and work on several projects, an MSA may have several task orders associated with it. Thus, the estimated total to be paid to a contractor can only be determined by accumulating task order not-to-exceed amounts. The corporation lacked procedures to evaluate total task order amounts by vendor.

We recommend the corporation's president create procedures to ensure contracts above board-established thresholds are approved by or communicated to the board in accordance with board bylaws.

²⁰No vendors were paid over \$5 million since the new approval bylaws became effective on April 19, 2016 through March 31, 2018.

²¹An MSA is a binding agreement between the corporation and the vendor to a standard set of terms and conditions that govern the engagement and execution of a contract.

Recommendation No. 3:

The board of directors should formally approve the operating budget annually.

The FY 15 and FY 18 operating budgets were presented to the corporation's board but were not voted on or approved. The corporation's Governance Framework effective January 9, 2014, states that an operating budget should be proposed by the president in July and approved by the board in August. The corporation's bylaws effective April 19, 2016, confirmed the board approval requirement by stating that "operating budget begins with approval of proposed budgets by the Board of Directors." According to the corporation's management, motions to vote on the budgets were not provided to the board due to human error.

Lack of approval by the board may result in operating budgets that do not reflect the board's priorities being submitted to the legislature. We recommend the board of directors formally approve the operating budget annually.

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OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Generally, this audit reports on appropriations to the Alaska Gasline Development Corporation (corporation), whether those funds have been spent in compliance with legislative intent as evidenced by restrictive language in the appropriation legislation, and the board's approval of key spending decisions. Specifically, the audit includes the following objectives:

- Appropriations to the corporation from inception (May 2010) through FY 19, including changes made to appropriations by subsequent legislation.
- Restrictions associated with the various appropriations, particularly distinctions between appropriations for the In-State Gas Project (Alaska Stand Alone Gas Pipeline or ASAP) and the Alaska Liquefied Natural Gas (AK LNG) project.
- Compliance of actual spending with legislative intent and restrictions; in particular, legislative restrictions on the purpose and use of the In-State Natural Gas Pipeline Fund (AS 31.25.100) and the Alaska Liquefied Natural Gas Project Fund (AS 31.25.110).
- Whether the corporation's board approved significant spending decisions, including whether the board of directors was aware of and approved contracts for senior executive employees and consultants.
- A cumulative reconciliation of appropriations, spending, and available balance by project as of June 30, 2018.
- A cumulative estimate of appropriations, spending, and available balance by project as of November 15, 2016 to determine the validity of the corporation president's statement to the Editorial Board of Alaska Dispatch News on or about November 15, 2016 that he had \$100 million to spend on a liquefied natural gas and/or pipeline project going forward.

Scope

The audit examined:

- Enabling legislation, and appropriations to the corporation including changes to those appropriations for the period FY 10 through FY 19. Related legislative intent and restrictions were also examined for the same time period.
- Corporation's expenses from May 2010 through FY 18 (as of July 24, 2018) were accumulated for reporting purposes, while expenditures from FY 15 through March 31, 2018 were sampled for compliance.
- Corporation policies, procedures, and bylaws covering contract, budget, and hiring approval processes from FY 10 through FY 18.
- Vendor contracts from May 2010 through FY 14, while the corporation was a subsidiary of, or supported by, Alaska Housing Finance Corporation (AHFC).
- Meeting minutes from May 2010 through May 2018 supporting board approval of operating, capital (Authorizations for Expenditure (AFE)), and joint venture budgets.

Scope Limitations

The audit had two scope limitations:

1. The audit could not evaluate actual spending for the period of May 2010 through FY 14. The detailed support for transactions processed by AHFC during this period was destroyed in accordance with AHFC's record retention schedule. To provide some limited assurance on the corporation's activity from FY 10 through FY 14, the audit reviewed 115 professional services contracts and contract amendments for a total amount of \$53.6 million.
2. The audit was not able to evaluate total contract amounts for the corporation's vendors because no historical records existed that would allow auditors to evaluate the contracts' authorized not-to-exceed amounts.

Methodology

To address the objectives, auditors:

- Interviewed the corporation’s executive and senior management, legal counsel, and procurement team to gain an understanding of the corporation’s mission, project development forecast, accounting operations, and procurement processes.
- Interviewed AHFC staff, including internal audit and key accounting personnel, to gain an understanding of AHFC’s role in supporting the corporation when it was a subsidiary of AHFC.
- Obtained and reviewed newspaper articles, press releases, corporation annual reports, and consultant reports to gain an understanding of the corporation’s projects and history.
- Obtained and reviewed reports published by the Government Accountability Office and reports published by the U.S. Department of Energy to gain an understanding of natural gas projects and the pipeline permitting process.
- Gained an understanding of the corporation’s policies, procedures, and approval processes by reviewing the following pertinent laws, legislation, and corporate documents guiding corporate operations:
 - House Bill (HB) 369 – 26th Legislature (2009-2010) that created the corporation organized within AHFC.
 - HB 4 – 28th Legislature (2013-2014) that established the corporation as an independent entity of the State no longer organized under AHFC; AS 31.25 provided statutory guidance for Corporation operations.
 - Senate Bill (SB) 138 – 28th Legislature (2013-2014) that gave the State funding and statutory authority to assume an ownership interest in the AK LNG project.
 - Applicable statutes and regulations (AS 31.25, AS 38.34, AS 38.35, and 11 AAC 80) governing the corporation.

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- Corporation's current and historical bylaws, policy and procedure manuals, record retention schedules, and delegations of authority.
 - Reviewed the following legislation to identify appropriations and restrictions for the ASAP and AK LNG projects and to verify and report on appropriation amounts:
 - House Bill (HB) 300 – 26th Legislature (2009-2010) Chapter 41 SLA 10
 - Senate Bill (SB) 46 – 27th Legislature (2011-2012) Chapter 5 FSSLA 11
 - SB 160 – 27th Legislature (2011-2012) Chapter 17 SLA 12
 - HB 65 – 28th Legislature (2013-2014) Chapter 14 SLA 13
 - SB 18 – 28th Legislature (2013-2014) Chapter 16 SLA 13
 - SB 119 – 28th Legislature (2013-2014) Chapter 18 SLA 14
 - HB 2001 – 29th Legislature (2015-2016) Chapter 1 SSSLA 15
 - HB 72 – 29th Legislature (2015-2016) Chapter 23 SLA 15
 - SB 3001 – 29th Legislature (2015-2016) Chapter 1 TSSLA 15
 - SB 138 – 29th Legislature (2015-2016) Chapter 2 4SSLA 16
 - HB 286 – 30th Legislature (2017-2018) Chapter 17 SLA 18
 - Reviewed the corporation's financial statement auditor's workpapers to gain an understanding of and determine the reliability of the corporation's financial system controls.

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- Reviewed internal controls regarding approvals of operating, capital (AFE), and joint venture budgets, contracts, and expenditure documents to determine if controls were properly designed and implemented.
 - Obtained and reviewed the corporation's audited financial statements from FY 11 (includes May and June of 2010) through FY 17 to gain an understanding of the financial position of the corporation. Additionally the audited financial statements were used to verify the reliability and completeness of detailed expenditure transaction listings by fiscal year.
 - Reviewed historical expenditure transaction data (May 2010 through FY 14) incurred when the corporation was organized under AHFC. Transaction detail was retrieved from AHFC and reviewed for reasonableness and materially tied to the corporation's audited financial statements. Expenditure data was used to determine total expenditures and available balances for the ASAP and AK LNG projects.
 - Obtained expenditure transaction data for FY 15 through July 24, 2018 for use in determining total expenditures and available balances for the ASAP and AK LNG projects. Additionally, expenditure data was used to identify the total cost of embedded contractors by fiscal year. Expenditure transactions for FY 15 – FY 17 were tied to the corporation's audited financial statements.
 - Assessed random and judgmental samples of FY 15 through March 31, 2018 expenditure transactions greater than \$9,999 or less than -\$9,999 and excluding transfer transactions for reasonableness. This included ensuring transactions were allocated to the correct fund (ASAP or AK LNG), verifying expenditures were in compliance with legislative restrictions and intent, and verifying appropriate approval. Sample sizes were selected based on moderate control risk, moderate/high inherent risk, and low audit risk. Testing results for the random sample were not projected to the population. The samples included the following:

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- A random selection of 38 expenditure transactions out of a population of 2,377. The sample size was based on attribute testing using a 90 percent confidence level, with zero expected deviations, and a six percent tolerable deviation rate.
 - A judgmental sample of seven expenditure transactions was selected from expenditure accounts making up a large percentage of total expenditures, adjusting transactions potentially moving expenditures between ASAP and AK LNG projects, or monetarily individually significant transactions. The judgmental sample totaled a net \$86.6 million in expenditures.
 - Expenditure transactions between \$9,999 and -\$9,999 constituted a small percentage of the total dollar amount for the time period (eight percent) but accounted for a large portion of the total transaction count (80 percent). In order to ensure our random sample contained financially significant documents these expenditure transactions were excluded from the sample population but were scanned for unusual activity.
- Obtained and reviewed the corporation's board meeting minutes from FY 10 through May 31, 2018 and attended a Board of Directors meeting held on May 10, 2018. The meeting minutes were reviewed to gain an understanding of the board's decision-making in relation to AFEs, investor agreements, and project advancement. Additionally meeting minutes were used to verify board approval of budgets and hiring decisions as applicable.
 - Reviewed the listing of vendor contracts and total expenditures incurred by each contractor to ensure the contracts were approved in accordance with the corporation's policies and procedures for the applicable time period.

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- Inspected AFEs from January 2014 (when first used by the corporation) through March 2018 to gain an understanding of the scope of project expenditures and to ensure the AFEs were appropriately authorized via review of board meeting minutes.
 - Leveraged the data obtained through appropriation and expenditure testing to estimate the ASAP and AK LNG project fund balances as of November 15, 2016.

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APPENDIX SUMMARY

Appendix A

Appendix A provides a summary of appropriations, spending, and available balances for the Alaska Gasline Development Corporation's Alaska Stand Alone Pipeline (ASAP) and Alaska Liquefied Natural Gas (AK LNG) projects for FY 11 (including May and June of 2010) through FY 18 as of July 24, 2018.

APPENDIX A

Alaska Gasline Development Corporation Appropriations, Spending, and Available Balance FY 11* through FY 18

Fiscal Year	ASAP				AK LNG			
	Appropriation	Interest Income	Actual Spending	Available Balance	Appropriation	Interest Income	Actual Spending	Available Balance
2011*	\$22,840,600	\$0	\$13,675,000	\$9,165,600	\$0	\$0	\$0	\$0
2012	21,000,000	0	18,061,000	12,104,600	0	0	0	0
2013	21,000,000	0	16,168,000	16,936,600	0	0	0	0
2014	353,895,100	2,008,000	72,380,000	300,459,700	69,834,500	39,000	1,052,000	68,821,500
2015	0	1,155,000	74,566,080	227,048,620	0	253,000	23,066,920	46,007,580
2016	(181,700,000)	365,000	16,490,369	29,223,251	172,971,417	563,000	119,785,499	99,756,498
2017	0	105,000	8,141,591	21,186,660	0	424,000	34,486,394	65,694,104
2018**	0	148,351	7,566,922	13,768,089	0	647,957	27,952,716	38,389,345
Total	\$237,035,700	\$3,781,351	\$227,048,962	\$13,768,089	\$242,805,917	\$1,926,957	\$206,343,529	\$38,389,345

Notes:

*ASAP actual amount includes the FY 10 expenditures incurred in May and June 2010.

**Actuals are represented based on unaudited financial information.

Combined			
Appropriation	Interest Income	Actual Spending	Available Balance
\$22,840,600	\$0	\$13,675,000	\$9,165,600
21,000,000	0	18,061,000	12,104,600
21,000,000	0	16,168,000	16,936,600
423,729,600	2,047,000	73,432,000	369,281,200
0	1,408,000	97,633,000	273,056,200
(8,728,583)	928,000	136,275,868	128,979,749
0	529,000	42,627,985	86,880,764
0	796,308	35,519,638	52,157,434
\$479,841,617	\$5,708,308	\$433,392,491	\$52,157,434

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Agency Response from the Department of Commerce, Community, and Economic Development



THE STATE
of ALASKA
GOVERNOR MICHAEL J. DUNLEAVY

Department of Commerce, Community,
and Economic Development

OFFICE OF THE COMMISSIONER

550 West Seventh Avenue, Suite 1535
Anchorage, Alaska 99501
Main: 907.269-8100
Toll free fax: 907.269.8125

December 31, 2018

Ms. Kris Curtis, CPA CISA
Legislative Auditor, Alaska State Legislature
Legislative Budget and Audit Committee
PO Box 113300
Juneau, AK 99811-0203

RECEIVED

JAN 02 2019

LEGISLATIVE

Re: Response to December 13, 2018 Preliminary Audit Report on Alaska Gasline Development Corporation; Audit control #08-30088-18

Dear Ms. Curtis:

Thank you for the time and effort put forward by you and your staff in regards to this audit. As the Commissioner of the Department of Commerce, Community, and Economic Development, I offer the following response.

Introduction:

AGDC is a public corporation located within DCCED for administrative purposes only, and has a legal existence independent of this department. However as funding for AGDC comes almost exclusively from Alaska taxpayers, we are equally conscious of the role DCCED plays in managing the trust relationship that exists between AGDC and the people of Alaska.

The independence of AGDC, and its scale in terms of public expenditures and the opportunity the gas line represents to Alaskans, demands a high level of scrutiny and accountability. Accordingly, our first recommendation is that the auditor's full report be released to the public.

Other Findings and Recommendations:

Before April, 2016, the audit concludes that there was no statutory requirement for the board to approve contracts. However, DCCED believes the Board owes a fiduciary obligation to Alaskans to exercise prudent oversight of these significant contracts.

Our second recommendation is that when the State audits compliance by independent corporations, that ethical and fiduciary duties of board members be evaluated as closely as statutory obligations.

After April 2016, when the audit concludes a statutory obligation of direct oversight did exist, the board failed to comply with these expectations. However, the audit is unclear about the specific extent of board responsibilities—namely whether the board has a clear statutory obligation to approve contracts or to simply to be notified of them.

Ms. Kris Curtis
December 31, 2018
2

DCCED's third recommendation is that the board's statutory obligation after April, 2016 with respect to approving large contracts be clarified so the board's oversight duties in the future are clear.

The audit states that *"In accordance with corporation bylaws and procedures, the board was required to approve operating and capital budgets. The audit found two operating budgets prior to the audit and several capital budgets were not properly approved."* The audit concludes that the deficiencies related to the operating budget *"were not corrected"*.

The audit concludes that accountability for these deficiencies clearly rests with the board. DCCED believes that these oversights are substantive, and require confirmation of an immediate remedy. DCCED's fourth recommendation is that the AGDC board publically account for these deficiencies and issue a notice of corrective action taken.

With respect to Master Service Agreements—representing the majority of contract work, provisions were missing to fix the scope of work, to account for accumulated revisions to the scope, and to acquire board authorization for amounts over \$1,000,000.


With regard to the auditor's specific recommendations:

- (1) Recommendation 1: The board should incorporate an Alaska veterans' preference into its procurement procedures.
 - (a) We agree with this recommendation.
- (2) Recommendation 2: AGDC's president should create procedures to ensure contracts are approved by or communicated to the board in accordance with board bylaws.
 - (a) I agree with this recommendation, but believe more stringent measures are needed, as discussed above, to correct the problem.
- (3) Recommendation 3: The board of directors should formally approve the operating budget annually.
 - (a) This recommendation should be implemented immediately, and should apply to capital budgets as well. The AGDC Board of Directors has been entrusted with substantial sums of public funds and approval of the operating and capital budgets is a basic trust responsibility.

The Department of Commerce, Community, and Economic Development takes seriously its role in AGDC's budget and administrative practices, and we appreciate the efforts of you, your staff, and the Legislative Budget and Audit Committee to audit this critical corporation. Given the independence of AGDC governance from the Legislature, in order to maintain the public trust, it is imperative that immediate reforms be implemented.

Please don't hesitate to contact me if I can provide further assistance.

Cordially,


Julie Anderson
Commissioner

Agency Response from the Alaska Gasline Development Corporation

ALASKA GASLINE
DEVELOPMENT CORP.

January 2, 2019

Ms. Kris Curtis, CPA CISA
Legislative Auditor, Alaska State Legislature
Legislative Budget and Audit Committee
PO Box 113300
Juneau, AK 99811-0203

RECEIVED
JAN 02 2019
LEGISLATIVE AUDIT

Dear Ms. Curtis:

Alaska Gasline Development Corporation ("AGDC") appreciates the ability to interact with Legislative Budget and Audit (LB&A) personnel as they worked to conclude the Special Audit ("Audit") of AGDC initiated by the LB&A Committee on December 13, 2016. AGDC is in receipt of the Preliminary Audit Report, dated July 31, 2018, and agrees with the Findings and Recommendations regarding Select Financial Issues. AGDC has taken the necessary corrective actions, described below, to implement the Audit recommendations.

- (1) Recommendation No.1: The board should incorporate an Alaska veterans' preference into its procurement procedures.
 - Action on this recommendation is complete. AGDC's board voted to approve a veterans' preference policy on August 9, 2018. The policy directs AGDC to grant a preference to Alaska veteran contractors in instances when AGDC chooses to directly procure contractors through a formal RFP/competitive bid process.
- (2) Recommendation No.2: The Corporation's president should create procedures to ensure contracts are approved by or communicated to the board in accordance with board bylaws.
 - Action on this recommendation is complete. Management formally notified the board at AGDC's August 9, 2018 board meeting of contracts "more than \$1,000,000 but not more than \$5,000,000." AGDC opted to notify the board in a public meeting about such contracts to more transparently comply with the bylaws. AGDC management also created and implemented procedures to ensure that (i) all active contracts (task orders or similar agreements) are reported to the board on at least an annual basis and (ii) AGDC staff seek board approval for contracts over \$5,000,000 in accordance with board bylaws.
- (3) Recommendation No.3: The board of directors should formally approve the operating budget annually.
 - AGDC management will formally seek full board approval of all future operating budgets on an annual basis.

In conclusion, AGDC is a dynamic organization that has successfully navigated through considerable organizational change. AGDC is committed to continuously monitoring operations to ensure current processes are in alignment with established policy and good corporate governance. AGDC is committed to continuous improvement.

If you have any questions, please contact me or Philip Sullivan at Psullivan@agdc.us or at (907) 330-6346.

Sincerely,



David Cruz, AGDC Chairman of the Board

Alaska Gasline Development Corporation | 3201 C Street, Suite 200, Anchorage, AK 99503 | agdc.us

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Legislative Auditor's Additional Comments

ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



P.O. Box 113300
Juneau, AK 99811-3300
(907) 465-3830
FAX (907) 465-2347
legaudit@akleg.gov

January 4, 2019

Members of the Legislative Budget
and Audit Committee:

I have reviewed the responses to the audit report from the Alaska Gasline Development Corporation (corporation) and Department of Commerce, Community, and Economic Development (DCCED). Nothing contained in the responses causes me to revise or reconsider the report conclusions and recommendations. However, I offer the following comments to address statements made by DCCED's commissioner.

Statement No. 1:

DCCED's commissioner states that the corporation's board owes a fiduciary obligation to Alaskans to exercise prudent oversight of significant contracts regardless of statutory or procedural requirements, and that state audits of independent corporations should evaluate ethical and fiduciary duties of board members as closely as statutory obligations.

Legislative Auditor Response:

Audits conducted by the Division of Legislative Audit are requested by members of the legislature. An audit request must be reviewed and approved by the Legislative Budget and Audit Committee before an audit can be performed. Audits are designed to address the audit objectives laid out in the approved audit requests and must be conducted in accordance with the United States Government Accountability Office, Government Auditing Standards. As stated in the Objectives, Scope, and Methodology section of the audit beginning on page 37 of the audit report, evaluating the ethical and fiduciary duties of board members was not an objective of the audit.

Statement No. 2:

On page one of DCCED's response, the commissioner states "*...the audit was unclear about the specific extent of board responsibilities – namely whether the board has a clear statutory obligation to approve contracts or simply to be notified of them.*"

Legislative Auditor Response:

The audit report (page 27, paragraph three) addresses the concerns expressed by DCCED's commissioner, namely that the requirement for board approval or review is a requirement of the corporation's bylaws, not a requirement of statutes. Further, the paragraph clarifies that all contracts above \$5 million (either individually or in the aggregate) are to be authorized by the board, and that board notification is required for contracts between \$1 million and \$5 million.

Statement No. 3:

DCCED's commissioner recommends "...that the board's statutory obligation after April 2016 with respect to approving large contracts be clarified so the board's oversight duties in the future are clear."

Legislative Auditor Response:

As noted above, the obligation to approve contracts exists in the corporation's bylaws and not statute.

Statement No. 4:

DCCED's commissioner states that the audit did not provide specific corrective actions in relation to master service agreements. Specifically, the commissioner states "*With respect to Master Service Agreements – representing the majority of contract work, provisions were missing to fix the scope of work, to account for accumulated revisions to the scope, and to acquire board authorization for amounts over \$1,000,000.*"

Legislative Auditor Response:

The audit report Recommendation No. 2 on page 34 suggests the corporation's president create procedures to ensure contracts are approved by or communicated to the board in accordance with board bylaws. The corporation is responsible for designing efficient and effective procedures to ensure compliance with board-approved bylaws. The corrective action necessary to address the deficiencies outlined in Recommendation No. 2 will be determined by the corporation's president.

Statement No. 5:

The audit found that the corporation's board did not formally approve the FY 15 and FY 18 annual operating budgets. Page two of the DCCED commissioner's response concludes these two instances require confirmation of an immediate remedy. Additionally, DCCED's commissioner suggests that audit Recommendation No. 3 be applied to capital budgets as well.

Legislative Auditor Response:

As noted on page 29 of the audit report, both operating budgets in question were presented to the board for consideration. However, due to oversight, they were not formally voted on by the board. It should also be noted the corporation's annual operating budget is approved by the legislature.

Members of the Legislative Budget
and Audit Committee;

- 3 -

January 4, 2019

In regard to the commissioner's comments about capital budgets, I note that no approval errors were found with the corporation's new Authorization for Expenditure (AFE or capital budget) process. As such, no recommendation regarding the corporation's AFE process was considered necessary.

In summary, I reaffirm the audit conclusions and recommendations.

Sincerely,



Kris Curtis, CPA, CISA
Legislative Auditor