



Single Audit Report
June 30, 2021

Alaska Energy Authority

(A Component Unit of the State of Alaska)

Compliance Section

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**Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Board of Directors
Alaska Energy Authority
Anchorage, Alaska

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of Alaska Energy Authority, which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 29, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Alaska Energy Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Alaska Energy Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Alaska Energy Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain

deficiencies in internal control, described in the accompanying schedule of findings and responses or schedule of findings and questioned costs as item 2021-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Alaska Energy Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Alaska Energy Authority Response to Findings

Alaska Energy Authority's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Alaska Energy Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
October 29, 2021



Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

To the Board of Directors
Alaska Energy Authority
Anchorage, Alaska

Report on Compliance for the Major Federal Program

We have audited Alaska Energy Authority's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Alaska Energy Authority's major federal program for the year ended June 30, 2021. Alaska Energy Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Alaska Energy Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Alaska Energy Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Alaska Energy Authority's compliance.

Basis for Qualified Opinion on the Major Federal Program

As described in the accompanying schedule of findings and questioned costs, Alaska Energy Authority did not comply with requirements regarding CFDA 90.100 Denali Commission as described in finding number 2021-002 for Reporting. Compliance with such requirements is necessary, in our opinion, for Alaska Energy Authority to comply with the requirements applicable to that program.

Qualified Opinion

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Alaska Energy Authority's complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2021.

Other Matters

Alaska Energy Authority's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Alaska Energy Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Alaska Energy Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Alaska Energy Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Alaska Energy Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We identified certain deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2021-002 that we consider to be a material weakness.

Alaska Energy Authority's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Alaska Energy Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, business-type activities and each major fund, of Alaska Industrial Energy Authority as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Alaska Energy Authority's basic financial statements. We issued our report thereon dated October 29, 2021, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
October 29, 2021

Alaska Energy Authority
(A Component Unit of the State of Alaska)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures	Amounts Passed-Through to Subrecipient:
<u>Department of Agriculture</u>				
Direct Award				
Wood Utilization Assistance	10.674		\$ 87,657	\$ -
Total Department of Agriculture			<u>87,657</u>	<u>-</u>
<u>Environmental Protection Agency</u>				
Direct Award				
State Clean Diesel Grant Program	66.040		<u>623,645</u>	<u>556,340</u>
<u>Department of Energy</u>				
Direct Award				
State Energy Program	81.041		387,598	-
Energy Efficiency and Renewable Energy, Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117		8,206	-
Passed through Washington State University				
Energy Efficiency and Renewable Energy, Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117		16,754	-
Direct Award				
State Energy Program Special Projects	81.119		77,756	-
Electricity Delivery and Energy Reliability, Research, Development, and Analysis	81.122		<u>122,871</u>	<u>122,871</u>
Total Department of Energy			<u>613,185</u>	<u>122,871</u>
<u>Denali Commission Program</u>				
Direct Award				
Togiak-Twin Hills Intertie	90.100		326,638	313,930
Tatitlek Bulk Fuel Upgrade	90.100		799,585	781,853
Clark's Point Rural Power System Upgrade Design	90.100		1,510	-
Chalkytsik Bulk Fuel Facility Design	90.100		122,094	112,532
START Communities Technical Assistance	90.100		15,455	3,701
Beaver Bulk Fuel Facility Design	90.100		118,556	110,175
Bulk Fuel Operator Training	90.100		227,755	-
Circuit Rider Program	90.100		262,636	-
Remote Power System Maintenance & Improvements	90.100		157,962	123,577
Miscellaneous Small Maintenance & Improvements	90.100		252,694	-
Port Heiden Remote Power System Upgrade	90.100		521	-
Power Plant Operator Training	90.100		111,362	-
Itinerant Utility Training	90.100		49,777	-
RPSU Maintenance & Improvement Program	90.100		128,584	54,496
RPSU Inventory & Assessment	90.100		220,839	-
Remote Power System Upgrade-Akhiok, AK	90.100		769,481	711,139
Remote Power System Upgrade-Venetie, AK	90.100		138,078	125,535
Barge Headers and Fill Lines	90.100		1,648,879	1,525,145
Bulk Fuel Storage Facility Upgrade-Nunapitchuk, AK	90.100		1,055,320	1,040,421
BFO In-Community Training Curriculum	90.100		38,815	-
Remote Power System Upgrade-Napaskiak, AK	90.100		100,511	82,919
Remote Power System Upgrade-Nikolai, AK	90.100		190,092	176,408
Remote Power System Upgrade-Nelson Lagoon, AK	90.100		103,284	85,169
Remote Power System Upgrade-Rampart, AK	90.100		14,585	79
Bulk Fuel Storage Upgrade-Scammon Bay, AK	90.100		260,422	250,000
Village Energy Efficiency Program-Statewide	90.100		63,746	63,746
Bulk Fuel Upgrade-Ekwok, AK	90.100		7,351	-
Engineering Library	90.100		54,073	-
Craig High School Biomass Project	90.100		1,960	-
Port Heiden Phase I Electrical Distribution Upgrades			<u>8,090</u>	<u>4,922</u>
Total Denali Commission Program			<u>7,250,655</u>	<u>5,565,747</u>
Total Federal Financial Assistance			<u>\$ 8,575,142</u>	<u>\$ 6,244,958</u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of Alaska Energy Authority under programs of the federal government for the year ended June 30, 2021. The information is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the schedule presents only a selected portion of the operations of Alaska Energy Authority, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Alaska Energy Authority.

Note 2 - Significant Accounting Policies

Expenditures reported in the schedule are reported on the accrual basis of accounting, except for subrecipient expenditures which are recorded on the cash basis. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 - Indirect Cost Rate

Alaska Energy Authority has elected to use the 10% de minimis cost rate.

Section 1 – Summary of Auditor’s Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	None reported
Significant deficiencies identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	Yes
Identification of major programs:	
<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Denali Commission Program	90.100
Dollar threshold used to distinguish between Type A and type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

2021-001

Significant Deficiency in Internal Control over Financial Statements

Criteria:

An internal control system includes processes to identify and report accounting transactions properly in the financial statements.

Condition:

An operating transfer in a prior period was recorded incorrectly and reported as a due to instead of an operating transfer.

Cause:

AEA's internal control system did not include a review of transactions from a prior period to evaluate validity of transactions for financial reporting requirements.

Effect:

An operating transfer in a prior period had been recorded incorrectly as a due to funds managed by treasury. In the prior fiscal year, this transaction understated AEA's net position for this fund.

Recommendation:

AEA should include processes for reviewing prior period accounts for proper reporting of operating transfers.

Views of Responsible Officials:

The Authority has reviewed finding 2021-001 relating to the prior period adjustment made by management in FY21. While the Authority accepts the finding, we reject the premise that there is a significant deficiency in the internal control process. The need for a prior period adjustment was identified by management in the normal course of our annual review for financial reporting purposes. Reporting for the fund in question is a complex issue and, as such, requires an in-depth review and coordination with other State agencies at year end. While the timeliness of the adjustment was less than optimal, management identified the adjustment, corrected, and brought to the attention of our auditors. For these reasons, management does not concur that there is a weakness in AEA's internal control structure nor that it merits the level of significant deficiency. The Authority does not anticipate a repeat of this finding.

Section III – Federal Award Findings and Questioned Costs

2021-002 Denali Commission Program, CFDA 90.100
Reporting
Material Noncompliance and Material Weakness in Internal Control over Compliance

Grant Award Number:

Various

Criteria:

The Federal Funding Accountability and Transparency Act (FFATA) requires organizations that receive direct federal funding to file a report for any subawards that obligate \$30,000 or more in federal funds.

Condition:

During the period July 1, 2020 through June 30, 2021 no reports for subawards were filed that were \$30,000 or more in federal funds.

Cause:

Management was not aware of the filing requirement.

Effect:

No FFATA reports were filed during the period July 1, 2020 through June 30, 2021.

Questioned Costs:

None

Context/Sampling:

Not applicable since no reports were submitted.

Repeat Finding from Prior Year:

No

Recommendation:

We recommend the Authority implement the process of identifying and reporting the subawards.

Views of Responsible Officials:

The Authority has reviewed finding 2021-002 relating to the required reporting under 2 CFR 170 and Public Law 109-282 Federal Funding Accountability and Transparency Act (FFATA). While we accept the finding, management does not agree that this finding is a material noncompliance and material weakness in internal controls. This reporting requirement is a recent discovery that is currently being corrected by staff. To prevent a reoccurrence of this issue, the Authority has begun coordination and the process of adding a FFATA review to our internal checklist for new awards to subrecipients. The Authority has started the process of submitting all required reports to the FSRS website. In addition, the Authority will provide training to relevant staff on the FFATA reporting requirements and add additional reviews to ensure reporting is completed timely and accurately. The Authority does not anticipate a repeat of this finding.