



Representative Chris Tuck

Serving House District 23 • Dimond Estates, Foxridge, Taku, Campbell, Northwood, and Windemere

DATE: March 23, 2020

TO: Legislative Budget and Audit Committee

FROM: Representative Chris Tuck, Chair
Legislative Budget and Audit Committee 

RE: Alaska Mental Health Trust Authority Special Audit Request

In response to concerns over management of the Alaska Mental Health Trust, an audit was requested at the end of 2016. After completing the audit, the Legislative Auditor concluded that the Mental Health Trust Authority's board of trustees violated State statutes and terms of the *State v. Weiss* settlement by diverting \$44.4 million in cash principal from the Alaska Permanent Fund Corporation (APFC). The audit found that despite statutory requirements that cash principal be managed and invested by the APFC, the Authority's board of trustees suspended transfers of cash principal to the APFC for almost 10 years. Instead of transferring cash principal to the APFC for investment, \$39.5 of \$44.4 million was directly invested in seven commercial real estate properties using the Trust Land Office within the Department of Natural Resources to facilitate the commercial real estate investment transactions and to manage the properties. Six of the seven properties were mortgaged, and the proceeds were used, in part, for additional commercial real estate investments.

On November 13, 2019, the Authority reported that action has been taken to address the audit's concerns. Given the gravity of the 2018 audit's conclusions, I am recommending the Legislative Auditor conduct a follow-up audit to include the following objectives:

1. The Authority has reported that approximately \$40 million of the Trust's settlement income funds were transferred to the Mental Health Trust Fund managed by the APFC to bring the fund to the same funding level it would have been if the cash principal had not been invested in commercial real estate. The audit should:
 - a. Verify the funds were transferred;
 - b. Evaluate the impact of transferring \$40 million of Trust settlement income funds on the Authority's ability to provide for spending if the asset portfolio does not achieve its earnings objectives; and
 - c. Determine whether cash principal has been transferred to the APFC in a timely manner since the prior audit was issued;
2. Determine whether the Mental Health Trust Fund managed by APFC was reconstituted for cash principal inappropriately spent on program related investments as discussed in the 2018 audit's Recommendation No. 2;

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3. Identify whether regulations and policies that allowed the Authority to use cash principal for the investment in commercial real estate outside the APFC were amended to comply with statutes in light of the audit's conclusions; and
4. Address other issues of concern identified by the Legislative Auditor during the audit.

ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

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Audit Request Addendum

At its March 30, 2020, meeting, the Legislative Budget and Audit Committee authorized adding the following objective to the Alaska Mental Health Trust Authority audit request:

- Report on the status of commercial real estate investments and the board's intent regarding the investments.