



# ALASKA STATE LEGISLATURE

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#### COMMITTEE CONTACT:

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#### COMMITTEE AIDE:

Lauren Hughes

DATE: August 21, 2023

TO: Legislative Budget and Audit Committee

FROM: Representative Ben Carpenter, Chair   
Legislative Budget and Audit Committee

RE: Alaska Mental Health Trust Authority (AMHTA) Audit Request

In response to concerns over management of the Alaska Mental Health Trust, an audit was requested in 2016. After completing the audit in 2018, the Legislative Auditor concluded that the Alaska 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 Trust 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 to the APFC for investment, \$39.5 of \$44.4 million was directly invested in seven commercial real estate properties (five located out-of-state) using the Trust Land Office within the Department of Natural Resources to facilitate the commercial real estate investment transactions and to manage the properties.

A follow-up audit was requested in 2020 to evaluate the Authority's corrective actions including, in part, the status of the commercial real estate investments and the Authority's intent regarding future management of the investments. The audit found that the Authority used Trust income to restore the Trust cash principal illegally diverted from the APFC and found that the Department of Natural Resources Trust Land Office continued to manage the commercial real estate investments, which were considered Trust income investments after the transfer. The audit criticized this decision on the basis that the Trust Land Office did not have expertise in financial investing, particularly knowledge and expertise in managing a nation-wide commercial real estate investment program. The audit also raised concerns that converting Trust income into illiquid assets may negatively impact the Authority's ability to meet its spending goals in a down market. The follow-up audit recommended the Board of

Trustees consider liquidating the commercial real estate investments or transferring the investments to the APFC as inflation-proofing.

During the 2023 legislative session, the Authority reported that the commercial real estate investments continued to be managed by the Trust Land Office with the assistance of a third-party real estate advisor. Since that time, it has come to my attention that the Authority's Board of Trustees terminated the agreement with its third-party real estate advisor. It has also come to my attention that the commercial real estate properties are not subject to independent audits, and it has been alleged that related financial information is not accurate. It has also been alleged that the Trust Land Office has not complied with the Board of Trustees approved management policies and that their activities are not subject to prudent governance by the Trustees. Given these concerns and the importance of managing the Alaska Mental Health Trust Fund for future generations of trust beneficiaries, I request an audit be approved to include the following objectives:

- Evaluate the Trust Land Office's compliance with Trustee approved management policies.
- Evaluate the financial health of the commercial real estate properties.
- Examine the Board of Trustee's oversight of the Trust Land Office's operations.
- Follow up on any other related concerns the Legislative Auditor identifies during the audit.