

A photograph of three business professionals in a modern office setting. A woman with curly hair is on the left, a man with grey hair is in the middle, and a man with dark hair is on the right. They are seated on a white sofa and are engaged in a conversation. A black briefcase is on the floor next to the man on the right. The background shows large windows with greenery outside.

REPORT TO HONORABLE MAYOR AND MEMBERS OF
THE BOROUGH ASSEMBLY

KENAI PENINSULA BOROUGH

2024 AUDIT RESULTS

NOVEMBER 22, 2024

The logo for BDO is the letters "BDO" in a bold, white, sans-serif font, set against a red background. A registered trademark symbol (®) is located to the upper right of the letters.

Welcome

November 22, 2024

Honorable Mayor and Members of the Borough Assembly
Kenai Peninsula Borough, Alaska

We look forward to discussing with you the current year audit results for Kenai Peninsula Borough. On July 15, 2024, we presented an overview of our plan for the audit of the financial statements, including the Schedule of Expenditures of Federal Awards and Schedule of State Financial Assistance of Kenai Peninsula Borough (the Borough) as of and for the year ended June 30, 2024.

This communication is intended to elaborate on the significant findings from our audit, including our views on the qualitative aspects of the Borough's accounting practices and policies, management's judgments and estimates, financial statement disclosures, and other required matters to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Borough is responsible.

We are pleased to be of service to the Borough and look forward to meeting with you on January 7, 2025 to discuss our audit findings, as well as other matters that may be of interest to you, and to answer any questions you might have.

Respectfully,

BDO USA

Copy to: Peter Micciche, Mayor
Brandi Harbaugh, Finance Director

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The following communication was prepared as part of our audit, has consequential limitations, and is intended solely for the information and use of those charged with governance (e.g., Borough Assembly) and, if appropriate, management of the Company, and is not intended and should not be used by anyone other than these specified parties.

Executive Summary



Executive Summary

Results of Our Audit

- Overview and Status - We have completed our audit work with respect to the financial statements for the year ended June 30, 2024.
- Quality of the Borough's Financial Reporting - submitting an Annual Comprehensive Financial Report to the Government Finance Officers Association, received Certificate of Achievement for Excellence in Financial Reporting for the 2023 submission.
- Significant Risk Overview & Discussion
- Corrected and Uncorrected Misstatements
- Group Audit
- Internal Control Over Financial Reporting

Required Communications

- No significant items

Open Discussion and Questions



Audit Results



Overview & Status of Our Audit

We have completed our audit of the financial statements as of and for the year ended June 30, 2024. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. This audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

- ▶ The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements.
- ▶ The scope of the work performed was substantially the same as that described to you in our earlier Audit Plan communications.
- ▶ We issued an unmodified opinion on the financial statements and released our report on November 22, 2024.
- ▶ We have issued our 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*. We identified a material weakness 2024-001 in internal controls over financial reporting in relation to the presentation of the schedule of expenditures of federal awards.
- ▶ We have issued an unmodified opinion on the Borough's Single Audit report, including the Schedule of Expenditures of Federal Awards (SEFA) and the Schedule of State Financial Assistance (SSFA), and released our report dated November 22, 2024. We identified two significant deficiencies: 2024-002 over Procurement and Suspension and Debarment, and 2024-003 over Types of Services Allowed and Unallowed.
- ▶ In planning and performing our audit of the SEFA and SSFA, we considered the Borough's internal control over compliance with requirements that could have a direct and material effect on its major federal and state program(s) to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with GAS and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State of Alaska Audit Guide and Compliance Supplement for State Single Audits (State Audit Guide), but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.
- ▶ Our responsibility for other information in documents containing the Borough's audited financial statements (e.g., Introductory and Statistical Sections) does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we have read the information included by the Borough and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact. We have not identified any material inconsistencies or concluded there are any material misstatements of facts in the other information that management has chosen not to correct.
- ▶ All records and information requested by BDO were freely available for our inspection.



Quality of the Borough's Financial Reporting

A discussion will be held regarding the quality of the Borough's financial reporting, which included the following:

- ▶ Qualitative aspects of significant accounting policies and practices
 - No concerns.
- ▶ Our assessment of critical accounting estimates, accounting policies and practices
 - No concerns.
- ▶ Significant unusual transactions
 - None identified.
- ▶ Financial statement presentation
 - No new presentation or disclosures.
- ▶ New accounting pronouncements
 - No new accounting pronouncements.
- ▶ Alternative accounting treatments
 - None identified.



Areas of Significant Risk

Our areas of significant risk, which are risks with both a higher likelihood of occurrence and a higher magnitude of effect that require special audit considerations, are as follows.

Revenue Recognition - Grants

Management Override of Controls

IT Superuser Access Rights

Segregation of Duties - Journal Entries

These risks were identified during the preliminary audit procedures, and there were no additional significant risks added during the audit.

Corrected and Uncorrected Misstatements

CORRECTED AND UNCORRECTED MISSTATEMENTS

- ▶ There was one corrected misstatement on the Schedule of Expenditures of Federal Awards (SEFA), as discussed with us in the course of the audit, to reflect an additional \$2,159,280 of expenditures under Assistance Listing Number 66.202 that were incurred and presented on the 2023 SEFA, but not eligible for reporting until 2024. This had no impact to the financial statements. There were no other corrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we brought to the attention of management.
- ▶ There was one uncorrected misstatement of \$2,159,280, where EPA grant revenue should have been recognized in 2024, but was recorded in 2023 when the related expenditures were incurred. As a result, 2024 grant revenue is understated by this amount. Total revenue across the two years is correct and there is no impact to future periods. There were no other uncorrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we presented to management.

Group Audit

The audit of the Borough requires the inclusion of financial information for all components of the reporting entity. The reporting entity is comprised of the Borough and its “component Unit” as defined by GAAP. This collection of individual reporting entities comprise the “Group”. Our audit is considered the “Group” Audit

Included in the Borough’s audit is the Kenai Peninsula Borough School District, Central Peninsula General Hospital, and South Peninsula Hospital. All of these audits were performed by BDO. Where relevant, we have included information in this report as it relates to the component units.

Kenai Peninsula Borough School District (the District)

- ▶ We have issued an unmodified opinion on the financial statements and released our report on October 29, 2024.
- ▶ We have issued an unmodified opinion on the District’s Single Audit Report, including the Schedule of Expenditures of Federal Awards (SEFA) and Schedule of State Financial assistance (SSFA), and released our report dated October 29, 2024.
- ▶ There were no corrected and uncorrected misstatements noted.
- ▶ There were three control deficiencies reported to the District associated with super users, user access review, and password policies.

Central Peninsula General Hospital (the Hospital)

- ▶ We have issued an unmodified opinion on the financial statements and released our report on November 13, 2024.
- ▶ We have issued an unmodified opinion on the Hospital’s Single Audit Report, including the Schedule of Expenditures of Federal Awards (SEFA) and Schedule of State Financial assistance (SSFA), and released our report dated November 13, 2024.
- ▶ There was one corrected misstatement to correct the balance in the funds held at the Borough which resulted in an increase in investment assets and investment income of \$1.1 million.
- ▶ There was one uncorrected misstatement of \$822,250, pertaining to the portion of prior year interest income and bond-related cash accounts in order for records of the Hospital and the Borough to match.
- ▶ There were four control deficiencies reported to the Hospital associated with IT system design, pay-rate approvals, Workday system segregation of duties, and reconciliations between the Hospital and the Borough.

South Peninsula Hospital (the Hospital)

- ▶ We have issued an unmodified opinion on the financial statements and released our report on November 15, 2024.
- ▶ We have issued an unmodified opinion on the Hospital’s Single Audit Report, including the Schedule of Expenditures of Federal Awards (SEFA), and released our report dated November 15, 2024.
- ▶ There were no corrected misstatements noted, however there was one corrected disclosure related to the reclassification of restricted net position from the amounts reflected in the 2023 financial statements to properly classify net pension assets and related accounts as restricted net position.
- ▶ There was one uncorrected misstatement and disclosure for \$401,738 related to the exclusion of the South Peninsula Hospital Foundation from the financial statements as a consolidated entity.
- ▶ There was one significant deficiency in internal control over financial reporting (2024-001) related to restricted net position.
- ▶ There was one control deficiency related to journal entry review and approval.

Internal Control Over Financial Reporting



Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Borough’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Borough’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Borough’s internal control.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the Borough’s internal control over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

Category	Definition
Control Deficiency	A deficiency in internal control over financial reporting 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.
Significant Deficiency	A deficiency or combination of deficiencies in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Material Weakness	A deficiency or combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Borough’s financial statements will not be prevented or detected and corrected on a timely basis.

Internal Control Over Financial Reporting

In conjunction with our audit, we noted the following:

▶ The following material weaknesses were identified:

Material Weakness	Comments
2024-001 - Presentation of the Schedule of Expenditures of Federal Awards	A grant in the amount of \$2.1 million was recorded as revenue in the year ended June 30, 2023, and reported on the 2023 SEFA in error. The grant award was not approved and signed until September 2023. There was an incorrect application of accounting principles related to revenue recognition of the grant, complicated by the unique nature of the grant being funded by an appropriation.

▶ We have communicated to management of the Borough control deficiencies and provided suggestions for improvement of those deficiencies that were identified as a result of our audit that we did not consider to be material weaknesses or significant deficiencies.

Control Deficiencies	Comments
Super User Access	The Finance Director and Controller both have administrative access to the financial accounting systems (Innoprise, CitySuite). The Borough should continue audit trail reporting and monitoring to ensure controls over this authority and access.
Journal Entry Approval	The documentation requirements around formal approval to be retained related to manual journal entries are not clear in the current policy. We noted one manual adjustment that was posted without formal approval documented. We recommend the Borough revise the current policy to clarify what documentation is to be retained around the various types of entries performed during the year.

Internal Control Over Compliance Findings

In performing our compliance audit in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance) and the State of Alaska Audit Guide and Compliance Supplement for State Single Audits (State Audit Guide), we obtained an understanding of the Borough's internal control over compliance to design audit procedures and to test and report on internal control over compliance in accordance with the Uniform Guidance and the State Audit Guide, but not for the purpose of expressing an opinion on the effectiveness of the Borough's internal control over compliance. Accordingly, we did not express an opinion on the effectiveness of the Borough's internal control over compliance.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing and in a timely manner, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the Borough's internal control over compliance. The definitions of a material weakness, significant deficiency, and control deficiency in internal control over compliance are as follows:

Category	Definition
Material Weakness	A deficiency or a combination of deficiencies in internal control over financial reporting or internal control over compliance, such that there is a reasonable possibility that a material misstatement of the financial statements or a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.
Significant Deficiency	A deficiency or a combination of deficiencies in internal control over financial reporting or internal control over compliance that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Control Deficiency	A deficiency in internal control over financial reporting or internal control over compliance 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 financial statement misstatements or noncompliance with a type of compliance requirement of a federal program on a timely basis.
Instances of Noncompliance with Laws and Regulations	In accordance with GAS, matters that involve instances of noncompliance with laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements.

Internal Control Over Compliance Findings

In conjunction with our compliance audit, we noted the following:

Finding number	Name of Finding	Type of Opinion
2024-002	Procurement and Suspension and Debarment - Significant Deficiency in Internal Controls Over Compliance	Unmodified Opinion
2024-003	Types of Services Allowed or Unallowed - Significant Deficiency in Internal Controls Over Compliance	Unmodified Opinion

► The following significant deficiencies were identified:

Significant Deficiency	Comments
2024-002 - Procurement and Suspension and Debarment	Procurement testing identified a total of 3 out of 6 procurements where evidence was not retained to support the required verification of whether a contractor was suspended or debarred.
2024-003 - Types of Services Allowed or Unallowed	Types of services allowed or unallowed testing identified 2 subrecipients where the subaward grant period of performance ended as of June 30, 2024, expenditures had not been fully spent by this date, and a final report was not received from the subrecipient within 30 days.

Detail of Significant Accounting Practices, Policies, Estimates and Disclosures



Significant Accounting Practices (including Policies, Estimates and Disclosures)

ACCOUNTING PRACTICES, POLICIES, ESTIMATES, AND DISCLOSURES

The following summarizes the more significant required communications related to our audit concerning the Borough's accounting practices, policies, and estimates:

The Borough's significant accounting practices and policies are those included in Note I to the financial statements. These accounting practices and policies are appropriate, comply with the applicable financial reporting framework and industry practice, were consistently applied, and are adequately described within Note I to the financial statements.

- ▶ A summary of recently issued accounting pronouncements is included in Note III.M to the Borough's financial statements.
- ▶ There were no changes in significant accounting policies and practices during June 30, 2024.

Critical accounting estimates are those that require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. The Borough's critical accounting estimates, including a description of management's processes and significant assumptions used in development of the estimates, are disclosed in Note I of the financial statements.

- ▶ Management did not make any significant changes to the process of significant assumptions used to develop the critical accounting estimates in 2024.

Critical Accounting Estimates

Allowance for Uncollectible Accounts - Several of the Borough's accounts receivable are from granting agencies; these are considered by management to be 100% collectible. Customer accounts receivables, including amounts due related to taxes, assessments, interest income, and various user charges are reviewed by management periodically to determine a reasonable amount of allowance, based on known factors, past history, and age of the outstanding amount.

Net Pension/OPEB Liabilities - The net pension/ OPEB liabilities and related deferred inflow and outflows of resources are estimated based on actuarial and other actual contribution data provided by the Borough by the PERS Plan Administrator.

Closure and Post Closure Obligations - Accounting rules prescribe that the Borough record the ultimate cost of closure and monitoring as the landfill is being filled. The Borough has estimated the cost of closure and monitoring material and supplies to cap and close, the cost of ongoing monitoring. This amount has been reported on the statement of net assets.

Insurance Claims Reserve - The Borough is self-insured for property/casualty, workers' compensation, and health insurance. Claims payable and IBNR are based on estimates of claims incurred.

Discount Rate - The Borough is determining discount rate based on lessee or lessor relationship as well as length of agreement for calculations related to leases receivable and payable and SBITA's.

Additional Required Communications



Other Required Communications

Following is a summary of other required items, along with specific discussion points as they pertain to the Borough:

Requirement	Discussion Point
Significant changes to planned audit strategy or significant risks initially identified	There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to those charged with governance as part of our Audit Plan communications.
Obtain information from those charged with governance relevant to the audit	There were no matters noted relevant to the audit, including, but not limited to: violations or possible violations of laws or regulations; risk of material misstatements, including fraud risks; or tips or complaints regarding the Borough's financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
Alternative accounting treatment	No alternative accounting treatments permissible under the applicable financial reporting framework for policies and practices related to material items were identified and discussed with management.
Significant unusual transactions	During the year ended June 30, 2024, we were not aware of any significant unusual transactions.
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of requirements of an applicable financial reporting framework.
Significant matters identified by component auditors	During the component auditor's procedures, there were significant matters identified that were deemed necessary to bring to group management's attention as discussed on Slide 11.
Significant findings and issues arising during the audit in connection with the Borough's related parties	We have evaluated whether the identified related party relationships and transactions have been appropriately identified, accounted for, and disclosed and whether the effects of the related party relationships and transactions, based on the audit evidence obtained, prevent the financial statements from achieving fair presentation.

Other Required Communications (cont.)

Following is a summary of other required items, along with specific discussion points as they pertain to the Borough:

Requirement	Discussion Point
Significant findings or issues arising during the audit that were discussed, or were the subject of correspondence, with management	There were no significant findings or issues arising during the audit that were discussed, or were the subject of correspondence, with management that have not already been communicated.
Results of procedures performed related to other information included in annual report	The Borough releases additional annual information with their financial statements, and as a result, additional procedures were required to be performed on this information. See additional procedures described on Slide 7.
Representations requested from management	Please refer to the management representation letter.
Disagreements with management	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the Borough's financial statements or to our auditor's report.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
Matters that are difficult or contentious for which the auditor consulted outside the engagement team	There were no difficult or contentious matters that we consulted with others outside the engagement team that we reasonably determined to be relevant to those charged with governance regarding their oversight of the financial reporting process.

Independence

Our engagement letter to you dated July 10, 2024 describes our responsibilities in accordance with professional standards and certain regulatory authorities and *Government Auditing Standards* regarding independence and the performance of our services. This letter also stipulates the responsibilities of the Borough with respect to independence as agreed to by the Borough. Please refer to that letter for further information.



Other Topics



BDO's System of Quality Management

An effective quality management system in an audit firm is crucial for supporting the consistent performance of high-quality audits and reviews of financial statements, or other assurance or related services engagements under professional standards, and applicable legal and regulatory requirements.

Accordingly, BDO has implemented a system of quality management designed to provide reasonable assurance that its professionals fulfill their responsibilities and conduct engagements in accordance with those professional standards, and legal and regulatory requirements. The firm's system of quality management supports the consistent performance of quality audits through many ongoing activities including, at least annually, certification by leaders with responsibility for key controls and related processes. Our Assurance Quality Management team performs regular reviews and testing of key controls and processes throughout the system of quality management and identifies and communicates areas for improvement. In addition, our Audit Quality Advisory Council supports our system of quality management by providing guidance and input on audit quality initiatives.

As required by International Standard on Quality Management 1 (ISQM 1) under the International Auditing and Assurance Standards Board (IAASB), BDO has conducted an evaluation of the effectiveness of its system of quality management and concluded, as of July 31, 2023, that, except for certain deficiencies related to the execution of its issuer audits, that system provides the reasonable assurance that our professionals will perform audits and reviews of financial statements or related assurance services engagements in accordance with professional standards, and applicable legal and regulatory requirements. BDO has either implemented or is designing remedial actions to address those deficiencies prior to our next evaluation.



We will continue to provide you with updates on our progress. Currently, you may find discussion of BDO's system of quality management within our annual [Audit Quality Reports](#), the most recent of which is accessible [here](#).

[CLICK HERE TO ACCESS IAASB ISQM-1 IN ITS ENTIRETY >](#)

Attachment

Please refer to the Representation Letter attached for further information.





November 22, 2024

BDO USA, P.C.

3601 C Street, Suite 600

Anchorage, AK 99503

Ladies and gentlemen:

We are providing this letter in connection with your audit(s) of the financial statements of Kenai Peninsula Borough, Alaska (the Borough), which comprise the respective financial position of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information as of June 30, 2024, and the respective changes in financial position and, where applicable, cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the preparation and fair presentation in the financial statements of financial position, changes in net position, and cash flows in conformity with accounting principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that are material.

Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of the date of this representation letter, as entered on the first page, the following representations made to you during your audit(s):

- (1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated July 10, 2024, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
- (2) We have fulfilled our responsibility, as set out in the terms of the aforementioned audit engagement letter, for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- (3) The financial statements include all properly classified funds and other financial information of the primary government and all component units required to be included in the financial reporting entity by accounting principles generally accepted in the United States of America. All funds required to be presented as major funds are identified and presented as such.
- (4) We have made available to you:
 - (a) All financial records, and related data and federal and state awards (including amendments, if any, and any other correspondence with federal and state agencies or pass-through entities relevant to federal and state programs and related activities), including the names of all related parties and all relationships and transactions with related parties, as agreed upon in the terms of the aforementioned audit engagement letter.
 - (b) All additional information that you have requested from us for the purpose of the audit.
 - (c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - (d) Minutes of the meetings of the Borough Assembly that were held from July 1, 2023 to the date of this letter, or summaries of actions of recent meetings for which minutes have not yet been prepared.
- (5) There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
- (6) There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements, schedule of expenditures of federal awards (SEFA), or schedule of state financial assistance (SSFA). The SEFA was corrected as discussed with us in the course of the audit to reflect an additional \$2,159,280 under Assistance Listing Number 66.202. We have evaluated the propriety of this corrected SEFA misstatements based on a review of both the applicable authoritative literature and the underlying supporting evidence from our files and confirm our responsibility for the decision to correct it.
- (7) The financial statement misstatements relating to accounts and disclosures identified and discussed with us in the course of the audit that are listed immediately below have not been corrected. In our opinion, the effects of not correcting such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements of the Borough taken as a whole.

Uncorrected Misstatements

Item #	Account Name and Adjustment Description	Debit	Credit	Impact on Net Position
1	2023 Grant Revenue	\$ 2,159,280		\$ (2,159,280)
	2024 Grant Revenue		\$ 2,159,280	\$ 2,159,280

EPA grant revenue should have been recognized in 2024, but was recorded in 2023 when the related expenditures were incurred. As a result, 2024 grant revenue is understated. Total revenue across the two years is correct and there is no impact to future periods.

- (8) You have identified and discussed with us in the course of the audit the deficiencies in our internal control over financial reporting listed immediately below:

Material Weakness
<p>Finding 2024-001 - Presentation of the Schedule of Expenditures of Federal Awards - A grant in the amount of \$2.1 million was reported on the 2023 SEFA as a major program in error. The grant award was not approved and signed until September 2023.</p>
Significant Deficiencies
<p>Finding 2024-002 - Procurement and Suspension and Debarment - Procurement testing identified a total 3 out of 6 procurements where evidence was not retained to support the required verification of whether a contractor was a suspended or debarred party.</p> <p>Finding 2024-003 - Types of Services Allowed or Unallowed - Types of services allowed or unallowed testing identified 2 subrecipients where the subaward grant period of performance ended as of June 30, 2024, expenditures had not been fully spent by this date, and a final report was not received from the subrecipient within 30 days.</p>
Control Deficiencies Other Than Material Weaknesses or Significant Deficiencies
<p>Super User Access - The Finance Director and Controller both have administrative access to the financial accounting systems (Innoprise, CitySuite). The Borough should continue audit trail reporting and monitoring to ensure controls over this authority and access.</p>
<p>Journal Entry Approval - The documentation requirements around formal approval to be retained related to manual journal entries are not clear in the current policy. We noted one manual adjustment that was posted without formal approval documentation. We recommend the Borough revise the current policy to clarify what</p>

documentation is to be retained around the various types of entries performed during the year.

- (9) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud or noncompliance. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud or noncompliance. We have no knowledge of any:
- (a) Fraud or suspected fraud involving management or involving employees who have significant roles in internal control, whether or not perceived to have a material effect on the financial statements.
 - (b) Fraud or suspected fraud involving others where the fraud could have a material effect on the financial statements.
 - (c) Allegations of fraud or suspected fraud affecting the Borough received in communications from employees, former employees, regulatory agencies, law firms, predecessor accounting firms, or others.
 - (d) Instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse, whose effects should be considered when preparing the financial statements.
- (10) We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- (11) The following, where applicable and material, have been properly recorded or disclosed in the financial statements:
- (a) The identity of all related parties and all related party relationships and transactions of which we are aware, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - (b) Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
 - (c) Guarantees, whether written or oral, under which the Borough is contingently liable.
 - (d) Significant estimates and material concentrations known to management that are required to be disclosed in accordance with accounting principles generally accepted in the United States of America. In that regard, all accounting estimates that could be material to the financial statements, including key factors and significant assumptions underlying those estimates, have been identified, and we believe the estimates are reasonable in the circumstances. The methods, significant assumptions, and the data used in making the accounting estimates and

the related disclosures are appropriate to achieve recognition, measurement, and disclosure that is in accordance with accounting principles generally accepted in the United States of America.

(e) The effects of all known actual or possible litigation, claims, and other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America, including:

- Pending or anticipated tax refunds, other potential or pending claims, lawsuits by or against any branch of government or others;
- Written or oral guarantees, endorsements, or unused letters of credit;
- Unusual guarantees; or
- Labor claims or negotiations.

Accounting principles generally accepted in the United States of America require loss contingencies to be accrued if it is probable an asset has been impaired or a liability incurred at the statement of financial position date and the amount of loss can be reasonably estimated. Such contingencies must be disclosed, but may not be accrued, if the loss is reasonably possible (but not probable) or the loss is probable but the amount of loss cannot be reasonably estimated.

(f) Commitments, such as:

- Major capital asset purchase agreements;
- More-than-one-year employment arrangements or contracts with suppliers or customers, or one-year-or-longer term leases;
- Deferred compensation, bonuses, pensions plans, or severance pay; or
- Pending sale or merger of all or a portion of the business or of an interest therein or acquisition of all or a portion of the business, assets or securities of another entity;

(g) Joint ventures or other participations, the detailed transactions of which are not carried on our books.

(12) There are no:

- (a) Violations or possible violations of budget ordinances, laws or regulations and provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects could be material to the financial statements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - (b) Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with accounting principles generally accepted in the United States of America.
 - (c) Side agreements or other arrangements (either written or oral) that have not been disclosed to you.
 - (d) Restrictions of net position that were not properly authorized and approved, or reclassifications of net position that have not been properly reflected in the financial statements.
- (13) Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the statement of financial position date and have been appropriately reduced to their estimated net realizable value.
- (14) The Borough has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- (15) We have appropriately disclosed the Borough's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position is properly recognized under the policy.
- (16) We have complied with all aspects of contractual agreements, including debt covenants, that would have a material effect on the financial statements in the event of noncompliance. We have also complied with the SEC disclosure rules for reporting annual financial information and material events to repositories in accordance with SEC Rule N.240, 15c2-12.
- (17) No discussions have taken place with your firm's personnel regarding employment with the Borough.
- (18) We are responsible for compliance with laws, regulations and provisions of contracts and grant agreements applicable to us and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts.
- (19) Components of net position (net investment in capital assets, restricted and unrestricted) and classifications of fund balance (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, if applicable, approved.
- (20) Revenues are appropriately classified in the statement of activities within program revenues, contributions, and general revenues. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

- (21) In regards to the preparation of the financial statements and related footnote disclosures, preparation of the GASB 68/75 entries and related footnote disclosures, and the preparation of the require Form SF - SAC Data Collection Form, services performed by you, we have: (1) assumed all management responsibilities, (2) designated an individual (within senior management) with suitable skill, knowledge, or experience to oversee the services, (3) evaluated the adequacy and results of the services performed, and (4) accepted responsibility for the results of the services.
- (22) We acknowledge our responsibility for presenting the supplementary information in accordance with accounting principles generally accepted in the United State of America and we believe it is fairly presented. The methods of measurement and presentation of the supplementary information have not changed from the prior period and we have disclosed to you any significant assumptions underlying the measurement and presentation of the supplementary information.
- (23) Required supplementary information is measured and presented in accordance with prescribed guidelines.
- (24) In regard to the Net Pension and OPEB Liability (Asset):
- (a) We agree with the findings of specialists in evaluating the pension and other postemployment benefits liabilities (assets) and costs and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
 - (b) We believe that the actuarial assumptions and methods used to measure pension and/or other postretirement liabilities and costs for financial accounting and disclosure purposes are appropriate in the circumstances.
- (25) In regard to the Landfill and IBNR estimates:
- (a) We agree with the findings of specialists in evaluating the landfill and IBNR estimates and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
- (26) We have not completed the process of evaluating the impact that will result from adopting Governmental Accounting Standards Board (GASB) Statement No. 101 - 104, as discussed in Note M. The Borough is therefore unable to disclose the impact that adopting GASB Statement No. 101 - 104 will have on its financial position and the results of operations when such statement is adopted.
- (27) With respect to federal and state award programs:

- (a) We are responsible for understanding and complying with, and have complied with, the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the State of Alaska Audit Guide and Compliance Supplement for the State Single Audits (State Audit Guide), including requirements relating to the preparation of the schedule of expenditures of federal awards (SEFA) and schedule of state financial assistance (SSFA).
- (b) We have, in accordance with the Uniform Guidance and State Audit Guide, identified and disclosed to you in the schedule of expenditures of federal awards (SEFA) and schedule of state financial assistance (SSFA), expenditures made during the audit period for all government programs and related activities provided by federal and state agencies in the form of federal and state awards, grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
- (c) We acknowledge our responsibility for the preparation of the SEFA, SSFA and related notes in accordance with the requirements of the Uniform Guidance and State Audit Guide, and we believe the SEFA and SSFA, including its form and content, is fairly presented in accordance with the Uniform Guidance and State Audit Guide. The methods of measurement or presentation of the SEFA and SSFA have not changed from those used in the prior period, and we have disclosed to you any significant assumptions and interpretations underlying the measurement or presentation of the SEFA and SSFA.
- (d) We have notified you of federal awards and funding increments that were received for awards received before December 26, 2014, and differentiated those awards from awards received on or after December 26, 2014, and subject to the audit requirements of the Uniform Guidance.
- (e) We will include the auditor's report on the SEFA and SSFA in any document that contains the SEFA and SSFA and that indicates you have reported on such information.
- (f) If the SEFA and SSFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA and SSFA no later than the date we issue the SEFA and SSFA and the auditor's report thereon.
- (g) We are responsible for understanding and complying with, and have complied with in all material respects, the requirements of federal and state statutes, regulations, and the terms and conditions of federal and state awards related to each of our federal and state programs and have identified and disclosed to you the requirements of federal and state statutes, regulations, and the terms and conditions considered to have a direct and material effect on each federal and state program.
- (h) We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal and state programs that provides reasonable assurance that we are managing our federal and state awards in compliance with federal and state statutes, regulations, and the terms and conditions that could have a material effect on our federal and state programs. We believe the internal control system is

adequate and is functioning as intended. Also, subsequent to the date of the auditor's report as of which compliance was audited, no changes have occurred in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies and material weaknesses in internal control over compliance as reported in the schedule of findings and questioned costs.

- (i) We have made available to you all federal and state award contracts and grant agreements (including amendments, if any) and any other correspondence with federal and state agencies or pass-through entities relating to each major federal and state program and related activities that have taken place with federal and state agencies or pass-through entities.
- (j) We have received no requests from a federal or state agency to audit one or more specific programs as a major program.
- (k) We have complied, in all material respects, with the direct and material compliance requirements, including when applicable, those set forth in the *OMB Compliance Supplement* and *State Audit Guide*, relating to federal and state awards and have confirmed that there were no amounts questioned and no known noncompliance with the direct and material compliance requirements of federal and state awards. We also know of no instances of noncompliance occurring subsequent to the end of the period audited.
- (l) We have disclosed to you any communications from federal and state awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- (m) Amounts claimed or used for matching were determined in accordance with relevant guidelines in the *Uniform Guidance*, *OMB Circular A-87, Cost Principles for State, Local, and Tribal Governments*, and *OMB's Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, and the *State Audit Guide*.
- (n) We have disclosed to you our interpretations of compliance requirements that are subject to varying interpretations, if any.
- (o) We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.
- (p) We have disclosed to you the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.
- (q) Federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared, and are prepared on a basis consistent with the schedule of expenditures of federal awards (SEFA) and the schedule of state financial assistance (SSFA).

- (r) The copies of federal and state program financial reports provided to you are true copies of the reports submitted or electronically transmitted, to the respective federal and state agency or pass-through entity, as applicable.
 - (s) We have monitored subrecipients, as necessary, to determine that they have expended subawards in compliance with applicable federal and state statutes, regulations and terms and conditions of the subaward and have met other pass-through entity requirements of the Uniform Guidance and State Audit Guide.
 - (t) We have considered the results of subrecipients' audits and have made any necessary adjustments to our books and records.
 - (u) We have charged costs to federal and state awards in accordance with applicable cost principles.
 - (v) We are responsible for, and have accurately completed, the appropriate sections of the Data Collection Form as required by the Uniform Guidance. The final version of the applicable audit reporting package, which includes your signed auditor's reports, that we will submit to the Federal Audit Clearinghouse (FAC) will be identical to the final version of such documents that you provided to us.
 - (w) We have identified and disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, internal or external monitoring, and other studies directly related to the audit objectives of the compliance audit, including findings received and corrective actions taken from the end of the audit period covered by the compliance audit report to the date of the auditor's report.
 - (x) We have provided views on your reported findings, conclusions, and recommendations. We are responsible for taking corrective action on audit findings and we are responsible for preparing and implementing a corrective action plan for each audit finding that meets the requirements of the Uniform Guidance and State Single Audit.
 - (y) We are responsible for and have ensured the reporting package does not contain protected personally identifiable information.
- (28) There have been no known or suspected breaches of sensitive information (e.g., personnel files) caused by cyber-attack or other means, or other cybersecurity incidents, where the breach or other incident could have a material effect on the financial statements.
- (29) In connection with any electronic presentation of the financial statements and your audit report thereon on our web site, we acknowledge that:
- We are responsible for the preparation, presentation, and content of the financial statements in the electronic format.
 - If your audit report is presented on our web site, the full financial statements upon which you reported and to which you appended your signed report will be presented.

- We will clearly indicate in the electronic presentation on our web site the financial information that is subject to your audit report. We will clearly differentiate any information that may also be presented by us on or in connection with our web site that was contained in the published version of the financial statements and other supplementary information, but which is not part of the audited financial statements or other financial information covered by your audit report.
- We have assessed the security over financial statement information and the audit report presented on our web site, and are satisfied that procedures in place are adequate to ensure the integrity of the information provided. We understand the risk of potential misrepresentation inherent in publishing financial information on our web site through internal failure or external manipulation.
- If the electronic financial statements are generally made available to the public on our web site, we will include a notification to the reader that such financial statements are presented for convenience and information purposes only, and while reasonable efforts have been made to ensure the integrity of such information, they should not be relied on. A copy of the printed financial statements will be provided on request.


(30) Our annual report comprises the following documents: Annual Comprehensive Financial Report

Such documents are consistent with the financial statements, and do not contain any material misstatements. The final version of the documents that comprise the annual report will be provided to you when available, and prior to our issuance of the documents to any third parties.

(31) We have considered climate-related events and conditions when preparing the financial statements and necessary disclosures, and have communicated to you such matters, if any, and their impact on our financial reporting.

To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to the statement of financial position date and through the date of this representation letter, as entered on the first page, that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.

Very truly yours,



Peter A. Micciche, Borough Mayor



Brandi Harbaugh, Finance Director

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