

May 31, 2019

Representative Chris Tuck
Chair, Legislative Budget and Audit Committee
State Capitol 30
Juneau, AK 99801-1182

Re. Compliance with Audit Findings AMHTA Audit 04-30090-18

Dear Representative Tuck,

On behalf of the Alaska Mental Health Trust Authority staff and trustees, I am pleased to provide the following report on work performed in response to the recommendations made in the performance review dated February 8, 2018 and released on June 5, 2018.

Recommendation One:

The Authority board of trustees should stop investing in commercial real estate through the TLO, consult with the APFC on the treatment of commercial real estate investments acquired to date via TLO, and the transfer the Trust Authority Development Account's cash principal balance to the APFC.

The Trust has taken several actions to address these recommendations regarding its commercial real estate activity. First, the Trust made an administrative decision to suspend investments in commercial real estate when the audit was initiated in December 2016. There have been no acquisitions since that time and we expect to maintain a position of no further acquisitions for the foreseeable future.

In order to satisfy concerns that principal had been inappropriately used for commercial real estate investments, the Trust replaced the principal with operating reserves. The Trust deposited \$39.5 million into the Mental Health Trust Fund managed by the APFC. This action refunds the MHTF for all of the cash principal that was used to acquire the seven commercial real estate investments. As a result, the balance of the MHTF is made whole, as if the commercial real estate investments had not occurred.

The Trust will continue to own the seven commercial real estate assets for the time being and utilize the annual cash distributions (approximately \$2 million) to fund programs and services that support Trust beneficiaries. We will also secure the services of an external professional real estate investment advisor to guide the Trust regarding the disposition of the seven properties.

As further recommended, the trustees authorized a transfer of all unobligated Trust Authority Development Account (TADA) funds to the Mental Health Trust Fund. This transfer totaled \$16.8 million and was completed on December 14, 2018. We expect that subsequent deposits will be made no less than annually as cash principal is generated by Trust Land Office activity.

These actions should fully address the concerns raised in Recommendation One and prevent the situation from occurring in the future.

Recommendation Two:

The Authority's board of trustees should fund future program-related investment (PRI) activities from the Trust income account and reconstitute the APFC with cash principal used on PRIs to date.

On October 17, 2018 the trustees approved an allocation from spendable reserves for \$4.8 million to be used for Facility Needs. It is expected that this allocation will fund future program related investment activity and, if additional program related investments are needed in the future, the Trust will meet those needs from either current income or spendable reserves.

In accordance with Recommendation Two, on May 8, 2019 the trustees authorized a transfer of \$1.8 million from spendable reserves to the Mental Health Trust Fund. This transfer makes the account at APFC whole for the amount used on past program related investments.

These actions should fully address the concerns raised in Recommendation Two.

Recommendation Three:

The Authority's board of trustees should work with the Authority and TLO management to revise the Asset Management Policy Statement and Resource Management Strategy to incorporate industry best practices and facilitate compliance with State investment laws.

The Trust engaged Callan LLC, an independent financial advisory firm, to assist with a review of the Asset Management Policy Statement and the Resource Management Strategy. Callan provided a preliminary response to the Trust on April 8, 2019 and the Trust has begun drafting policy revisions and updates to improve the policy documents. We expect to present the proposed updates for trustee consideration at the August 1, 2019 trustee Finance Committee meeting and request adoption of the proposed version at the August 31, 2019 full board meeting.

A portion of this work includes establishing a calendar for regular review and update of these documents, especially given the ever changing environment around investment laws and related regulation. At the completion of this work, the Trust will have a strong body of policy that reflects the best available information and industry practices. The updated policies, combined with the schedule for regular review and update of the policies, should fully address the concerns raised in Recommendation Three and provide a mechanism to keep the Trust in compliance going forward.

Recommendation Four:

The Authority's board of trustees and chief executive officer should design and implement written procedures to ensure trustees comply with the Alaska Executive Branch Ethics Act, the Open Meetings Act, and Authority's bylaws.

The Trust, in cooperation with the Department of Law, immediately arranged trainings to educate trustees on compliance with the Alaska Executive Branch Ethics Act, Open Meetings Act, and the Authority's by laws. In addition to providing the education opportunities, the Trust has redesigned the on boarding process for incoming trustees to make sure they are promptly provided with new trustee orientation where they receive in depth briefing on these matters. A trustee training record has also

been implemented to track which trainings have been conducted and ensure that the materials reflect the most current information.

The Trust also made implemented structural changes to strengthen our governance. The trustees, board committees, and chief executive officer now have charters that clearly outline their roles, responsibilities, and authority levels. This improvement effort has also been reinforced by the establishment of an Audit & Risk Committee at the board level. The Audit & Risk Committee monitors overall compliance activities, reviews policy changes, and works with staff to implement any necessary changes to internal controls.

These actions, combined with implementing the monitoring tools and regular oversight from the Audit & Risk Committee, should fully address the concerns identified in Recommendation Four and prevent this situation from occurring in the future.

In closing, I want to express my appreciation to the Committee for their interest in the work of the Mental Health Trust Authority and the work that has been done to implement the report recommendations. We remain committed to building a strong Trust Authority that has the financial resources to provide for beneficiary needs, both now and in the future.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael K. Abbott". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Michael K. Abbott
Chief Executive Officer