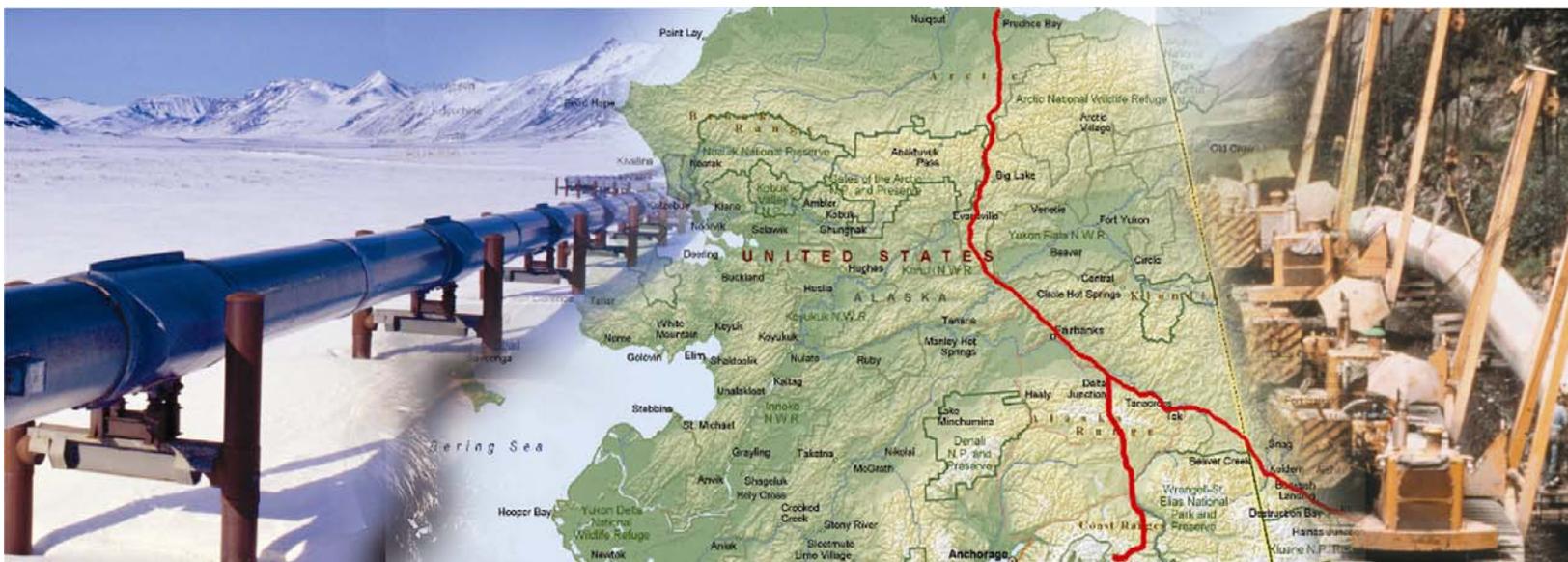




Performance and Accountability Report for Fiscal Year 2008





Message from the Federal Coordinator

November 17, 2008

We are pleased to present the Office of the Federal Coordinator for Alaska Natural Gas Transportation Projects' (OFC) first Performance and Accountability Report. This report includes highlights of the agency's goals and accomplishments for FY2008 as well as details of the OFC's operations since start up began in January 2007.

The OFC was established by Section 106 of the Alaska Natural Gas Pipeline Act of 2004 (P.L. 108-324). The mission of the OFC is to coordinate and facilitate the expeditious approval, construction, and operation of an Alaska natural gas transportation project for delivery of abundant Alaska natural gas to U.S. markets. To learn more about the mission of the organization, visit our website at www.arcticgas.gov where you will find a copy of this report as well as other pertinent information about the agency and the Alaska natural gas project.

The OFC is committed to successfully fulfilling our mission, as part of that commitment we strive to assure the American public that all of our resources are well managed. Through an independent auditor, the OFC has undergone extensive evaluations of its management controls and based on these independent evaluations, we are providing a statement of assurance that the OFC is working to meet the objectives required by the Federal Manager's Financial Integrity Act and that our financial systems conform to government-wide standards.

The OFC has received an unqualified opinion on its financial statements as of September 30, 2008. However, the auditors discovered one material weakness related to segregation of incompatible functions and a significant deficiency regarding the oversight of outsourced accounting and personnel functions. The material weakness, the significant deficiency, and the OFC's steps to rectify them will be discussed in the body of this report.

Drue Pearce
Federal Coordinator
Office of the Federal Coordinator for
Alaska Natural Gas Transportation Projects



Table of Contents

Management Discussion and Analysis

Introduction3

Mission.....5

Organization Structure.....5

Performance Goals and Objectives.....8

Performance Results.....11

Management Challenges.....16

Management Assurance Statement of Systems, Controls and Legal Compliance.....18

Analysis of Financial Statements.....19

Stewardship Information.....20

Financial Statements

Message from the Director of Administration22

Independent Auditor’s Report24

Balance Sheet32

Statement of Net Costs.....33

Statement of Changes in Net Position34

Statement of Budgetary Resources.....36

Notes to Financial Statement.....38



Management Discussion and Analysis

Office of the Federal Coordinator for
Alaska Natural Gas Transportation Projects



Introduction

The OFC was established by Section 106 of the Alaska Natural Gas Pipeline Act (ANGPA) of 2004, (P.L. 108-324). The OFC is an independent agency in the executive branch. The agency is responsible for coordinating all Federal activities for an Alaska natural gas transportation project (Project), including joint surveillance and monitoring with the State of Alaska during construction of a pipeline. At an estimated construction cost of \$30 billion, the Alaska Natural Gas Pipeline will be the largest private sector construction project ever undertaken in North America.

The OFC is headquartered in Washington, DC and will establish an office in Anchorage, Alaska.

The following discussion and analysis provides a brief overview of the OFC's start-up program activities, the agency's mission, organizational structure, goals, and accomplishments since operations began in January 2007 and for the entire fiscal year 2008. Also included is a statement of management's assurance, an analysis of the OFC's FY2008 financial statements, stewardship, system controls and legal compliance.



Mission and Organization Structure

Office of the Federal Coordinator for
Alaska Natural Gas Transportation Projects



Mission

The OFC is responsible for coordinating all federal participation in the permitting, development and construction of an Alaska natural gas transportation project (Project) that would deliver natural gas from the North Slope of Alaska to U.S. markets in the lower 48 states.

In accordance with the Alaska Natural Gas Pipeline Act of 2004 (ANGPA), the main functions of the OFC are to: (1) coordinate the roles of federal agencies associated with an ANGPA or Alaska Natural Gas Transportation Act (ANGTA) Project; (2) ensure compliance of a Project with either ANGPA or ANGTA; (3) carry out the roles of the Federal Inspector under an ANGTA or ANGPA filing; (4) provide a liaison function to ensure adequate communication with the Congress, State of Alaska, federal and Canadian agencies; and (5) enter into a joint surveillance and monitoring agreement with Alaska for the purpose of monitoring construction of the Project.

Organization Structure

On December 13, 2006, Drue Pearce was sworn in by the Vice President as the first Federal Coordinator for Alaska Natural Gas Transportation Projects. In January 2007, the Federal Coordinator started up the agency's headquarters office in Washington, DC. To assist with start-up activities, the OFC entered into an Interagency Agreement with the General Services Administration, Agency Liaison Division to obtain human resources, payroll, accounting, and contracting services. In March 2007, the Federal Coordinator entered into two separate Reimbursable Support Agreements to obtain legal and program support from two Department of the Interior employees. The detailees were in place until the Federal Coordinator hired two permanent employees.

In April 2007, with the assistance of the General Services Administration, Public Buildings Service, the OFC moved into a temporary office space in downtown Washington, DC.

The OFC hired two permanent employees to fill the positions of: (1) Director of Communications and Policy Support, and (2) Director of Administration. The new employees were appointed in August 2007. The Director of Communications and Policy Support ensures and maintains effective communication between Congress and the OFC on all matters that fall within the OFC's purview and advises the Federal Coordinator and members of the staff, with respect to all legislative matters and policies or problems of major concern that may impact the OFC's programs. The Director of Administration manages the administrative processes to maximize the efficiency of the OFC.



Mission and Organization Structure

The Administrative Director's area of responsibilities include human resources, financial management, administrative policy and directives, security, continuity of operations, information technology, space and building management and other administrative functions which must be performed within the agency.

In November 2007, the OFC detailed an employee from the Minerals Management Service for ninety-days to assist with coordinating comments to the Alaska Gasline Inducement Act (AGIA) applications. A student intern was also hired from January through May 2008 to assist with research, general administration and other program support.

In December 2007, Congress passed the Energy Independence and Security Act of 2007, (P.L. 110-140). The Act included technical amendments to ANGLA, one of which allowed the Federal Coordinator flexibility in its hiring practices by granting Title V exemptions for classifications and pay for all OFC employees.

In April 2008, the OFC added an additional permanent employee to fill the position of Director of Permits, Scheduling and Compliance. The Permits Director has overall responsibility for leading compliance and oversight activities and tracking, expediting and coordinating permit issuance by other federal agencies.

In August 2008, two additional permanent staff were added: (1) General Counsel, and (2) Administrative Support Specialist. The General Counsel provides legal advice and guidance to the Federal Coordinator and the OFC staff on all legal issues facing the Agency and provides advice and guidance on regulatory, legislative and judicial matters relating to the Project, including contracting, Agency rulemaking, environmental compliance, intergovernmental coordination, permit reviews, construction monitoring, and general litigation matters. In addition, the General Counsel oversees the Agency's ethics program and ensures all Office of Government Ethics training and reporting requirements are met. The Administrative Support Specialist performs clerical and administrative functions as required.

The OFC anticipates increasing its staff to 15 full time permanent employees and up to 25 term, temporary and/or contracted employees as the Project progresses.



Performance Goals and Objectives

Office of the Federal Coordinator for
Alaska Natural Gas Transportation Projects



Performance Goals and Objectives

An Alaska natural gas transportation project will enable the development and delivery of stranded Alaskan North Slope natural gas to markets in the lower 48 states. In 2008, the USGS completed an assessment of undiscovered conventional oil and gas resources in all areas north of the Arctic Circle that applied a geology-based probabilistic technique. The results indicate that more than 1,600 trillion cubic feet (tcf) of natural gas, 44 billion barrels of natural gas liquids, and 90 billion barrels of oil remain to be found in the Arctic.¹ On November 12, 2008, the U.S. Geological Survey (USGS) announced its completion of the first assessment of the undiscovered technically recoverable gas-hydrate resources on the North Slope of Alaska. Using a geology-based assessment methodology, the USGS estimates that there are about 85 tcf of undiscovered, technically recoverable gas resources within gas hydrates in northern Alaska.²

The projected growth in energy demand has emphasized the need to ensure that permitting processes keep pace with the construction of new facilities for storage and delivery. Consistent federal, state, and local government policies and expeditious, appropriate regulatory decisions on permitting for oil and natural gas pipelines are needed to enable timely and cost-effective infrastructure development. The OFC has an important role in ensuring expedited processing and permit issuance while coordinating and communicating with stakeholder agencies to protect the environment, ensure public health, and safety.

The main functions of the OFC are: (1) coordinate the roles of federal agencies associated with an ANGPA or ANGTA project; (2) ensure compliance of a project with either ANGPA or ANGTA; (3) carry out the roles of the Federal Inspector under an ANGTA or ANGPA filing; (4) provide a liaison function to ensure adequate communication with Congress, State of Alaska, federal and Canadian agencies; and (5) to enter into a joint surveillance and monitoring agreement with Alaska for the purpose of monitoring construction of the Project.

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1. http://pubs.usgs.gov/fs/2008/3073/pdf/FS08-3073_508.pdf
 2. <http://geology.com/usgs/arctic-oil-and-gas-report.shtml>



To carry out these main functions, the OFC organized the functions into three program categories that also serve as the three strategic goals and objectives for the agency:

I. Coordination

Coordination among the various federal and State agencies is critical to the successful and expeditious construction of an Alaska natural gas transportation project. The OFC will coordinate and lead the development of a project implementation plan to facilitate the roles of the various federal, State and Canadian agencies participating in the development of the Project. The OFC will also coordinate the development of a Monitoring and Surveillance Program with the state of Alaska to be used during construction of the Project.

II. Compliance and Oversight

Expedience is crucial to the success of the Project. The OFC will conduct compliance and oversight reviews to ensure that no federal agency attaches any term or condition not required by law, determined by the OFC to impair or prevent progress of the Project.

III. Information Dissemination

Given the magnitude of the Project, communication among, between and across agencies (State, federal, Canadian), and Project stakeholders is essential. The OFC will ensure critical information is disseminated, shared, and stored.



Performance Results

Office of the Federal Coordinator for
Alaska Natural Gas Transportation Projects



Results

Since the OFC's start-up began in January 2007, the Project has experienced key events effected by entities other than the OFC. The events influenced OFC actions and performance:

1. The State of Alaska enacted and implemented the Alaska Gasline Inducement Act (AGIA).
2. Five applicants responded to the AGIA program.
3. Alaska Governor selected TransCanada Alaska's application under AGIA.
4. Denali—The Alaska Pipeline LLC (Denali), a newly formed entity wholly owned by ConocoPhillips and BP, approached the Federal Energy Regulatory Commission (FERC) to engage in FERC's pre-filing procedures. FERC granted Denali's request. Denali is a competing project to TransCanada Alaska's AGIA project.
5. Alaska Governor signed House Bill 3001, authorizing the State to issue an AGIA license to TransCanada Alaska to start developing a 1,715-mile natural gas pipeline from a treatment plant at Prudhoe Bay, Alaska to the Alberta Hub in Canada.

In response to the aforementioned events, the OFC made many noteworthy accomplishments towards carrying out its statutory obligations. Following are highlights of the OFC activities in the three performance areas of (1) Coordination, (2) Compliance and Oversight, and (3) Information Dissemination.



I. Coordination.

Most of the OFC's efforts in its first year of existence focused on establishing its coordination role among the federal, state of Alaska and Canadian entities. Some of the OFC's activities toward meeting its coordination goals and objectives have been:

- **Senior Intergovernmental Management Team:** In response to AGIA, in July 2007, the Federal Coordinator collaborated with Alaskan and Canadian officials to establish a Senior Intergovernmental Management Team (SIMT). The purpose of the collaboration is to ensure appropriate international protocols have been addressed and are in place if the project route includes Canada. Since its inception, the team has met on numerous occasions. The meetings have resulted in the Federal Coordinator facilitating bilateral discussions with the Government of Canada and with participation by the State Government of Alaska regarding infrastructure upgrades, labor needs, and native consultations.
- **Stakeholder Meetings:** Since start-up began and throughout FY2008, in an effort to foster its outreach efforts, the OFC has conducted numerous stakeholder meetings, including but not limited to delegations from Alaska and the Yukon; Canada's Minister of Indian and Northern Affairs, the President of the Alaska Federation of Natives, members of the Alaska Native Regional Corporations, and various Alaska-based environmental groups.
- **Federal Agency Memorandum of Understanding (MOU) Signatories Meetings:** In June 2006, most of the federal agencies with regulatory and other responsibilities relevant to an Alaska natural gas transportation project, entered into an MOU outlining the various agencies' roles and responsibilities. In October 2007, the OFC conducted its first meeting of the federal team (approximately 20 agencies). Throughout FY2008, the OFC hosted meetings with the federal agencies to provide briefings on the status of the Project and give updates on the outcomes of the SIMT meetings as well as other pertinent matters.



- **Comments to AGIA Applications:** In November 2007, the Alaska Governor announced that TransCanada Alaska was the only AGIA compliant application and requested public comment on that application. At the request of the State of Alaska, the OFC coordinated the federal responses.
- **Administration Transition Continuity:** To ensure continued coordinated efforts during the Presidential Administration transition, in September 2008, the OFC reached out to all of the federal agency MOU signatories to reconfirm points of contact responsible for all matters related to the Project.

II. Compliance and Oversight.

As the Project progresses, one of the most significant challenges facing the OFC is to ensure expedited reviews and other actions of all the federal agencies that will participate in the Project. Early in the agency's start-up, the OFC took steps to develop a coordinated interagency approach to the permitting and planning process. The OFC has also engaged in oversight activities.

- **Regulatory Analysis:** The OFC is developing a program plan to systematically integrate key actions, milestones, schedules, critical paths, authorities, and regulations of the State, federal Alaska Native and Canadian entities who will participate in the Project. The OFC has worked with representatives from the federal agency MOU signatories, the state of Alaska and Canada to gather regulatory data as it pertains to the roles of the various entities. The OFC is developing and analyzing the information as part of the program plan development process.
- **Field Studies Oversight and Monitoring:** The OFC is monitoring Denali's geotechnical field studies that are underway between Fairbanks, Alaska and the Canadian border. The field study data will be incorporated into Denali's resource reports as required in an application to FERC. The OFC continues to assist in coordinating the federal agencies' and Denali's efforts to garner the required federal permits and authorizations for access to federal and private lands where the studies are being conducted.



III. Information Dissemination

The OFC has identified communication to be one of its most critical functions. Considering all of the stakeholders, Project sponsors, federal agencies, Alaska state agencies, and Canadian entities involved in the Project, the OFC took proactive steps early in its establishment to address the importance of communication throughout the life of the Project. In addition to actively engaging the various entities with interests in the Project, the OFC sought to develop and implement a comprehensive data management program.

- **Data Management System:** The OFC is working to develop a plan for a comprehensive data management system that will enable the OFC and other Project participants to communicate, share data, and store information. The plan is being developed based upon extensive interviews with representatives from the federal agency MOU signatories and Project sponsors. The OFC will work with the federal, State, and Canadian agencies as well as the Project sponsors to implement a comprehensive data management system.
- **Public Speaking, Conferences and Other Engagements:** Since start-up of the agency began in January 2007 and throughout the entire FY2008, the OFC has been proactive in its efforts to disseminate information about the status of the Project, its goals, milestones, and challenges. The OFC has participated in numerous conferences, public forums, and other speaking engagements throughout the lower 48 states, Alaska, Canada, and Norway.

As the Project continues to progress and the OFC continues to increase staff and stand up the agency, diligent efforts will be made to meet the agency's goals and objectives.



Management Challenges

Office of the Federal Coordinator for
Alaska Natural Gas Transportation Projects



Internal administrative support is important to the OFC successfully fulfilling its mission and pursuing its goals. Since start-up of the agency began in January 2007, the OFC has operated with a small staff. For most of FY2007, the OFC had a staff of four (4). In late FY2008 (August), the OFC increased its staff to six (6) full time employees.

To carry out its administrative operations, the OFC relied upon outsourced support related to accounting and finance, human resource management, property management, legal, travel, contracting and procurement, information management and website design and maintenance.

The OFC has made significant progress in implementing various administrative systems to improve day-to-day business processes, such as drafting internal policies and guidance for performance management, time and attendance, awards and recognition, pay administration, ethics training, use of government resources, travel management, and travel card use. Despite the progress made, due to the limited staff, the OFC faces challenges in effecting segregation of duties to ensure normal checks and balances and to ensure adequate oversight of outsourced administrative functions.

To address the administrative challenges, the OFC projects to increase staffing and appropriately assigning duties and responsibilities to ensure: (1) effective checks and balances exist; (2) increased oversight and monitoring of outsourced services, and; (3) timely compliance with Office of Management and Budget (OMB) and Office of Personnel Management's (OPM) initiatives and reporting requirements.



Management Assurance
of
Systems, Controls and Legal Compliance

Analysis of FY2008 Financial Statements,
Stewardship Information

Office of the Federal Coordinator for
Alaska Natural Gas Transportation Projects



Management Assurance Statement Systems, Controls and Legal Compliance

November 17, 2008

The OFC's management is responsible for establishing and maintaining effective internal controls over financial management systems to meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). Through an independent auditor, the OFC conducted an assessment of the effectiveness of its internal controls over management operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*.

Based on the results of the auditor's evaluation, the OFC is able to provide reasonable assurance that its internal controls over the effectiveness and efficiency of management operations and compliance with applicable laws and regulations and financial management systems substantially comply with the objectives of FMFIA § 2 as of September 30, 2008. However, material weaknesses were noted in the areas of "Segregation of Incompatible Functions" and "Oversight of Outsourced Accounting Functions." The OFC is taking all appropriate actions available to remedy the findings.

In addition, the OFC's management is also responsible for establishing and maintaining effective internal controls over financial reporting which includes safeguarding of assets and compliance with applicable laws and regulations. Based on the results of the auditor's evaluation, the OFC's financial management systems substantially comply with the objectives of FMFIA § 4 as of September 30, 2008. However, the auditor's found one material weakness in that the OFC did not comply with applicable laws and regulations by failing to submit an annual Federal Information Security Management Act report in accordance with OMB M-08-21. The OFC is taking appropriate actions to submit the report.

Drue Pearce
Federal Coordinator
Office of the Federal Coordinator for
Alaska Natural Gas Transportation Projects



Analysis of FY2008 Financial Statements

- **Balance Sheet**
As of September 30, 2008, the OFC's assets and Fund Balance with Treasury totaled \$1.08 million. The OFC's liabilities and net position totaled \$1.08 million.
- **Statement of Net Cost**
The OFC's net cost of operations for FY2008 was \$1.55 million.
- **Statement of Changes in Net Position**
The OFC's net position is affected by changes to its two components: (1) cumulative results of operations, and (2) unexpended appropriations. The OFC's net position as of September 30, 2008 was \$997 thousand.
- **Statement of Budgetary Resources**
As of September 30, 2008, the OFC's statement of budgetary resources reflected that the OFC had \$2.54 million in total budgetary resources of which \$2.28 million had been obligated. Net outlays totaled \$1.47 million.

Limitations of FY2008 Financial Statements

The OFC's principal financial statements have been prepared to report the financial position and results of operations of the OFC, pursuant to the requirements of 31 U.S.C. § 3515 (b). While the statements have been prepared from the books and records of the OFC in accordance with Generally Accepted Accounting Principles (GAAP) for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.



Stewardship Information

Upon start-up of the agency in January 2007, the Department of Energy transferred to the OFC, \$403,384 of unobligated balances from the Fossil Energy Research and Development account, pursuant to Division C, Section 106 of the Military Construction Appropriations and Emergency Hurricane Supplemental Appropriations Act, 2005, (P.L. 108-324). The \$403,384 was originally appropriated to the Office of the Federal Inspector for the Trans-Alaska Pipeline System (TAPS) project. The transferred funding covered administrative start-up costs such as salaries and expenses for the Federal Coordinator, rent, communications, travel, and Interagency Agreements with the General Services Administration for outsourced accounting, payroll, human resource, contracting and legal services.

At the beginning of FY2008, as a result of the Continuing Resolution, the OFC received an additional transfer of \$484,000 from the Fossil Energy Research and Development account at DOE, pursuant to Division C, Section 106 of the Military Construction Appropriations and Emergency Hurricane Supplemental Appropriations Act, 2005, (P.L. 108-324) and Section 126 of the Joint Resolution Making Continuing Appropriations for the Fiscal Year 2008 and for Other Purposes, (P.L. 110-92). The OFC later returned the funds to DOE upon receipt of its FY2008 appropriation.

For FY2008, the OFC received its first appropriation of \$2.26 million to fund six (6) full-time equivalent employees and to fund other administrative and start-up program activities.

As of September 30, 2008, the financial condition of the OFC was sound with respect to having sufficient funds to meet program needs and adequate control of these funds were in place to ensure obligations did not exceed budgetary authority. The OFC prepared its financial statements in accordance with the accounting standards codified in the Statements of Federal Financial Accounting Standards (SFFAS) and OMB Circular A-136, Financial Reporting Requirements.



Financial Statements

(As of and For the Year Ended September 30, 2008)

2008 – Audited

2007 – Unaudited

Office of the Federal Coordinator for
Alaska Natural Gas Transportation Projects



Message from the Director of Administration

November 17, 2008

I am pleased to present the OFC's financial statements for FY2007 (unaudited) and FY2008 (audited).

As a new federal independent agency in the Executive Branch of the U.S. Government, the OFC's goal is to be accountable to the American people and to assure that all of the OFC's resources are well managed.

To ensure the OFC is compliant with federal financial management reporting requirements, the OFC commissioned the independent accounting firm of Lani Eko & Company, CPAs, PLLC, to conduct an extensive review and evaluation of the OFC's financial statements. The auditors have issued an unqualified opinion on the FY2008 financial statements. However, the auditors discovered one material weakness related to segregation of incompatible functions and a significant deficiency regarding the oversight of outsourced accounting and personnel functions. The auditor's complete report precedes the financial statements and notes.

The OFC is committed to effectively managing its resources. We will seek to incorporate efficient methods to increase oversight of our outsourced accounting functions. As staffing levels permit, the OFC will appropriately assign duties and responsibilities among staff to separate incompatible duties as they relate to financial transactions and events to ensure continued integrity of the OFC's operations

Debra L. Dickson
Director of Administration
Office of the Federal Coordinator for
Alaska Natural Gas Transportation Projects



Independent Auditor's Report

Office of the Federal Coordinator for
Alaska Natural Gas Transportation Projects

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INDEPENDENT AUDITOR'S REPORT

Office of the Federal Coordinator
For Alaska Natural Gas Transportation Projects

We have audited the accompanying balance sheet of the Office of the Federal Natural Gas Transportation Projects (OFC) as of September 30, 2008, and the related statements of net cost, changes in net position, and budgetary resources for the year then ended. These financial statements are the responsibility of the OFC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 applicable Office of Management and Budget (OMB) guidance for audits of federal financial statements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the OFC as of September 30, 2008, and its net cost, changes in net position, and budgetary resources for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis (MD&A) and other accompanying information are not required as part of the OFC's basic financial statements. For the MD&A, which is required by OMB Circular A-136, *Financial Reporting Requirements*, and the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 15, *Management's Discussion and Analysis*, we made certain inquiries of management and compared the information for consistency with the OFC's audited financial statements and against other knowledge obtained during our audit. We also compared the other accompanying information with the audited financial statements. We did not audit the MD&A or other accompanying information and, therefore, express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 14, 2008, on our consideration of the OFC's internal control over financial reporting and a report dated November 14, 2008, on its compliance with laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Lani Eko & Company, CPAs, PLLC

November 14, 2008
Alexandria, VA

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**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING**

Office of the Federal Coordinator
For Alaska Natural Gas Transportation Projects

We have audited the financial statements of the Office of the Federal Coordinator for Alaska Natural Gas Transportation Projects (OFC) as of and for the year ended September 30, 2008, and have issued our report thereon dated November 14, 2008. We conducted our audit 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 applicable Office of Management and Budget (OMB) guidance for audits of federal financial statements.

In planning and performing our audit, we considered the OFC's internal control over financial reporting as a basis for designing our auditing procedures, obtained an understanding of the design effectiveness of internal controls, determined whether the internal controls have been placed in operation, assessed control risk, and performed tests of the OFC's internal controls 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 OFC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the OFC's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the second paragraph and would not necessarily identify all deficiencies in internal control that might be

significant deficiencies or material weaknesses. However, we identified the following deficiency in internal control that we consider to be a material weakness, as defined above.

Segregation of Incompatible Functions

The Director of Administration is designated as the Property Control Manager, Fund Manager for Accounting, Reporting Manager, Billing Manager, and Contracting Officer or Contracting Officer's Technical Representative, depending on the contract. These designations authorize the Director of Administration to initiate, approve, and certify transactions; as well as create, maintain and reconcile related records.

We noted that the Director has the authority to obligate funds for purchases, prepare receiving reports for acceptance of goods or services, and certify invoices for payment. The Director's assigned duties also include approval of travel and relocation vouchers, authorization of personnel request and action forms (i.e. Standard Form (SF) 52, *Request for Personnel Action* and SF 50, *Notification of Personnel Action*) and initiation of cost transfers and other accounting adjustments.

The OFC was established by Congress in 2004 and began operations in January 2007. During most of FY 2008, the OFC had 4 employees. It is understandably difficult to properly segregate incompatible functions with a limited staff; however, no one individual should be allowed to control all key aspects of a transaction or event.

Without effective segregation of duties, the OFC is susceptible to fraud, waste, and abuse.

We recommend that the OFC separate responsibilities and duties involving transactions and events among different employees with respect to the initiation, authorization, and approval of transactions to ensure that effective checks and balances exist.

In addition to the material weakness discussed above, we noted the following significant deficiency.

Oversight of Outsourced Accounting Functions

OFC management did not provide adequate oversight and monitoring of the accounting and personnel services out-sourced to the General Services Administration (GSA). During our audit testing, we noted the following weaknesses:

- OFC did not review quarterly reconciliations of its Fund Balance with Treasury account prepared by GSA.
- OFC did not ensure that the notification of personnel actions reflect the exact information provided for processing.
- OFC could not provide documented evidence that it routinely reviews and approves reports (for example, SF 133, *Report on Budget Execution*) prepared on its behalf by GSA.

OFC places significant reliance on GSA to accurately perform accounting and personnel services and does not provide the appropriate level of oversight and monitoring of GSA activities related to OFC transactions.

OMB Circular A-123, *Management's Responsibility for Internal Control*, provides that monitoring the effectiveness of internal control should occur in the normal course of business. In addition, periodic reviews, reconciliations or comparisons of data should be included as part of the regular assigned duties of personnel. Periodic assessments should be integrated as part of management's continuous monitoring of internal control, which should be ingrained in the agency's operations.

Lack of oversight and monitoring of GSA activities may lead to misstatement of the financial statements.

We recommend that OFC design and implement policies and procedures to ensure proper oversight and monitoring of activities performed by GSA on its behalf.

We noted certain matters involving internal control and its operation that we will report to the OFC management in a separate letter.

This report is intended solely for the information and use of the management of the OFC, OMB, the Government Accountability Office and Congress and is not intended to be and should not be used by anyone other than these specified parties.

Lani Eko & Company, CPAs, PLLC

November 14, 2008
Alexandria, VA

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH LAWS AND REGULATIONS**

Office of the Federal Coordinator
For Alaska Natural Gas Transportation Projects

We have audited the financial statements of the Office of the Federal Coordinator for Alaska Natural Gas Transportation Projects (OFC) as of and for the year ended September 30, 2008, and have issued our report thereon dated November 14, 2008. We conducted our audit 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 applicable Office of Management and Budget (OMB) guidance for audits of federal financial statements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

As part of obtaining reasonable assurance about whether the OFC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of applicable laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards* or OMB guidance for audits of federal financial statements.

Federal Information Security Management Act Reporting (FISMA)

The OFC did not submit an annual report to OMB in accordance with OMB M-08-21, *FY 2008 Reporting Instructions for the Federal Information Security Management Act and Agency Privacy Management*. OFC management disclosed that it was unaware of the reporting requirement until days before the report was due. FISMA requires each federal agency to develop, document, and implement an agency-wide program to provide information security for the information and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source.

We recommend that OFC take the appropriate steps to prepare and submit the required report for an agency of its size.

This report is intended solely for the information and use of the management of the OFC, OMB, the Government Accountability Office, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

Lani Eko & Company, CPAs, PLLC

November 14, 2008
Alexandria, VA

Financial Statements and Notes

Office of the Federal Coordinator for
Alaska Natural Gas Transportation Projects

**OFFICE OF THE FEDERAL COORDINATOR FOR ALASKA
NATURAL GAS TRANSPORTATION PROJECTS**

BALANCE SHEET

As Of September 30, 2008 and 2007

		2008	2007
Assets:			
Intragovernmental:			
Fund Balance With Treasury	(Note 2)	\$1,084,803	\$297,946
Total Intragovernmental		1,084,803	297,946
 Total Assets		\$1,084,803	\$297,946
 Liabilities:			
Accounts Payable	(Note 3)	22,398	2,730
Other	(Note 4)	64,925	17,031
Total Liabilities		87,323	19,761
 Net Position:			
Unexpended Appropriations - Other Funds		1,022,684	279,443
Cumulative Results of Operations		(25,204)	(1,259)
Total Net Position		997,480	278,184
 Total Liabilities and Net Position		\$1,084,803	\$297,946

*Amounts may be off by a dollar due to rounding.

The accompanying notes are an integral part of these statements.

**OFFICE OF THE FEDERAL COORDINATOR FOR ALASKA
NATURAL GAS TRANSPORTATION PROJECTS**

STATEMENT OF NET COST

For The Years Ended September 30, 2008 and 2007

	2008	2007
Program Costs:		
Program A:		
Gross Costs (Note 5)	\$1,554,311	\$ 612,292
Net Program Costs	1,554,311	612,292
Net Cost of Operations	\$1,554,311	\$ 612,292

UNAUDITED

The accompanying notes are an integral part of these statements.

**OFFICE OF THE FEDERAL COORDINATOR FOR ALASKA
NATURAL GAS TRANSPORTATION PROJECTS**

STATEMENT OF CHANGES IN NET POSITION

For The Years Ended September 30, 2008 and 2007

2008

	Earmarked Funds	All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations:				
Beginning Balances	\$	\$(1,259)	\$	\$(1,259)
Beginning Balances, as Adjusted		\$(1,259)	\$	\$(1,259)
Budgetary Financing Sources:				
Appropriations Used		1,517,760		1,517,760
Other Financing Resources (Non-Exchange):				
Imputed Financing		12,606		12,606
Total Financing Sources		1,530,366		1,530,366
Net Cost of Operations (+/-)		1,554,311		1,554,311
Net Change		(23,945)		(23,945)
Cumulative Results of Operations	\$	\$(25,204)	\$	\$(25,204)
Unexpended Appropriations:				
Beginning Balances	\$	\$279,443	\$	\$279,443
Beginning Balances, as Adjusted	\$	\$279,443	\$	279,443
Budgetary Financing Sources:				
Appropriations Received		2,261,000		2,261,000
Appropriations Used		(1,517,760)		(1,517,760)
Total Budgetary Financing Sources		743,240		743,240
Total Unexpended Appropriations		1,022,684		1,022,684
Net Position	\$	\$997,480	\$	\$997,480

*Amounts may be off by a dollar due to rounding.

**OFFICE OF THE FEDERAL COORDINATOR FOR ALASKA
NATURAL GAS TRANSPORTATION PROJECTS**

STATEMENT OF CHANGES IN NET POSITION

For The Years Ended September 30, 2008 and 2007

2007

	Earmarked Funds	All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations:				
Budgetary Financing Sources:				
Appropriations Used		607,941		607,941
Other Financing Resources (Non-Exchange):				
Imputed Financing		3,092		3,092
Total Financing Sources		611,033		611,033
Net Cost of Operations (+/-)		612,292		612,292
Net Change		(1,259)		(1,259)
Cumulative Results of Operations	\$	\$(1,259)	\$	\$(1,259)
Budgetary Financing Sources:				
Appropriations Received				
Appropriations Transferred-In/Out (+/-)		887,384		887,384
Other Adjustments				
Appropriations Used		(607,941)		(607,941)
Total Budgetary Financing Sources		279,443		279,443
Total Unexpended Appropriations		279,443		279,443
Net Position	\$	\$278,184	\$	\$278,184

*Amounts may be off by a dollar due to rounding.

OFFICE OF THE FEDERAL COORDINATOR FOR ALASKA

NATURAL GAS TRANSPORTATION PROJECTS

STATEMENT OF BUDGETARY RESOURCES

For The Years Ended September 30, 2008 and 2007

	2008	2008	2007	2007
	Budgetary	Non-Budgetary Credit Program Financing Accounts	Budgetary	Non- Budgetary Credit Program Financing Accounts
Budgetary Resources:				
Unobligated Balance:				
Beginning of Period	\$271,141	\$		\$
Recoveries of Prior Year Obligations	13,653			
Budget Authority:				
Appropriations Received	2,261,000			
Spending Authority from Offsetting Collections (Gross):				
Earned				
Collected	1,983			
Subtotal	\$2,262,983		\$	
Nonexpenditure Transfers, Net			887,384	
Total Budgetary Resources	<u>\$2,547,777</u>	<u>\$</u>	<u>\$887,384</u>	<u>\$</u>
Status of Budgetary Resources:				
Obligations Incurred (Note 6)				
Direct	<u>\$2,282,077</u>	\$	<u>\$616,243</u>	\$
Subtotal	\$2,282,077		\$616,243	
Unobligated Balances				
Apportioned	<u>250,064</u>		<u>271,141</u>	
Subtotal	\$250,064		\$271,141	
Unobligated Balances - Not Available	<u>15,636</u>			
Total Status of Budgetary Resources	<u>\$2,547,777</u>	<u>\$</u>	<u>\$887,384</u>	<u>\$</u>
Change in Obligated Balances:				
Obligated Balance, Net:				
Unpaid Obligations, Brought Forward, October 1	<u>\$26,805</u>	\$		\$
Total, Unpaid Obligated Balance, Brought Forward, Net	\$26,805			
Obligations Incurred	2,282,077		616,243	

UNAUDITED

Gross Outlays (-)	(1,476,126)		(589,438)	
Recoveries of Prior-Year Unpaid Obligations, Actual (-)	(13,653)			
Obligated Balance, Net, End of Period:				
Unpaid Obligations (+) (Note 7)	819,102		26,805	
Total, Unpaid Obligated Balance, Net, End of Period	<u>\$819,102</u>	<u>\$</u>	<u>\$26,805</u>	<u>\$</u>
Net Outlays:				
Gross Outlays (+)	1,476,126		589,438	
Offsetting Collections (-)	(1,983)			
Net Outlays	<u>\$1,474,143</u>	<u>\$</u>	<u>\$589,438</u>	<u>\$</u>

*Amounts may be off by a dollar due to rounding.

The accompanying notes are an integral part of these statements



Note 1 – Significant Accounting Policies

Basis of Presentation

These financial statements have been prepared from the accounting records of the OFC in accordance with Generally Accepted Accounting Principles (GAAP), and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Circular No. A-136, as amended. GAAP for Federal entities are standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which has been designated the official accounting standards-setting body for the Federal Government by the American Institute of Certified Public Accountants.

OMB Circular No. A-136 requires agencies to prepare principal statements, which include a Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position and a Statement of Budgetary Resources. The Balance Sheet presents, as of September 30, 2008, amounts of future economic benefits owned or managed by the OFC (assets), amounts owed by the OFC (liabilities), and amounts, which comprise the difference (net position). The Statement of Net Cost reports the full cost of the program, both direct and indirect costs of the output, and the costs of identifiable supporting services provided by other segments within the OFC and other reporting entities. The Statement of Budgetary Resources reports an agency's budgetary activity.



Basis of Accounting

Transactions are recorded on the accrual accounting basis in accordance with general government practice. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Revenues and Other Financing Sources

The OFC is an appropriated fund. This fund receives appropriations on a yearly basis. Other financing sources for OFC are imputed financing sources which are costs financed by other Federal entities on behalf of OFC, as required by SFFAS No. 5, Accounting for Liabilities of the Federal Government.

Note 2 – Fund Balance with Treasury

The OFC's fund balance with Treasury is coming from appropriations. This fund balance with Treasury is a consolidated balance of the no-year fund (977X) and one annual fund (977: FY2008).

	<u>2008</u>	<u>2007</u>
A. Fund Balance with Treasury		
Appropriated Fund	<u>\$1,084,803</u>	<u>\$297,946</u>
B. Status of Fund Balance with Treasury		
1) Unobligated Balance		
a) Available	250,064	271,141
b) Unavailable	15,636	
2) Obligated Balance not yet Disbursed	<u>819,102</u>	<u>26,805</u>
Total	<u>\$1,084,803</u> *	<u>\$297,946</u>

Rounding *



Note 3 – Liabilities Not Covered by Budgetary Resources

Liabilities of the OFC are classified as liabilities covered or not covered by budgetary resources. As of September 30, 2008, the OFC showed liabilities covered by budgetary resources of \$62,119 and liabilities not covered by budgetary resources of \$25,204.

Liabilities covered by budgetary resources is composed of Accounts Payable \$22,398 and Accrued Funded Payroll and Leave \$39,721.

	<u>2008</u>	<u>2007</u>
With the Public		
Other	25,204	1,259
Total liabilities no covered by budgetary resources	<u>25,204</u>	<u>1,259</u>
Total liabilities covered by budgetary resources	<u>62,119</u>	<u>18,502</u>
Total Liabilities	<u><u>\$87,323</u></u>	<u><u>\$19,761</u></u>

Note 4 – Other Liabilities

Other liabilities with the public consist of Accrued Funded Payroll and Leave of \$39,721 and Unfunded Leave in the amount of \$25,204.

	<u>With the Public</u>	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
2008 Other Liabilities		25,204	39,721	\$64,925
2007 Other Liabilities		1,259	15,772	\$17,031



Note 5 – Intragovernmental Costs and Exchange Revenue

Intragovernmental costs are those of goods/services purchased from a federal entity.

	<u>Total 2008</u>	<u>Total 2007</u>
Program A		
Intragovernmental costs	608,444	381,494
Public costs	<u>945,867</u>	<u>230,799</u>
Total Program A costs	<u><u>1,554,311</u></u>	<u><u>612,292</u></u> *

Rounding *

Note 6 – Apportionment Categories of Obligations Incurred

All obligations are direct, which is the amount of obligations incurred against amounts apportioned under category A on the latest SF 132 for the appropriated funds.



Note 7 – Undelivered Orders at the End of the Period

The amount of Unpaid Obligated Balance, Net End of Period includes obligations relating to Undelivered Orders (good and services contracted for but not yet received at the end of the year) and Accounts Payable (amounts owed at the end of the year for goods and services received).

	<u>Undelivered Orders</u>	<u>Accounts Payable</u>	<u>Unpaid Obl. Balance, Net</u>
2008	\$756,983	\$62,119	\$819,102
2007	\$8,303	\$18,502	\$26,805

Note 8 – Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing)

Liabilities not covered by budgetary resources total \$25,204 and the change in components requiring or generating resources in future period shows \$23,945. The \$23,945 is the net increase of future funded expenses – leave between FY2007 and FY2008. Accrued funded payroll liability is covered by budgetary resources and is included in the net cost of operations. Whereas, the unfunded leave liability includes the expense related to the increase in annual leave liability for which the budgetary resources will be provided in a subsequent period.

	<u>2008</u>	<u>2007</u>
Liabilities not covered by budgetary resources	\$25,204	\$1,259
Change in components requiring/generating resource	\$23,945	\$1,259



Note 8 – Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing), Continued

	2008	2007
<i>Resources Used to Finance Activities:</i>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 2,282,077	\$ 616,243
Less: Spending Authority from Offsetting Collections & Recoveries	15,636	
Net Obligations	2,266,441	616,243
Other Resources		
Imputed Financing from Costs Absorbed by Others	12,606	3,093
<i>Net Other Resources Used to Finance Activities</i>	12,606	3,092
<i>Total Resources Used to Finance Activities</i>	2,279,047	619,336
 <i>Resources Used to Finance Items not Part of the Net Cost of Operations</i>		
Change in Budgetary Resources Obligated for Goods		
Services and Benefits Ordered But Not Yet Provided	748,681	8,303
<i>Total Resources Used to Finance Items Not Part of the Net Cost of Operations</i>	748,681	8,303
<i>Total Resources Used to Finance the Net Cost of Operations</i>	1,530,366	611,033
 <i>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</i>		
<i>Components Requiring or Generating Resources in Future Periods:</i>		
Increase in Annual Leave Liability	23,945	1,259
<i>Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods</i>	23,945	1,259
 <i>Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period</i>		
<i>Net Cost of Operations</i>	\$ 1,554,311	\$ 612,292

*Amounts may be off by a dollar due to rounding.