

Denali Commission

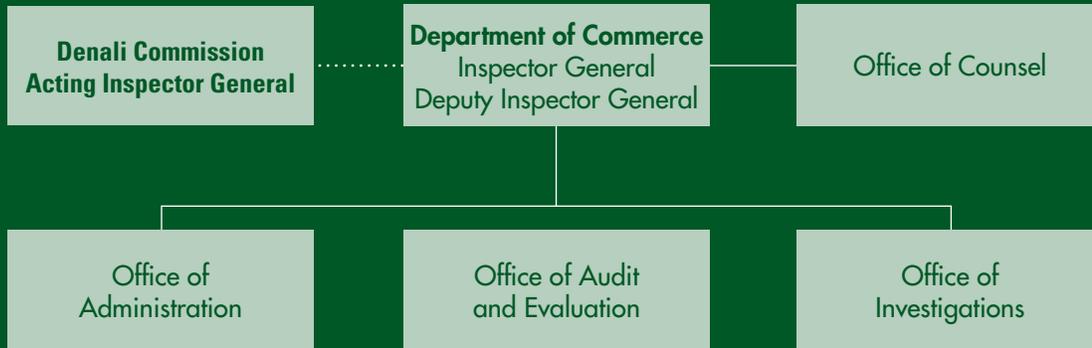
OFFICE OF INSPECTOR GENERAL
SEMIANNUAL REPORT TO CONGRESS



March 2014

Prepared by the
U.S. DEPARTMENT OF COMMERCE
OFFICE OF INSPECTOR GENERAL

Office of Inspector General



In May 2014, the Department of Commerce Office of Inspector General (OIG) entered into an agreement with the Denali Commission to provide a full range of inspector general services, including investigating hotline complaints. Suspected fraud, waste, abuse, and mismanagement as well as whistleblower reprisal allegations should be reported to the Commerce OIG Hotline.

David Sheppard, Commerce OIG’s Regional Inspector General, Seattle, is serving as acting inspector general for the Denali Commission until a permanent inspector general is selected.

Acting Inspector General 206.220.7970

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COVER: View of Denali, the highest peak in North America.



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From the Acting Inspector General

I am pleased to present the Denali Commission Office of Inspector General's *Semiannual Report to Congress* for the 6 months ending March 31, 2014.

On May 28, 2014, the Denali Commission and the Department of Commerce Office of Inspector General (OIG) entered into an agreement to have Commerce OIG serve as interim inspector general for the Commission until a permanent inspector general is selected. The prior inspector general for the Commission resigned his position in December 2013.

Based on our review of available records, the office did not complete any audit, evaluation, or investigative work during the period of October 1, 2013, to March 31, 2014, with the exception of an audit of the Denali Commission's financial statements.

The Reports Consolidation Act of 2000 requires inspectors general to identify the top management challenges facing their organizations. However, our review of the prior inspector general's records suggests that the office did not prepare a fiscal year 2014 report. We have not attempted to identify challenges for the remainder of the fiscal year, but we plan to issue an informed top management challenges report for fiscal year 2015, a summary of which will appear in the September 2014 *Semiannual Report to Congress*.

We will continue to work closely with the Commission and with Congress to identify and attempt to address the challenges facing the Commission, especially as it tackles its ambitious strategies and initiatives.

We thank the Commissioners, Commission staff, and members of Congress and their staffs for their support of our work during this transition period.



David Sheppard



DENALI COMMISSION

The Denali Commission Act of 1998 established the Denali Commission to deliver a wide range of services to Alaska in the most cost-effective manner by reducing administrative and overhead costs. As part of the act, the Commission provides job training and other economic development services in rural communities, with a focus on promoting development in rural Alaska and on providing key infrastructure, such as power generation and transition facilities, modern communication systems, and water and sewer systems.

Since its enactment, the Denali Commission Act of 1998 has been updated several times, expanding its mission to include the planning and construction of health care facilities and the establishment of the Denali Access System Program to support surface transportation infrastructure and waterfront transportation projects.

The Commission oversees six program areas: **Energy, Health Facilities, Sustainable Priorities for Alaska Rural Communities, Training, Transportation, and Water and Sanitation Energy Efficiency.** The only program currently receiving direct appropriations is the Commission's Energy Program.

COMPLETED WORKS

During the semiannual reporting period, OIG completed an audit of the Commission's financial statements. No performance audits, inspections, or responses to Congressional requests were completed during this period.

FY 2013 CONSOLIDATED FINANCIAL STATEMENTS AUDIT

SB & Company, LLC, an independent public accounting firm, performed the audit in accordance with the Government Accountability Office's *Government Auditing Standards* and Office of Management and Budget (OMB) Bulletin 14-02, *Audit Requirements for Federal Financial Statements*. In its audit of the Commission, SB & Company determined that the financial statements were fairly presented in all material respects and in conformity with generally accepted accounting principles.

Before the prior inspector general resigned, he did not allow SB & Company, LLC, to issue an audit opinion on the FY 2013 financial statements of the Commission. Subsequent to his resignation, SB & Company provided its opinion on the financial statements. However, the auditor was unable to conduct the usual review of management's discussion and analysis for the FY 2013 *Performance and Accountability Report*. Consequently, the auditor's opinion states that:

"Management has omitted the agency head message, management's discussion and analysis, summary of material weaknesses, non-conformances and corrective action plans, management challenges, summary of financial statement audit and management assurances, Improper Payments Information Act report, and other agency statutorily required reports that accounting principles generally accepted in the United States of America require to be presented to supplement the basic

financial statements. Such missing information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board and OMB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information."

SB & Company did not identify any deficiencies in internal control that they consider to be material weaknesses. However, material weaknesses may exist that have not been identified. (A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.)

WORK IN PROGRESS

During this reporting period, we found no record of any Denali Commission OIG audit and evaluation projects initiated or under way.

ENERGY

Recognizing the critical role energy plays in the quality of life and economic development of Alaska's communities, the Denali Commission has made energy its primary infrastructure theme since 1999.

The Energy Program funds design and construction of replacement bulk-fuel storage facilities, upgrades to community power-generation and distribution systems, energy efficiency measures, and alternative energy projects. The Commission primarily works with the Alaska Energy Authority (AEA) and Alaska Village Electric Cooperative (AVEC) to meet rural communities' fuel storage and power generation needs.

The Commission funds these project types: bulk-fuel storage, community power generation, transmission and distribution systems, energy efficiency projects, and alternative and renewable energy.

HEALTH FACILITIES

Congress amended the Denali Commission Act in 1999 to provide for the planning, design, construction, and equipping of health care facilities. The Health Facilities Program collaborates with numerous organizations, including the Alaska Native Regional Health Corporations, from which the program receives support. The Commission has invested in regional networks of primary care clinics across Alaska and, in response to Congressional direction in 2003, initiated efforts to fund additional program areas addressing other health and social service-related facility needs. Further, the Health Facilities Program incorporated behavioral health, dental care, and other components into its clinic design. Over the years, the program has expanded to include annual initiatives to support domestic violence facilities, elder housing, primary care in hospitals, emergency medical services equipment, and hospital designs.

During the past 13 years, the program used a universe-of-need model for primary care and an annual selection process via a Health Steering Committee for other program areas. In 1999, the program created a deficiency list for primary care clinics and found 288 communities statewide in need of clinic replacement, expansion, and/or renovation. That list was last updated in 2008. In the past, projects were recommended for funding if they demonstrated project readiness. However, the Health Facilities Program was last funded by Congress in fiscal year 2010. Therefore, no new construction project nominations are currently being accepted.

The Commission has historically funded facilities for primary care, behavioral health, domestic violence, elder support, and assisted living as well as primary care in hospitals.

SUSTAINABLE PRIORITIES FOR ALASKA RURAL COMMUNITIES

As the geography and cultures of peoples vary widely across the state of Alaska, so do the needs and capacities of rural Alaskan villages, cities, and communities. After 13 years of awarding mostly transactional grants that resulted in the construction of numerous bulk fuel tanks, generators, interties, roads, docks, and clinics, the Commission has experienced a significant decline in federal budget authority for its historical programs. However, the Commission continues to receive requests from rural Alaskan communities for technical assistance in planning and executing their respective infrastructure improvement projects.

Community infrastructure needs run the gamut from basic sanitation systems to more cost-effective energy solutions. Layered on the bricks-and-mortar needs are the less visible needs reflecting gaps in local knowledge and leadership capacity for navigating project development, business planning, and fundraising. According to the Commission, such infrastructure and capacity issues are critical to community sustainability.

Rural Alaskan communities are challenged now by dwindling supplies of capital grant monies; aging, failing infrastructure; and high energy costs. Many village populations are declining as residents immigrate to locations with greater and more reliable resources for family health, education, and economic stability.

Sustainability of any particular village is not guaranteed, but experience points to multiple interdependent factors that must all be present for a community to survive. The required components include affordable, reliable energy; safe and affordable housing; a quality education system; an accessible and capable health system; a safe and sanitary environment; a functioning local government; community infrastructure management capabilities; and a healthy economy. The Sustainable Priorities for Alaska Rural Communities (SPARC) Program aspires to strengthen communities through technical assistance with infrastructure development and enhancement of the leadership capacity of local residents.

TRAINING

The Training Program was established by the Commission in 1999 as a stand-alone program to provide to rural residents training and employment opportunities that support the construction, maintenance, and operation of Denali Commission investments.

The Training Program prioritizes training projects that create employment opportunities, leverage funds from other state, local and federal sources, and demonstrate regional planning and coordination. Training Program funds are dedicated to training activities that are directly related to student costs such as books, tools, tuition, lodging, and transportation.

The Denali Commission selects major program partners for training that have the capacity to provide training and education and to carry out the Commission's goals and objectives. Via competitive opportunities facilitated through such partners, other organizations are engaged to conduct specific training projects.

Funding for the Training Program has traditionally come from two sources: the Commission's energy and water base appropriation, and the U.S. Department of Labor. Fiscal year 2011 was the first year since the program's inception that a direct budget was not allocated to the training program. Absent new funding, Training Program activities are limited to projects with program partners that have prior-year funds available on existing grants. However, work is ongoing with program partners to explore how state, federal, tribal, local, and regional stakeholders can improve the maintenance and operation of existing infrastructure through the Commission's Rural Alaska Maintenance Partnership (RAMP) work.

TRANSPORTATION

The Transportation Program was created in 2005 as part of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) and accompanying amendments to the Denali Commission Act of 1998, as amended. The program focuses primarily on two areas: rural roads and waterfront development.

The roads portion focused on planning, design, and construction to address basic road improvement needs, including projects that connect rural communities to one another and to the state highway system, and opportunities to enhance rural economic development. Eligible project types include board roads (boardwalk-like systems) for all-terrain vehicles, local community road and street improvements, and roads and board roads to access subsistence use sites (specifically designated locations used by Alaska Natives and rural community members to gather food).

The waterfront portion addresses planning, design, and construction of port, harbor, and other rural waterfront needs. Eligible project types include regional ports, barge landings, and docking facilities.

SAFETEA-LU expired in 2009 and operated under a continuing resolution from June 2009 through June 2012. In June 2012, Congress passed a two-year transportation bill, the Moving Ahead for Progress in the 21st Century Act (MAP-21), that did not include authorization or funding for the Commission's Transportation Program.

Commission staff continues to administer the program in coordination with members of the Transportation Advisory Committee, which rates and ranks project submissions, recommends projects to the Denali Commission Federal Co-Chair, and advises the Commission on rural surface transportation needs in Alaska.

The Commission works with these recipients and program partners: U.S. Federal Highway Administration, Western Federal Lands Highway Division and Alaska Division; Alaska Department of Transportation and Public Facilities; U.S. Army Corps of Engineers, Alaska Division; regional, local, and tribal governments; and regional, tribal nonprofits.

WATER AND SANITATION ENERGY EFFICIENCY

Water and sanitation facilities in rural Alaska represent one of three core infrastructure types that use the majority of energy resources in a community (housing and schools are the other two). In the recent past, the Alaska Native Tribal Health Consortium, a Commission program partner, completed energy audits (grants issued by the Denali Commission to assess energy needs of local communities) of more than 40 water and sanitation systems throughout rural Alaska and identified potential energy efficiency improvements in each system. According to the Commission, as a result of this effort potential energy savings of approximately \$700,000 per year were identified, with a one-time capital investment of approximately \$1.3 million. The results of the energy audits completed to date indicate that for each \$1 spent annually on energy retrofits, rural communities and the state of Alaska will realize savings of approximately 50 cents.

It is also estimated that there are upwards of 40 other water and sanitation systems throughout rural Alaska that could realize savings with similar investments and about 150 existing water systems that could benefit from energy efficiency improvements. Currently, there is no source of funding dedicated to providing for energy efficiency improvements for water and sanitation systems in rural Alaska. This includes planning, preconstruction, and construction activities.

Statistical Data

OFFICE OF INVESTIGATIONS STATISTICAL HIGHLIGHTS FOR THIS PERIOD

The Inspector General Act Amendments of 1988 require us to present in this report the statistical data contained below.

Investigative activities cover investigations opened and closed by OIG; arrests by OIG agents; indictments and other criminal charges filed against individuals or entities as a result of OIG investigations; convictions secured at trial or by guilty plea as a result of OIG investigations; and fines, restitution, and all other forms of financial recoveries achieved by OIG as a result of investigative action. We found no record of any investigative activities during this reporting period.

Allegations processed presents the number of complaints from employees, stakeholders, and the general public that we were able to identify from the limited records maintained by the previous inspector general. We found no record of any allegations processed during this reporting period.

AUDIT RESOLUTION AND FOLLOW-UP

The Inspector General Act Amendments of 1988 require us to present in this report audits issued before the beginning of the reporting period (October 1, 2013) for which no management decision had been made by the end of the period (March 31, 2014).

Audit resolution is the process by which the Denali Commission reaches an effective management decision in response to audit reports. We found no record of any audits resolved during this reporting period.

Management decision refers to the Denali Commission's evaluation of the findings and recommendations included in the audit report and the issuance of a final decision by Commission management concerning its response. We found no record of any management decisions made during this reporting period.

AUDIT, EVALUATION, AND INSPECTION STATISTICAL HIGHLIGHTS FOR THIS PERIOD

Audits of federal establishments, organizations, programs, activities, and functions must comply with standards established by the Comptroller General of the United States. Evaluations and inspections include reviews that do not constitute an audit or a criminal investigation. OIG found no record of any audits, evaluations, or inspections conducted during this reporting period. Therefore, there are neither questioned costs, nor funds to be put to better use.

Questioned cost is a cost questioned by OIG because of (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that an expenditure of funds for the intended purpose is unnecessary or unreasonable.

Value of audit recommendations that funds be put to better use results from an OIG recommendation that funds could be used more efficiently if Commission management took action to implement and complete the recommendation. Such actions may include (1) reductions in outlays; (2) deobligation of funds from programs or operations; (3) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (4) costs not incurred by implementing recommended improvements related to the Commission, a contractor, or a grantee; (5) avoidance of unnecessary expenditures identified in pre-award reviews of contracts or grant agreements; or (6) any other savings specifically identified.

REPORT TYPES FOR THIS PERIOD

Financial statement audits provide reasonable assurance through an opinion (or disclaimer of an opinion) about whether an entity's financial statements are presented fairly in all material respects, in conformity with generally accepted accounting principles, or with a comprehensive basis of accounting other than those principles.

The financial statements audit was the only report type completed during this reporting period.

TABLE 1. REPORT TYPES

Type	Number of Reports	Table Number
Financial statement audits	1	Table 1-a

TABLE 1-A. FINANCIAL STATEMENT AUDITS

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use	Amount Questioned	Amount Unsupported
Denali Commission					
FY 2013 Financial Statements Audit	N/A	02.14.2014	0	0	0

Reporting Requirements

The Inspector General Act of 1978, as amended, specifies reporting requirements for semiannual reports. The requirements are listed below and indexed to the applicable pages of this report.

Section	Topic	Page
4(a)(2)	Review of Legislation and Regulations	9
5(a)(1)	Significant Problems, Abuses, and Deficiencies	N/A*
5(a)(2)	Significant Recommendations for Corrective Action	N/A*
5(a)(3)	Prior Significant Recommendations Unimplemented	9
5(a)(4)	Matters Referred to Prosecutorial Authorities	7
5(a)(5) and 6(b)(2)	Information or Assistance Refused	11
5(a)(6)	Listing of Audit Reports	8
5(a)(7)	Summary of Significant Reports	3
5(a)(8)	Audit Reports—Questioned Costs	7
5(a)(9)	Audit Reports—Funds to Be Put to Better Use	7
5(a)(10)	Prior Audit Reports Unresolved	11
5(a)(11)	Significant Revised Management Decisions	12
5(a)(12)	Significant Management Decisions with Which OIG Disagreed	12
5(a)(14)	Results of Peer Review	12

* No performance audit, inspection, or evaluation reports were issued during this semiannual period.

SECTION 4(A)(2): REVIEW OF LEGISLATION AND REGULATIONS

This section requires the inspector general of each agency to review existing and proposed legislation and regulations relating to that agency's programs and operations. Based on this review, the inspector general is required to make recommendations in the semiannual report concerning the impact of such legislation or regulations on (1) the economy and efficiency of the management of programs and operations administered or financed by the agency or (2) the prevention and detection of fraud and abuse in those programs and operations. Comments concerning legislative and regulatory initiatives affecting Commission programs are discussed, as appropriate, in relevant sections of the report.

SECTION 5(A)(3): PRIOR SIGNIFICANT RECOMMENDATIONS UNIMPLEMENTED

This section requires identification of each significant recommendation described in previous semiannual reports for which corrective action has not been completed. Section 5(b) requires that the Commission transmit to Congress statistical tables showing the number and value of audit reports for which no final

action has been taken, as well as an explanation of why recommended action has not occurred, except when the management decision was made within the preceding year. After reviewing the files from the prior inspector general, we were able to find some handwritten notes that suggested there were 17 unimplemented recommendations since 2009. In light of GAO's recent report, *Improvements Needed in the Office of Inspector General's Oversight of the Denali Commission* (GAO-14-320), we are working with the Denali Commission staff to determine the current status of those recommendations.

Report	Date	Unimplemented Recommendations (According to Prior Inspector General)
Inspection of Togiak Family Resource Center	September 2011	Denali should include a grant condition that requires site visits at specified intervals from some representative of the involved state department.
Inspection of McGrath City Hall	September 2009	<p>When a grant is too small to warrant site visits, Denali should include a grant condition for periodic, informal "walk-throughs" by a credible local third-party.</p> <p>As broadband Internet coverage expands across bush Alaska, live walk-throughs with portable webcams may be the best alternative to site visits.</p> <p>Denali should consider convening one of its quarterly meetings in McGrath to assure that the needs of this remote interior region are considered in the agency's annual statutory work plan. Alternatively, less than a quorum of the commissioners could conduct a public hearing in McGrath concerning the work plan.</p> <p>Denali should include an explicit condition in its grants that the grantee will document the fire marshal's plan approval before construction starts.</p>
Inspection of Port Graham Police and Fire Station	September 2009	<p>Denali should consult the Alaska State Troopers prior to funding construction of a rural police station.</p> <p>Denali should consult the state fire marshal prior to funding construction of a rural fire station.</p> <p>Denali should include a grant condition that requires the value of contributed land to be established by an independent real estate appraiser. Denali may wish to follow the approach of other federal agencies and issue a grants management "common rule" in the Code of Federal Regulations. Like other agencies, Denali could also issue its own "compliance supplement" with expected steps for a grant's audit under OMB Circular A-133.</p> <p>Denali should include a grant condition that requires the monitoring agency to review contracts that will document major payments to vendors.</p>

Report	Date	Unimplemented Recommendations (According to Prior Inspector General)
Inspection of Port Graham Police and Fire Station <i>(continued)</i>	September 2009	<p>Denali should include a grant condition that requires site visits at specified intervals from some representative of the involved state department.</p> <hr/> <p>Denali should require that the state’s grant administrator, per OMB Circular A-133 section 400(d), resolve the \$119,205 reporting uncertainty discussed above.</p> <hr/> <p>Denali should include a grant condition that requires the monitoring agency to implement an internal procedure for its annual review of a subawardee’s audit report.</p> <hr/> <p>Denali should include an explicit condition in its grants that the monitoring agency will document the fire marshal’s plan approval before construction starts.</p> <hr/> <p>Denali should include a grant condition for publicly recording a Notice of Federal Interest in the land records for a funded facility. This notice should define the parameters of permissible use over time—and the solution for an unneeded, misused, or abandoned building.</p>
Inspection of Tanacross Community Center	October 2009	<p>Denali should thus do an MOU with GSA (the presumed servicer for federal property) to recover the reversionary interest.</p> <hr/> <p>Denali should request that GSA consult the Colorado attorney general and assess the extent to which a potential federal claim was compromised by the tribe’s acceptance of the offered settlement.</p> <hr/> <p>In consultation with GSA, Denali should develop a grant condition that requires immediate notification of any litigation involving a Denali-funded project. Denali should consider issuing this as part of a grants management “common rule” in the Code of Federal Regulations.</p>

SECTIONS 5(A)(5) AND 6(B)(2): INFORMATION OR ASSISTANCE REFUSED

These sections require a summary of each report to the Commissioners when access, information, or assistance has been unreasonably refused or not provided. To our knowledge there were no reports to the Commissioners during this semiannual period.

SECTION 5(A)(10): PRIOR AUDIT REPORTS UNRESOLVED

This section requires: (1) a summary of each audit report issued before the beginning of the reporting period for which no management decision has been made by the end of the reporting period; (2) an explanation of why a decision has not been made; and (3) a statement concerning the desired timetable for

delivering a decision on each such report. OIG is unaware of any reports more than 6 months old for which no management decision has been made.

SECTION 5(A)(11): SIGNIFICANT REVISED MANAGEMENT DECISIONS

This section requires an explanation of the reasons for any significant revision to a management decision made during the reporting period. To our knowledge there are no appeals pending at the end of this period.

SECTION 5(A)(12): SIGNIFICANT MANAGEMENT DECISIONS WITH WHICH OIG DISAGREED

This section requires information concerning any significant management decision with which the inspector general disagrees. During this period, no audit issues were referred.

SECTION 5(A)(14): RESULTS OF PEER REVIEW

We have not been able to obtain information on the latest peer review for the Denali Commission OIG, which is likely due to the fact that the prior inspector general did not conduct any audits or investigations—only inspections.

The most recent peer reviews of Commerce OIG's Office of Audit and Evaluation and Office of Investigations are described in Commerce OIG's March 2014 *Semiannual Report to Congress*.



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The Department of Commerce
Office of Inspector General
is investigating hotline complaints
related to the Denali Commission.





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