



Denali Commission
Office of Inspector General
Anchorage, AK 99501

November 29, 2016

Ms. Meera Kohler, President and CEO
Alaska Village Electric Cooperative
4831 Eagle St.
Anchorage, AK 99503

Dear Ms. Kohler,

Enclosed is the Denali Commission Office of Inspector General's final audit report, number DCOIG-17-001-A, concerning Denali Commission Grant No. 1190.

This letter is notice of your opportunity and responsibility to review the report and to develop a complete response. If you believe that the report is in error in any respect, or if you disagree with any of the proposed findings and recommendations, it is important that you explain the error or your reasons for disagreement and submit to us evidence that supports your position. You should also explain how each documentary submission supports the position you are taking; otherwise, we may be unable to evaluate the information.

Your response must be postmarked no later than 30 days from the date of this letter. There will be no extensions to this deadline, and you will have no other opportunity to submit comments, arguments, or documentation before the Denali Commission makes a decision on the audit findings and recommendations. The Denali Commission will consider your complete response in determining what action to take with respect to our audit. Enclosure 1 explains administrative dispute procedures available to you.

As you prepare your response, if you have any questions about this report or the process by which the Denali Commission reaches a final decision, please call me and reference final audit report number DCOIG-17-001-A. Please send your response (including any documentary evidence) to:

Joel Neimeyer, Federal Co-Chair
Denali Commission
510 L Street, Suite 410
Anchorage, AK 99501

Please send a copy of your response to:

David Sheppard, Inspector General
Denali Commission Office of Inspector General
510 L Street, Suite 410
Anchorage, AK 99501

After evaluation of your response, Commission officials may provide you with further guidance or request clarification. This final report will be posted on OIG's website pursuant to section 8M of the Inspector General Act of 1978, as amended.

Sincerely,

A handwritten signature in blue ink, appearing to read "David Sheppard", with a long horizontal flourish extending to the right.

David Sheppard
Inspector General

cc: Joel Neimeyer, Federal Co-Chair, Denali Commission
David Smith, Deputy Inspector General, U.S. Department of Commerce

NOTICE TO AUDITEE
Financial Assistance Audits

1. Audit requirements applicable to a particular financial assistance award may be established by law, regulation, policy, or the terms of the recipient's financial assistance agreement with the Denali Commission.
2. The results of any audit will be reported to the Denali Commission and to the recipient/auditee, unless the Inspector General of the Denali Commission determines that it is in the government's interest to withhold release of the audit report.
3. The results of an audit may lead to adverse consequences for the auditee, including but not limited to any of the following actions (which are subject to applicable laws and regulations):
 - Suspension and/or termination of current awards;
 - Referral of identified problems to other federal funding agencies and entities as deemed necessary for remedial action;
 - Denial of eligibility for future awards;
 - Canceling the authorization for advance payment and substituting reimbursement;
 - Establishment of special conditions in current or future awards; and/or
 - Disallowance of costs, which could result in a reduction in the amount of federal payments, the withholding of payments, the offsetting of amounts due the government against amounts due the auditee, or the establishment of a debt and appropriate debt collection follow-up (including referrals to collection agencies).

Because of these and other possible consequences, an auditee should take seriously its responsibility to respond to audit findings and recommendations with explanations and evidence whenever audit results are disputed.

4. To ensure that audit reports are accurate and reliable, an auditee may have the following opportunities to point out errors (of fact or law) that the auditee believes were made in the audit, to explain other disagreements with audit findings and recommendations, to present evidence that supports the auditee's positions, and to dispute final recommendations:
 - *During the audit*, the auditee may bring to the attention of the auditors at any time evidence that the auditee believes affects the auditors' work.
 - *At the completion of the audit on-site*, as a matter of courtesy, the auditee is given the opportunity to have an exit conference to discuss the preliminary audit findings and to

present a clear statement of the auditee's position on the significant preliminary findings, including possible cost disallowances.

- *Upon issuance of the draft audit report*, the auditee may be given the opportunity to comment and submit evidence during the 30-day period after the transmittal of the report. (There are no extensions to this deadline.)
- *Upon issuance of the final audit report*, the auditee is given the opportunity to comment and to present evidence during the 30-day period after the transmittal of the report. (There are no extensions to this deadline.)
- *Upon issuance of the Commission's decision (the "Audit Resolution Determination")* on the audit report's findings and recommendations, the auditee has the right to appeal for reconsideration within 30 calendar days after receipt of the determination letter if monies are due to the government. (There are no extensions to this deadline.) The determination letter will explain the specific appeal procedures to be followed.
- *After an appeal is filed*, or after the opportunity for an appeal has expired, the Commission will not accept any further submissions of evidence concerning an auditee's dispute of the Commission's decisions on the resolution of the financial assistance audit. If it is determined that the auditee owes money or property to the Commission, the Commission will take appropriate collection action, but will not thereafter consider the merits of the debts.

DENALI COMMISSION

Denali Commission New Stuyahok Bulk Fuel Facility Grant



FINAL REPORT

November 29, 2016

DCOIG-17-001-A

DENALI COMMISSION
OFFICE OF INSPECTOR GENERAL

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Introduction

The Denali Commission was established in 1998 by the Denali Commission Act to support development in rural Alaska. The Commission operates as an independent federal agency and partners with the State of Alaska and other stakeholders in the region. The Commission funds rural development in Alaska by awarding grants for projects that develop and supply energy, modern communication systems, water and sewer systems, and other critical infrastructure. The central component of the Commission's investment strategy for rural Alaska is the energy program. The Commission funds the design and construction of bulk fuel storage facilities, community power generation and distribution systems, energy efficiency upgrades, and alternative energy projects. One of the Commission's major program partners on rural fuel storage and power generation needs is the Alaska Village Electric Cooperative (AVEC).

Established in 1968, AVEC operates as a nonprofit electric utility cooperative owned by the residents in the communities it serves. AVEC's primary focus is to provide stable electric services to rural Alaskans and help improve their standard of living with improvements in energy, health care, housing, education, water and sewer infrastructure, communications, and overall economic growth. AVEC began partnering with the Denali Commission in 2001.

In September of 2009, the Denali Commission awarded AVEC \$8,350,000—of which \$7,965,000 was federal and \$385,000 was AVEC match funding—to provide design, shipment, and installation of new bulk fuel storage facilities with 526,600 gallons of fuel storage capacity (which was subsequently amended to increase storage capacity to 572,600 gallons to meet the needs of a neighboring community) in New Stuyahok, Alaska. The project was closed out in March of 2015 at a total cost of \$5,517,474, of which \$5,263,075 was federal funding and \$254,399 was AVEC match funding.

New Stuyahok, a village of approximately 500 residents, is located on the Nushagak River in southwestern Alaska and is accessible only by airplane, boat in the summer, and snowmobile in the winter. The three main stakeholders of the project were: the Southwest Region School District, AVEC, and the City of New Stuyahok.¹ A total of 23 bulk fuel storage tanks—ranging from 5,000 to 27,000 gallons of capacity—were installed in New Stuyahok. The grant's period of performance was September 1, 2009, to December 31, 2014.

¹ The City of New Stuyahok leases their bulk fuel storage tanks and related facilities to Stuyahok Limited, LLC (Stuyahok Limited). Stuyahok Limited is a for-profit Alaska Native village corporation that provides retail fuel sales to the community.

Objectives, Findings, and Recommendations

The objectives of this audit were to assess whether (1) costs associated with the development of the New Stuyahok bulk fuel facilities were allowable, allocable, and reasonable; and (2) the project was developed as intended and operating successfully.

Improvements Are Needed in the Bulk Fuel Facility Grant Program

In addressing the audit objectives, we found that (1) sampled costs associated with the development of the New Stuyahok bulk fuel facility were allowable, allocable, and reasonable; and (2) the project was developed as intended and operating successfully. However, we also found that improvements are needed in (1) the maintenance of the AVEC bulk fuel facility; and (2) the review of consultant fees.

All sample transactions reviewed were allowable, allocable, and reasonable.

We sampled 55 of the 379 (\$1.5 million of \$5.5 million) total expenditure transactions incurred on the grant to determine whether the costs were allowable, allocable, and reasonable under federal cost principles.² We traced transactions to supporting documentation—such as invoices, timesheets, contracts, and other procurement documentation—and found all 55 transactions to be allowable, allocable, and reasonable.

New Stuyahok bulk fuel facilities were constructed and are operating as intended.

We determined AVEC completed the New Stuyahok bulk fuel facilities project as intended in accordance with the performance objectives in the grant.³ The project's storage capacity met the required 572,600 gallons of new fuel storage. We traveled to New Stuyahok, Alaska, to visually inspect the bulk fuel facilities and interview facility operators and other stakeholders to determine whether the project was successfully constructed and operating as intended. We also interviewed community members, as well as Denali Commission and AVEC personnel involved with the project, and determined all parties were satisfied with the performance of the grant. The primary stakeholders were provided updated bulk fuel storage facilities, which the community at large believes is a more reliable infrastructure for obtaining and storing fuel well into the future.

² Office of Management and Budget (OMB) Circular A-122, Cost Principles for Non-Profit Organizations, May 10, 2004. Attachment A, Sections A-2, -3, and -4.

³ Per the grant award, "Based on a conceptual design, the combined storage capacity of the new bulk fuel tank farms is 526,600 gallons, which includes capacity for 467,600 gallons of diesel fuel storage and 59,000 gallons for gasoline storage. Storage capacity by participant is: AVEC - 243,000 gallons of diesel; Southwest Region School District (SRSD) - 111,600 gallons of diesel; Stuyahok Limited (an Alaska Native village corporation organized pursuant to the Alaska Native Claims Settlement Act) - 113,000 gallons of diesel and 59,000 gallons of gasoline."

Improvements are needed in the maintenance of the AVEC bulk fuel facility.

During our on-site visit, we visually inspected each stakeholder's facility and toured two of the sites: AVEC's facility and Stuyahok Limited's facility.⁴ Improvements are needed in the maintenance of the AVEC bulk fuel facility. Specifically, AVEC's bulk fuel facility contained (1) standing water and vegetation, and (2) a portable incinerator in close proximity to the fuel storage tanks.

AVEC's bulk fuel facility contained standing water and vegetation.

We toured AVEC's bulk fuel facility and observed visible rust on the outside of two used tanks and standing water and vegetation in the secondary containment area (see Figure 1).

According to the Environmental Protection Agency's (EPA) Spill Prevention, Control, and Countermeasure (SPCC) Guidance for Regional Inspectors, inspectors should evaluate whether the secondary containment systems are maintained to contain oil discharges to navigable waters or adjoining shorelines. These guidelines suggest inspections of these areas include looking for the presence of excessive vegetation, standing liquid, debris, corrosion, cracks and holes, large-rooted plants, and discoloration.⁵ In addition, the State of Alaska's Department of Environmental Conservation regulations state, "A secondary containment system must be maintained free of debris, vegetation, excessive accumulated water, or other materials or conditions that might interfere with the effectiveness of the system."⁶ The presence of standing water and vegetation, if left untreated, could negatively impact the effectiveness of the system and inhibit visual inspection and assessment of the area. Overall, AVEC could improve maintenance of their secondary containment area by ensuring industry maintenance standards referenced in this report are followed.

Figure 1. AVEC Bulk Fuel Facility



Source: OIG

⁴ The Southwest Region School District bulk fuel facility did not have a representative available to meet with us; however, we were able to visually inspect the facility.

⁵ Chapter 4 of the December 16, 2013, Office of Emergency Management "SPCC Guidance for Regional Inspectors", § 4.3.1.

⁶ Alaska Admin. Code tit. 18, § 75.075(c) (mandating secondary containment requirements for aboveground oil storage tanks).

In contrast, we toured Stuyahok Limited’s bulk fuel facility where we observed the tanks free of visible rust, standing water, and vegetation (see Figure 2). While interviewing the facility operator and operations manager, the facility operator stated that due to normal settling of the base platform for the tanks, it is important to ensure the secondary containment area is free from vegetation and standing water in order to maintain the integrity and stability of the base platform. The operator stated he uses sump pumps to pump out water and manually removes weeds to help keep the area dry and well maintained.

AVEC’s bulk fuel facility contained a portable incinerator in close proximity to the fuel storage tanks.

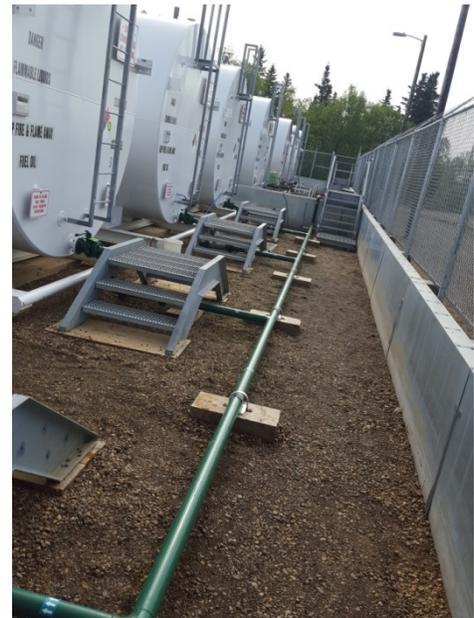
Although we came across “no smoking” signs posted on the fence surrounding AVEC’s bulk fuel facility and signage on the tanks warning that contents were flammable, we observed a portable incinerator within close proximity of its bulk fuel

storage tanks (see Figure 3). SPCC guidelines are in place pertaining to safety, fire prevention, and oil pollution prevention. The presence of a portable incinerator in close proximity to fuel storage tanks presents a safety concern because it could ignite an explosion of any leaked oil; harming village residents, water systems, and surrounding wildlife.⁷ Although the incinerator is portable, we could not determine whether the operator moves the incinerator when using it. While we did not observe the incinerator being used during our visit, the operator disclosed he does use it to burn rags and other material. It is an important safety practice to reinforce fire prevention and operate the incinerator at a safe distance from the fuel tanks.

AVEC’s review of consultant fees is not consistent.

AVEC does not always ensure consultant fee rates on a project are accurate. Although we did not find instances of inaccurate costs charged to the award in the sample of costs we audited, during interviews with AVEC’s accounting personnel, we learned accounting personnel do not always verify fee rates are accurate as established in the contract for services. Specifically, when a contract is relatively new, accounting personnel stated they verify the consultant’s claimed amount by manually checking the consultant’s time sheet and current fee rate. However, as time goes on, AVEC accounting personnel may not manually check all the fee rates because they have become more comfortable with

Figure 2. Stuyahok Limited Bulk Fuel Facility



Source: OIG

Figure 3. AVEC Bulk Fuel Facility Portable Incinerator



Source: OIG

⁷ Chapter 7 of the December 16, 2013, Office of Emergency Management “SPCC Guidance for Regional Inspectors.”

the contract and claim to remember the contract fee rates for each consultant. By not verifying all fee rates charged by consultants are accurate, there is an increased risk that AVEC could inappropriately use grant funds to overpay consultants.

Recommendations

We recommend the Commission instructs the grantee to:

1. Determine the cause of standing water and vegetation in the AVEC bulk fuel facility and implement any necessary changes to ensure the facility is properly maintained.
2. Remove the portable incinerator from close proximity to AVEC's fuel storage tanks.
3. Implement procedures to verify the accuracy of consultant fees.

Summary of Agency Response and OIG Comments

The OIG received AVEC's response to the draft report, which we included as Appendix C of this final report. AVEC did not agree with all findings in this report and, based on its response, we modified the potential effects of water and vegetation in the secondary containment system. However, the substance of our findings and recommendations has not changed. AVEC also stated it is taking corrective action to instruct operators to remove the portable incinerator from close proximity to the bulk fuel facility, as well as implementing procedures to verify the accuracy of consultant fees.

Appendix A: Objectives, Scope, and Methodology

Our objectives were to assess whether 1) costs associated with the development of the New Stuyahok bulk fuel facilities were allowable, allocable, and reasonable; and 2) the project was developed as intended and operating successfully. We conducted our fieldwork from April 2016 to August 2016 in Anchorage and New Stuyahok, Alaska, as well as in Seattle, Washington.

To accomplish our audit objectives, we did the following:

- interviewed Denali Commission officials, AVEC personnel, bulk fuel facility managers, and operators to gain an understanding of the project and operational requirements;
- obtained an understanding of documentation, supervisory, and internal control procedures over accounting and finance transactions, procurement, property management, records retention, and information systems;
- reviewed the rules and regulations applicable to the award and to the audit objectives, including Denali Commission Grants Management Guidelines, and OMB Circulars A-122, *Cost Principles for Non-Profit Organizations*, A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*;
- obtained all general ledger transactions associated with grant award 1190;
- worked with the Department of Commerce Office of Inspector General Data Analytics staff to obtain a random sample of AVEC general ledger expenditure data, stratified by cost category for a total of four strata. To reach a minimum confidence level of 90 percent—with 10 percent margin of error—we sampled 45 items. In addition, one cost category only had a single transaction, which we included, bringing our sample to 46 of 379 total transactions for review. We also judgmentally included an additional 9 transactions for a total sample size of 55 transactions;
- reviewed supporting documentation for the sample of 55 transactions, to include invoices, timesheets, contracts, and other procurement documentation to determine whether costs were allowable, allocable, and reasonable. We did not project the results of the sample because we did not identify any questioned costs;
- reviewed contracts and other procurement documentation to determine whether the bulk fuel storage tanks were purchased in accordance with AVEC policies and federal procurement standards;
- interviewed officials from Stuyahok Limited, AVEC, Denali Commission, and community members, and compared the grant's performance objectives with the current status to determine whether the objectives of the project were reached and the bulk fuel facilities are operating as intended.

We did not solely rely on computer-generated data for our review. Instead, we established data reliability by reviewing the electronic records for obvious errors and omissions, interviewing AVEC officials who were knowledgeable about the records, and directly comparing the electronic general

ledger records to supporting documentation. Based on this review, we determined the data were sufficiently reliable to support our audit conclusions.

We did not identify deficiencies in internal control procedures that are significant within the context of the audit objectives. We did not identify any instances of fraud, illegal acts, or abuse that have or are likely to have occurred.

We performed this audit under the authority of the Inspector General Act of 1978, as amended (5 U.S.C. app.). We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix B: Summary of Source and Application of Funds

**Alaska Village Electric Cooperative
Final Audit of Grant No. 1190
September 1, 2009 through March 12, 2015**

	Approved Award Budget	Budgeted Cost Share	Cost Incurred By Grantee	Actual Cost Share
Source of Funds				
Federal Share	\$7,965,000	95.4%	\$5,263,075	95.4%
Recipient Share	385,000	4.6%	254,399	4.6%
Total	\$8,350,000		\$5,517,474	
Application of Funds				
Freight			\$511,187	
Labor			34,469	
Materials			502,787	
Other			4,001,966	
Planning and Design			467,065	
Project Administration/Overhead			-	
Total			\$5,517,474	

Source: OIG based on AVEC data.

Appendix C: Agency Response



November 21, 2016

David Sheppard, Inspector General
Denali Commission Office of Inspector General
501 L Street, Suite 401
Anchorage, Alaska 99501

Re: Draft Audit Report DCOIG-17-001-A

Dear Mr. Sheppard,

Thank you for the opportunity to offer comments on the draft audit of AVEC's Grant No. 1190.

AVEC takes exception to the finding that AVEC's bulk fuel facility is not being operated and maintained to industry standards.

The minor vegetation observed in the containment area during the site visit is normal and a product of summertime seed migration. There is no "excessive vegetation" and no woody growth of any kind. The very small amount of standing water observed is actually a testament to the proper functioning of the containment system since it is not possible to completely evacuate standing water puddles. State and federal regulations dictate that secondary containment be able to contain the entire volume of the largest fuel tank. In our case, that is 27,000 gallons. The design capacity of each of the two containment sections is 120,000 gallons, well in excess of requirements. A minor amount of standing water does not jeopardize the spill containment capability of the facility.

With regard to the Smart Ash incinerator, the power plant operator has been instructed to not operate it in proximity to the fuel tank farm.

We concur with your recommendation to verify the accuracy of consultant fees in all billable instances and have already implemented that practice.

Thank you again for the opportunity to comment.

A handwritten signature in blue ink, appearing to read "Meera Kohler".

Meera Kohler
President and Chief Executive Officer

CC: Joel Neimeyer, Federal Co-Chair Denali Commission
Forest Button, Manager, Project Development and Key Accounts

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