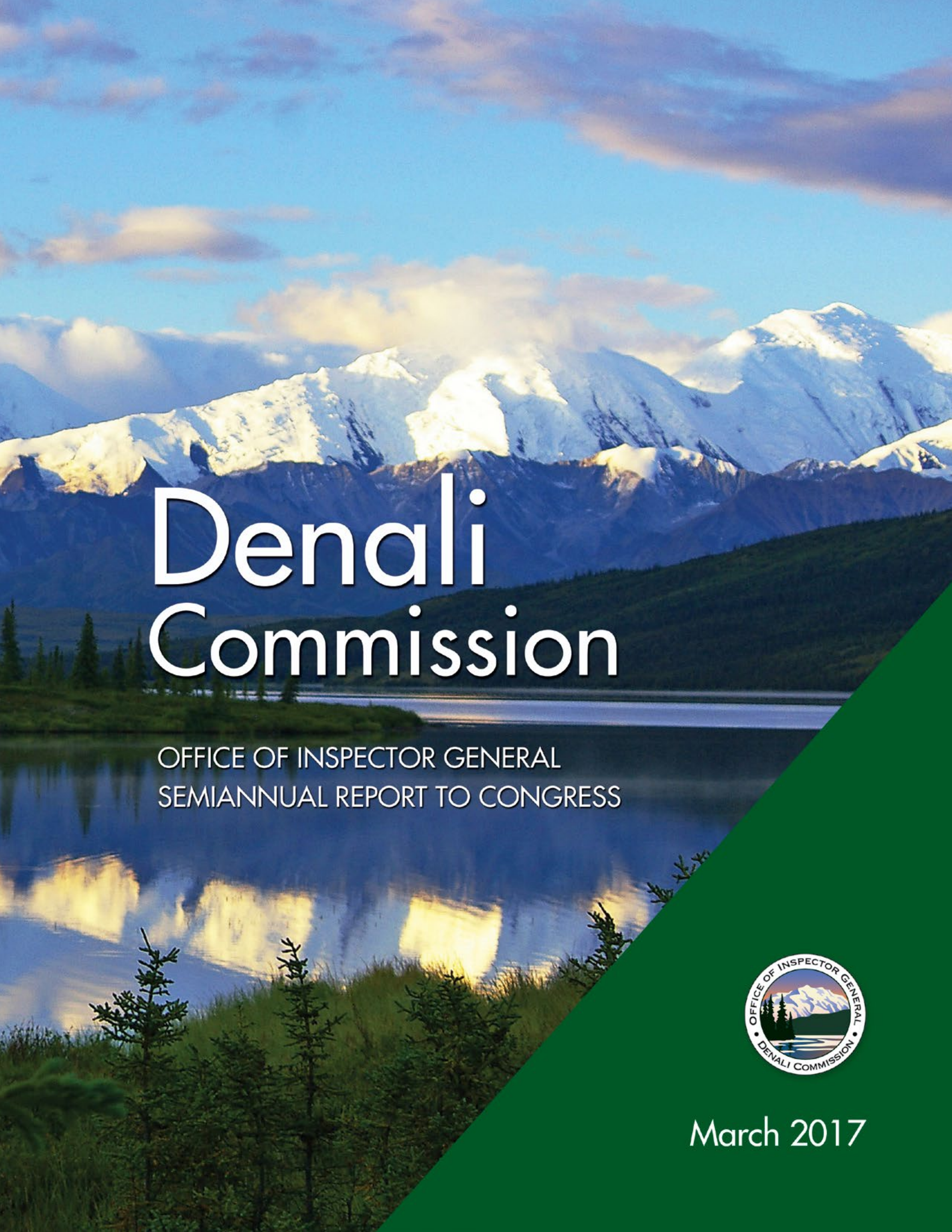

Denali Commission

OFFICE OF INSPECTOR GENERAL
SEMIANNUAL REPORT TO CONGRESS

March 2017

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Denali Commission

OFFICE OF INSPECTOR GENERAL
SEMIANNUAL REPORT TO CONGRESS

March 2017

Contents

From the Inspector General

I am pleased to present the Denali Commission (Commission) Office of Inspector General's *Semiannual Report to Congress* for the 6 months ending March 31, 2017.

During the semiannual reporting period, we completed an assessment of the Commission's FY 2017 top management and performance challenges, an audit of the Commission's New Stuyahok bulk fuel facility grant, an audit of the Commission's FY 2016 financial statements, a review of the Commission's readiness to implement Digital Accountability and Transparency Act of 2014 (DATA Act) requirements, and a response to the Office of Management and Budget (OMB) related to the Government Charge Card Abuse Prevention Act of 2012. During this period, we initiated an audit of the Commission's government travel card program and SB & Company, LLC, began work to complete an audit of the Commission's FY 2017 financial statements.

The Reports Consolidation Act of 2000 requires inspectors general to identify the top management challenges facing their organizations. The top management challenges we identified are (1) addressing evolving role in the environmentally threatened communities initiative; (2) engaging Commissioners in light of ethics concerns and funding realities; and (3) identifying a strategic vision and plan in a period of funding uncertainty. The details of these challenges can be found in our report *Top Management and Performance Challenges Facing the Denali Commission in Fiscal Year 2017*, which we issued on November 14, 2016.

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, Department of Commerce Office of Inspector General, and members of Congress and their staffs for their support of our work during this period.

David Sheppard

DENALI COMMISSION

The Denali Commission Act of 1998 (Denali Commission Act) established the 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 Denali Commission 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 has been updated several times, expanding the Commission's 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 five program areas: **Energy**, **Transportation**, **Government Coordination**, **Health Facilities**, and **Training**. The Commission's current priorities relate primarily to its energy and government coordination programs.

Completed Works

During the semiannual reporting period, we completed an assessment of the Commission's FY 2017 top management and performance challenges, an audit of the Commission's New Stuyahok bulk fuel facility grant, an audit of the Commission's FY 2016 financial statements, a review of the Commission's readiness to implement DATA Act requirements, and a response to OMB related to the Government Charge Card Abuse Prevention Act of 2012.

TOP MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE DENALI COMMISSION IN FY 2017

On November 14, 2016, we issued our report on the top management and performance challenges facing the Denali Commission in FY 2017. Since we issued our report in November 2016, we recognize that some issues may have evolved or improved; for those that we could review and confirm, we noted them in this report. The Commission was substantially affected by President Obama's environmentally threated communities initiative, continued budget reductions and conflict-of-interest rules that apply to Commissioners, and efforts to identify a strategic plan that addresses budget reductions amid increased responsibility.

While inherent logistical challenges continue to impact the Commission staff's ability to visit funded projects, the Commission's concurrence with—and implementation of—recommendations made in a recent OIG audit report on the agency's grant monitoring efforts should improve its efforts in this regard. In addition, the recent focus of the Commission on environmentally threatened communities has reduced the available funding and subsequently the volume of legacy projects funded by the Commission. Most of the legacy projects still being funded are part of the energy program that are now largely granted to program partners headquartered in Anchorage. Due to these recent changes, we have removed monitoring efforts as a top management challenge.

The three challenges we identified were:

1. Addressing Evolving Role in the Environmentally Threatened Communities Initiative

On September 2, 2015, President Obama announced an initiative on climate change and village relocation efforts, stating that "the Denali Commission will play a lead coordination role for Federal, State and Tribal resources to assist communities in developing and implementing both short- and long-term solutions to address the impacts of climate change, including coastal erosion, flooding, and permafrost degradation." According to a 2009 Government Accountability Office report on the relocation of Alaska Native villages, the four most pressing environmentally threatened communities in Alaska are Newtok, Kivalina, Shishmaref, and Shaktoolik. These four communities are identified as needing to move as soon as possible due to the continued flooding and erosion, as well as limited emergency evacuation options. All of these communities are suffering the impacts of climate change and are facing the decision either to move their village to a new location or protect in place.

FIGURE 1. NEWTOK, ALASKA
Source: Denali Commission

Newtok, Alaska (see figure 1), is a village of approximately 354 people on the Ningliq River in western Alaska and is not accessible by road. Newtok is eroding in part because it sits on permafrost, a once-permanently frozen sublayer of soil found in the Arctic region. As temperatures increase in Alaska, the permafrost melts, leading to rapid erosion. Snow is melting earlier in the spring in Alaska, sea ice is receding, and the ocean temperature is increasing. Erosion has forced the village to begin planning and implementing relocation to Mertarvik, Alaska.

FIGURE 2. KIVALINA, ALASKA
Source: Denali Commission OIG

Kivalina, Alaska (see figure 2), is a city and village of approximately 470 people in northwest Alaska. Kivalina lies on a barrier island along the Chukchi Sea—above the Arctic Circle—and is not accessible by road. The island on which the village lies is threatened by coastal erosion. Historically, the people of Kivalina have hunted large bowhead whales from camps atop the sea ice that stretches out from the town's shores. But, in recent years, climate change has thinned the ice so much that it has become too dangerous to hunt the whales. In addition, the sea ice acted as a protective barrier to the island. With the sea ice thinning, the island does not have enough protection from waves washing over the shore and eroding the coastline.

Shishmaref, Alaska (see figure 3), is a city and village of approximately 579 people in northwest Alaska. It is located on Sarichef Island in the Chukchi Sea, north of the Bering Strait, and is not accessible by road. Climate change and rising temperatures have resulted in a reduction in the sea ice that serves as a protective barrier to buffer Shishmaref from storm surges. At the same time, the permafrost that the village is built on has also begun to melt, making the shore even more vulnerable to erosion. Although a rock revetment has been put up to protect the village, the shore has continued to erode.

FIGURE 3. SHISHMAREF, ALASKA
Source: Denali Commission OIG

Shaktoolik, Alaska (see figure 4), is a city of approximately 260 people in northwest Alaska. Shaktoolik is located on the eastern shore of the Norton Sound and is not accessible by road. Shaktoolik is threatened by erosion and related effects of climate change, and the community has previously been relocated twice. In 2016, residents of Shaktoolik completed a strategic management plan to protect their community from erosion and violent storms.[1] The plan lists nine critical actions, including replacing the health clinic, reinforcing the berm, and building an evacuation center. All of these critical actions are part of the village's larger goal of remaining at their current site rather than relocating.

[1] Subsequent to publishing our report on the top management and performance challenges facing the Denali Commission in FY 2017, we learned Shishmaref and Kivalina also completed strategic management plans in August 2016 and September 2016, respectively.

FIGURE 4. SHAKTOOLIK, ALASKA
Source: Denali Commission OIG

President Obama, in his proclamation and press statement, tasked the Commission with the role of lead coordinator for the environmentally threatened communities initiative. However, there has not been any formal guidance in the form of an executive order, policy statement, or regulation that assigns the Commission with the lead coordinating role. Without formal guidance or assignment, the Commission is trying to understand its role and responsibility with little definition or clarity of what its part should be. In addition, the Commission is facing the challenge of how to help these environmentally threatened communities either move or protect in place with limited federal resources to carry out such actions.

2. Engaging Commissioners in Light of Ethics Concerns and Funding Realities

The Denali Commission Act establishes that the Commission will be composed of seven members appointed by the Secretary of Commerce. The seven members represent a variety of perspectives throughout Alaska and are responsible for creating an annual work plan for the Commission. The Denali Commission Act names the presidents of the University of Alaska, the Alaska Municipal League, the Alaska Federation of Natives, the American Federation of Labor and Congress of Industrial Organizations (AFL–CIO) Alaska, and the Associated General Contractors of Alaska, as well as the governor of Alaska (state co-chair), and the federal co-chair of the Denali Commission as members but also allows these members to nominate individuals to serve in their stead. The governor of Alaska has nominated the lieutenant governor of Alaska to the Secretary of Commerce to serve as the state co-chair.

Given the positions held by the Commissioners within their respective organizations, the Commission requested an opinion from various federal entities—including the Office of Government Ethics and the Department of Justice—on whether federal conflict-of-interest laws apply to Commissioners. The informal decisions provided by the Department of Justice in 2006 and 2007 were that, absent an exemption, the federal conflict-of-interest laws apply to all Commissioners. In light of this determination, Commissioners became concerned about their level of engagement, considering that they could be held criminally liable for breaking conflict-of-interest laws. On September 8, 2016, the Senate submitted a bill to reauthorize the Denali Commission and the proposed legislation included creating a mechanism by which a Commissioner may disclose a potential conflict of interest. This process includes the Commissioner obtaining a written determination by the agency's designated ethics official that the disclosed interest is not so substantial as to be likely to affect the integrity of the services expected from the Commissioner. It should be noted that, subsequent to our November top management challenges report, a related reauthorization bill was signed into law by President Obama on December 16, 2016, that addresses the conflict of interest concerns and provides that no member of the Commission, other than the federal co-chairperson, shall be considered a federal employee for any purpose.

The Commission's funding for FY 2016 was $19.5 million—up from $14 million the previous year.[2] However, this level of funding is still a significant decline from the $140.6 million budget in FY 2006. While funding is not the only incentive for Commissioners to be engaged in the work of the Commission, encouraging all

[2] The Commission's FY 2016 funding, as shown on their annual work plan, included $8 million in appropriated funds and a unique, one-time allocation of $11.5 million from the Trans-Alaska Pipeline Liability Fund.

Commissioners to be sufficiently engaged with the Commission's work remains a challenge.

Demands on the Commissioners' time are incredible both from their own organizations and issues related to Alaska and the Commission. To help alleviate scheduling concerns, a meeting schedule was developed for FY 2016 through FY 2017. During the November 2015 Commissioners meeting, it was moved that the Commissioners adopt the meeting schedule through December 2016 and revisit the remainder of the schedule closer to calendar year 2017. The motion was brought to a vote and approved unanimously by all in attendance.[3] Although there were nine agreed upon meetings scheduled for FY 2016, only three of the meetings were held and achieved quorum. Throughout the year, two additional meetings were scheduled but terminated due to lack of quorum. Scheduling and holding meetings takes considerable effort and time from Commission staff, as well as outside parties who have interest in the meeting. Each meeting incurs approximately 30 hours of Commission staff time dedicated to Commissioner outreach and logistics, transcriber arrangements, website announcements and newsletters, program partner outreach, and materials preparation. Both meetings in FY 2016 that were canceled due to lack of quorum were called specifically for Commissioners to make decisions regarding the Kipnuk energy project. For both canceled meetings, the Kipnuk Tribal Association members and the Alaska Energy Authority (a program partner of the Denali Commission) attended the meeting and prepared materials. As a result of the canceled meetings, important project decisions were delayed.

However, near the end of FY 2016, the Commissioners have shown improvement both in obtaining a quorum for scheduled meetings as well as the substance of the meetings, in terms of decision making. Over the last two fiscal years, FY 2017 is the first year the Commissioners have approved a tentative work plan prior to the beginning of the new fiscal year.

[3] Six of seven Commissioners were in attendance at the November 2015 meeting, including the federal co-chair, who only votes in the event that a tie breaker is needed. Therefore, there were five voting Commissioners in attendance and they unanimously approved the motion.

The current cadre of Commissioners embodies a wealth of knowledge and experience within the state and represents an important cross-section of tribes, municipalities, state government, academia, business, and labor. Obtaining their input and advice is considered by many to be an important component of the Denali Commission Act. Therefore, increasing Commissioner engagement is a challenge the Denali Commission's staff will need to overcome not only to ensure it is meeting the intent of the act, but also taking full advantage of everything the Commissioners have to offer.

3. Identifying a Strategic Vision and Plan in a Period of Funding Uncertainty

As noted previously, although the FY 2016 budget was a $5.5 million increase from the previous year, this level of funding is still a significant decline from the $140.6 million budget in FY 2006. The Commission no longer receives Congressional earmarks and receives few transfers from other federal or state agencies. Its FY 2016 budget was $19.5 million, with funding coming from only two federal sources: the Energy and Water Development and Related Agencies Appropriations Act, 2014, and the Trans-Alaska Pipeline Liability Fund. Despite drastic reductions in funding, the Commission continues to explore ways to improve rural Alaska.

In FY 2014, the Commission entered into an agreement with Enlighteneering, Inc., to help begin the critical effort of creating a strategic plan. The Commissioners met on March 27, 2015, to begin their strategic planning process; however, the plan was not finalized and recent progress has not been made in moving forward to complete the strategic plan.[4] During the August 2016 Commissioner meeting, how to move forward with strategic planning was discussed but it was agreed upon unanimously—by the five Commissioners in attendance—to table the issue until the Commission is reauthorized and a quorum, including both co-chairs, are present. Although strategic planning has been delayed, the process could help bring together Commissioners

[4] Since the FY 2017 top management and performance challenges report was published, the Commission staff and Enlighteneering, Inc. have produced a draft strategic plan that is awaiting Commissioner approval.

with different perspectives and varied perceptions of the Commission's priorities. It will require Commission staff, the federal co-chair, and the Commissioners themselves to agree on core values and a common vision for the Commission's future. Considering President Obama's announcement of the Commission's new role in a time of limited and uncertain funding, this will be a challenge.

These complexities are the very reasons that the completion of a strategic vision and planning effort is so critically important. Strategic planning will help the Commission fulfill its mandate from Congress by (a) clearly identifying its priorities and whom it should be serving, (b) developing a process to help it deliver on those priorities to its beneficiaries, which are primarily rural Alaska communities, and (c) helping to identify the best approach to delivering on President Obama's new initiative. The planning process will also help the Commission to make the best use of its limited funding and unite the Commission staff, the Commissioners, and its stakeholders—which include its beneficiaries, the Alaskan Congressional delegation, and others—around a common vision and approach. The planning process should also provide the Commission with a method of assessing whether its activities are successfully meeting measurable program goals.

In order to have an effective strategic planning process, the Commission must have the full support of each staff member and each Commissioner, working toward a common goal and pulling in the same direction.

DENALI COMMISSION'S NEW STUYAHOK BULK FUEL FACILITY GRANT (DCOIG-17-001-A)

We conducted an audit of the Denali Commission's New Stuyahok bulk fuel facility grant to determine 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.

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 Alaska Village Electric Cooperative (AVEC) bulk fuel facility, and (2) the grantee's review of consultant fees.

We made a series of recommendations to improve the maintenance of the AVEC bulk fuel facility and the review of consultant fees. The Commission concurred with the findings and recommendations in the report.

AUDIT OF THE DENALI COMMISSION'S FY 2016 FINANCIAL STATEMENTS (DCOIG-17-002-A)

SB & Company, LLC, an independent public accounting firm, performed the audit in accordance with the Government Accountability Office's U.S. generally accepted government auditing standards and OMB Bulletin 15-02, *Audit Requirements for Federal Financial Statements*. In its audit of the Commission, SB & Company (1) identified no instances of deficiency or material weakness in internal control over financial reporting, (2) identified no instances of noncompliance or other matters required to be reported under Government Auditing Standards or OMB audit guidance, and (3) determined that the financial statements were fairly presented in all material respects and in conformity with U.S. generally accepted accounting principles.

REVIEW OF THE DENALI COMMISSION'S DIGITAL ACCOUNTABILITY AND TRANSPARENCY ACT OF 2014 (DATA ACT) IMPLEMENTATION READINESS (DCOIG-17-003-M)

We conducted a review to determine the Denali Commission's readiness to implement the DATA Act requirements. Specifically, we reviewed the processes, systems, and controls which the Commission has implemented, or plans to implement, to report federal agency expenditures and linking federal spending information in accordance with the requirements of the DATA Act.

While we have identified a need for the Commission to define the DATA Act implementation roles and responsibilities of the Department of the Treasury's Bureau of Fiscal Services (BFS) and the Commission, the Commission plans to meet with BFS in April 2017 to formally define and document those roles and responsibilities. Based on planned actions of the Commission to complete this process, we believe the Commission is sufficiently prepared to implement the DATA Act requirements, and we are not making any formal recommendation.

In addition, while the Commission has not yet been able to successfully submit grant obligations data to USASpending, it is actively working with GrantSolutions to make the necessary changes to ensure the grant obligations data report is received in a DATA Act compliant format. Based on the planned actions of the Commission to complete this process, we are not making a formal recommendation.

RESPONSES TO THE OFFICE OF MANAGEMENT AND BUDGET RELATED TO THE GOVERNMENT CHARGE CARD ABUSE PREVENTION ACT OF 2012

The Government Charge Card Abuse Prevention Act of 2012 (Charge Card Act) and the OMB's implementing guidance requires each OIG to perform annual risk assessments—as well as to submit semiannual reports to OMB, in coordination with its Department—of employee purchase or integrated card violations and the resulting actions taken. OIGs must also submit an annual purchase and travel card audit recommendation status report to OMB. Below is a summary of the actions we have taken during FY 2016 to fulfill these requirements, as well as additional information on our related work.

The Denali Commission OIG completed an audit of the Denali Commission's government purchase card program in FY 2016. We have four unimplemented recommendations related to the purchase card program. We recommended that the Commission strengthen internal control in its purchase card program by doing the following:

1. Updating internal guidance to better reflect federal requirements with regards to purchase card transactions and documentation and emphasizing the importance of following guidance when making purchases.

2. Removing access to the online purchase card management system from staff no longer employed by the Denali Commission.

3. Including a procedure during the off-boarding process to verify any access to the online purchase card management system is removed.

4. Updating the purchase card merchant category code template to reduce risk and revising the allowed merchant category codes for current cardholders.

We do not have any unimplemented or unresolved recommendations related to travel cards; therefore, we are not providing an audit recommendation status report to OMB. The Denali Commission did not meet the threshold of $10 million in purchase card spending and, consequently, we were not required to submit semiannual reports to OMB regarding purchase card violations. Further, the Commission did not meet the threshold of $10 million in travel card spending; therefore, we were not required to perform an audit of the travel card program.

For FY 2017, we assessed the Commission's risks related to its government purchase card program. The Denali Commission had three government purchase cards in FY 2016, which resulted in $121,333 of purchases. Based on the relatively low volume of purchases and the audit work conducted in FY 2016, we do not plan to conduct additional reviews of the Denali Commission's use of the government purchase card in FY 2017.

For FY 2017, we also assessed the Commission's risks related to its government travel card program. The Denali Commission had 17 government travel cards in FY 2016, which resulted in $111,876 of purchases. Although there was a relatively low volume of purchases, in an effort to provide routine oversight of administrative operations we plan to conduct an audit of the Denali Commission's use of the government travel card in FY 2017.

Work in Progress

AUDIT OF THE DENALI COMMISSION GOVERNMENT TRAVEL CARD PROGRAM

On March 30, 2017, we initiated an audit of the Denali Commission's government travel card program. Our objective is to determine whether the Commission has sufficient controls over travel card transactions to ensure federal funds are being appropriately managed.

AUDIT OF THE DENALI COMMISSION'S FY 2017 FINANCIAL STATEMENTS

SB & Company, LLC, an independent public accounting firm, is currently performing an audit of the Denali Commission's FY 2017 financial statements in accordance with the Government Accountability Office's Government Auditing Standards and OMB Bulletin 15-02, *Audit Requirements for Federal Financial Statements.* In addition, SB & Company, LLC, is also performing a FY 2017 Federal Information Security Management Act audit.

Oversight Areas

ENERGY

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

The Energy Program funds the 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 AVEC to meet rural communities' fuel storage and power generation needs.

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. The program focuses primarily on two areas: rural roads and waterfront development.

The roads portion focuses 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. In addition, legislation was passed on December 18, 2015, that allowed the use of Trans-Alaska Pipeline Liability funds for the repair of barge mooring points and barge landing sites to facilitate pumping fuel from fuel transport barges into bulk fuel storage tanks.[5]

SAFETEA-LU expired in 2009 and operated under continuing resolutions from June 2009 through June 2012. In June 2012, Congress passed a 2-year transportation bill, the Moving Ahead for Progress in the 21st Century Act (MAP-21), which did not include authorization or funding for the Commission's Transportation Program. The Commission's Transportation Program is still functioning with funding appropriated several years ago, but is winding down as projects are completed.

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 Commission's 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 District; regional, local, and tribal governments; and regional, tribal nonprofits.

[5] Energy and Water Development and Related Agencies Appropriations Act, 2016, Pub. L. No. 114-113 § 403 (Dec. 18, 2015).

GOVERNMENT COORDINATION

The Denali Commission is charged with the special role of increasing government effectiveness. The Commission does so by acting as a catalyst and strategic partner for many federal and state programs in Alaska. The Commission joined others in a memorandum of understanding (MOU) that outlines the roles of agencies in coordinating resources and efforts in areas such as community planning, sustainability, data sharing, and coordination of pre-construction activities. This MOU served as the basis for creating several multi-agency workgroups and cooperative projects that have increased overall government effectiveness. The MOU, amended in 2003 with increased participation from both state and federal partners, was renewed once again in 2008. This renewed effort focuses on improving the channels of communication among the heads of all federal and state agencies with an emphasis on critical issues that affect the entire state of Alaska: the high cost of energy, outmigration, and coordination of efforts among all government agencies. Government coordination has become a mainstay of the efforts of the Denali Commission in improving communities in rural Alaska.

HEALTH FACILITIES

Congress amended the Denali Commission Act in 1999 to provide for the planning, design, construction, and equipping of healthcare 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 decade, 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 2000, 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 FY 2010.

TRAINING

As the Denali Commission funded projects for new clinics, roads, and tank farms, it also provided sustainability for these projects by including training for local residents to maintain and operate new facilities.

The Denali Commission has administered the training program through numerous program partnerships. Each program partner has provided a high level of training opportunities that support Commission investments in rural Alaska by providing training for careers related to Commission programs such as Energy, Transportation, and Health Facilities. Types of training funded have included allied health professions, construction trades, facility operations and maintenance, administration of public infrastructure, and youth initiatives. However, the training program was last funded in 2009, and applications for new training initiatives are no longer being accepted.

Statistical Data

OFFICE OF INVESTIGATIONS STATISTICAL HIGHLIGHTS FOR THIS PERIOD

Investigative activities covers 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. No investigative activities occurred 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. No allegations were processed during this reporting period.

TABLE 1. INVESTIGATIONS, CRIMINAL PROSECUTIONS, AND CRIMINAL INDICTMENTS

Type	Number of Incidents
Investigative Reports Issued	0
Persons Referred to the Department of Justice for Criminal Prosecution	0
Number of Persons Referred to State and Local Authorities for Criminal Prosecution	0
Criminal Indictments and Information Resulting from Prior Referrals to Prospective Authorities	0

AUDIT RESOLUTION AND FOLLOW-UP

The Inspector General Act of 1978, as amended, requires us to present in this report audits issued before the beginning of the reporting period (October 1, 2016) for which no management decision had been made by the end of the period (March 31, 2017).

Audit resolution is the process by which the Commission reaches an effective management decision in response to audit reports.

Management decision refers to the 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.

TABLE 2. MANAGEMENT DECISIONS

Report Category	Recommendations
Management Decisions Pending (October 1, 2016)	2
New Management Decisions Required	1
New Management Decisions Submitted	3
Management Decisions Accepted by OIG	3
Actions pending (March 31, 2017)	0

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. We completed an audit of the Denali Commission's New Stuyahok bulk fuel facility grant, an audit of the Commission's FY 2016 financial statements, and a review of the Commission's readiness to implement DATA Act requirements; however, we found neither questioned costs nor funds that could have been put to better use.

Questioned cost refers to a cost that is 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

Performance audits are engagements that provide assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

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 these principles.

Evaluations and inspections include evaluations, inquiries, and similar types of reviews that do not constitute an audit or investigation. An inspection is defined as a process that evaluates, reviews, studies, or analyzes the programs and activities of a department or agency to provide information to managers for decision making; make recommendations for improvements to programs, policies, or procedures; and identify where administrative action may be necessary.

TABLE 3. REPORT TYPES FOR THIS PERIOD

Type	Number of Reports	Table Number
Performance Audits	1	3-A
Financial Statements Audits	1	3-B
Evaluations and Inspections	1	3-C
Total	**3**	

TABLE 3-A. PERFORMANCE AUDITS

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use ($)	Amount Questioned ($)	Amount Unsupported ($)
Denali Commission New Stuyahok Bulk Fuel Facility Grant	DCOIG-17-001-A	11.29.2016	0	0	0

TABLE 3-B. FINANCIAL STATEMENTS AUDITS

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use ($)	Amount Questioned ($)	Amount Unsupported ($)
FY 2016 Financial Statements Audit	DCOIG-17-002-A	11.18.2016	0	0	0

TABLE 3-C. EVALUATIONS AND INSPECTIONS

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use ($)	Amount Questioned ($)	Amount Unsupported ($)
Review of the Denali Commission's DATA Act of 2014 Implementation Readiness	DCOIG-17-003-M	3.30.2017	0	0	0

TABLE 4. UNIMPLEMENTED RECOMMENDATIONS

Resolved reports are reports for which (a) the Commission agreed to OIG recommendations and (b) OIG approved the action plan submitted by the Commission. Table 4 lists 5 resolved performance audit, evaluation, and inspection reports with a total of 12 unimplemented recommendations that were issued between May 15, 2015, and November 29, 2016. There is no potential monetary benefit of unimplemented recommendations associated with these reports.

Unresolved reports include reports with no approved action plan as of March 31, 2017, and reports for which the action plans are not due until after the reporting period ending on March 31, 2017. Currently, there are no unresolved reports.

Date Report Issued	OIG Report No. and Title	Total Recommendations Made	Recommendations Agreed to by Management	Unimplemented Recommendations	Potential Monetary Benefits of Unimplemented Recommendations
05.15.2015	**DCOIG-15-007-I** *FY 2014 Compliance with Improper Payments Requirements*	**2**	**2**	**2**	**$0**

Objective(s)

Our objective was to evaluate the accuracy and completeness of the Commission's reporting and, if applicable, its performance in reducing and recapturing improper payments.

Summary

We found that, while the Commission's reporting on improper payments appeared accurate, it could be incomplete due to areas omitted from the risk assessment. The Commission did not perform the required risk assessment prior to publishing the FY 2014 *Agency Financial Report*. In addition, the assessment completed in March 2015 did not include all of the required risk factors, including payments to employees and whether grant payments were made for eligible services.

Unimplemented Recommendations

We recommended that the Commission strengthen its risk assessment process by:

1. performing a risk assessment prior to completing its FY 2017 *Agency Financial Report*.
2. adding assessment areas to include (a) payments to employees and (b) grant payments made for eligible services, thus assuring consideration of all of OMB's required risk factors.

Date Report Issued	OIG Report No. and Title	Total Recommendations Made	Recommendations Agreed to by Management	Unimplemented Recommendations	Potential Monetary Benefits of Unimplemented Recommendations
09.24.2015	**DCOIG-15-012-A** *Audit of Denali Commission Grant Monitoring Process*	**9**	**9**	**3**	**$0**

Objective(s)

Our objectives were to determine (1) whether the Commission's grant monitoring process effectively ensures that federal funds are being expended as intended and (2) whether the Commission is effectively allocating its grant monitoring resources.

Summary

Based on this review, we determined improvements are needed in the Commission's grant monitoring process. Specifically, the Commission could better (1) exercise consistent grants management processes and procedures to identify and limit risk to the organization, (2) communicate federal requirements to its grantees, and (3) manage grantee progress reports.

Unimplemented Recommendations

We recommended that the Commission strengthen its grant monitoring process by formalizing the following processes:

1. checking both the entity and the applicant's key personnel against the excluded party list prior to granting awards.

2. reviewing single audits filed by the grantees to assess findings that may be either relevant to the Denali Commission or an indication that a grantee has material weaknesses in its financial management system.

We also recommended that the Commission:

9. maintain written notification to grantees of past due progress reports in the official grant file.

Date Report Issued	OIG Report No. and Title	Total Recommendations Made	Recommendations Agreed to by Management	Unimplemented Recommendations	Potential Monetary Benefits of Unimplemented Recommendations
05.06.2016	**DCOIG-16-005-A** *Improvements Are Needed in the Denali Commission Inventory Management and Equipment Acquisition Process*	**5**	**5**	**2**	**$0**

Objective(s)

Our objective was to determine whether the Commission's processes and procedures for inventory management and equipment acquisition were sufficient to ensure that federal assets and funds were being appropriately managed.

Summary

Based on this review we determined that improvements are needed in the Commission's inventory management. Specifically, we found that the Commission (1) maintained an inaccurate and inconsistent inventory record, and (2) allowed unrestricted access to its official inventory.

Unimplemented Recommendations

We recommended that the Commission strengthen its inventory management and equipment acquisition process by formalizing the following processes:

1. implement inventory policies and procedures, to include required inventories and a definition of accountable equipment.

2. disseminate the equipment purchase policy to all employees and enforce the process for equipment acquisition.

Date Report Issued	OIG Report No. and Title	Total Recommendations Made	Recommendations Agreed to by Management	Unimplemented Recommendations	Potential Monetary Benefits of Unimplemented Recommendations
09.28.2016	**DCOIG-16-008-A** *Improvements Are Needed in the Denali Commission Government Purchase Card Program*	**4**	**4**	**4**	**$0**

Objective(s)

Our objective was to determine whether the Commission's internal control over purchase card transactions is sufficient to ensure that federal funds were being appropriately managed.

Summary

Based on this review, we determined that improvements are needed in the Commission's government purchase card program. Specifically, the Commission could improve internal control over (1) purchase card transactions and documentation, and (2) the online purchase card management system.

Unimplemented Recommendations

We recommended that the Commission strengthen internal control in its purchase card program by:

1. updating internal guidance to better reflect federal requirements with regards to purchase card transactions and documentation and emphasizing the importance of following guidance when making purchases.
2. removing access to the online purchase card management system from staff no longer employed by the Denali Commission.
3. including a procedure during the off-boarding process to verify any access to the online purchase card management system is removed.
4. updating the purchase card merchant category code template to reduce risk and revising the allowed merchant category codes for current cardholders.

Date Report Issued	OIG Report No. and Title	Total Recommendations Made	Recommendations Agreed to by Management	Unimplemented Recommendations	Potential Monetary Benefits of Unimplemented Recommendations
11.29.2016	**DCOIG-17-001-A** *Denali Commission New Stuyahok Bulk Fuel Facility Grant*	**3**	**3**	**1**	**$0**

Objective(s)

Our objectives were to determine 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.

Summary

Based on this review, 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.

Unimplemented Recommendations

We recommended the Commission instruct 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.

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	22
5(a)(1)	Significant Problems, Abuses, and Deficiencies	3, 14–15*
5(a)(2)	Significant Recommendations for Corrective Action	3, 14–15*
5(a)(3)	Prior Significant Recommendations Unimplemented	22
5(a)(4)	Matters Referred to Prosecutorial Authorities	22
5(a)(5) and 6(c)(2)	Information or Assistance Refused	23
5(a)(6)	Listing of Audit Reports	3, 14–15*
5(a)(7)	Summary of Significant Reports	3, 14–15*
5(a)(8)	Audit Reports—Questioned Costs	3, 14–15*
5(a)(9)	Audit Reports—Funds to Be Put to Better Use	3, 14–15*
5(a)(10)	Prior Reports with Unimplemented and/or Unresolved Recommendations	16–20, 23
5(a)(11)	Significant Revised Management Decisions	23
5(a)(12)	Significant Management Decisions with Which OIG Disagreed	23
5(a)(13)	Noncompliance with Federal Financial Management Systems	23
5(a)(14) and 5(a)(15)	Results of Peer Review Received by OIG	24
5(a)(16)	Results of Peer Review Conducted by OIG	24
5(a)(17) and 5(a)(18)	Investigations, Criminal Prosecutions, and Criminal Indictments	12, 24
5(a)(19)	Substantiated Investigations of Senior Government Employees	24
5(a)(20)	Instances of Whistleblower Retaliation	24
5(a)(21)	Interference with OIG Independence	25
5(a)(22)	Closed OIG Matters Not Publicly Disclosed	25

**Reference Completed Works, page 3, and Tables 3-A, 3-B, and 3-C, pages 14–15.*

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.

United States Senator Murkowski, cosponsored by United States Senator Sullivan, submitted amendment 5003 to Senate Bill 2848, the Water Resources Development Act of 2016 on September 8, 2016, to reauthorize the Denali Commission. The section regarding conflict of interest appears to clarify several ambiguous areas in the Denali Commission Act—related to conflicts of interest involving Commissioners—by providing a mechanism by which a Commissioner may disclose a potential conflict of interest. The amendment's process includes the Commissioner obtaining a written determination by the agency's designated ethics official that the disclosed interest is not so substantial as to be likely to affect the integrity of the services expected from the Commissioner. In addition, the bill removed the special government employee designation the Commissioners had previously received. This language may resolve many of the challenges the Commissioners face in complying with ethics rules.

OIG noted that there is no definition of "substantial interest" in the proposed amendment and, therefore, much is left to the judgment of the agency's designated ethics official on whether the interest meets some undefined threshold. In addition, OIG noted that one way to strengthen the language may be to outline what information should be included in the written determination letter, such as rationale for the determination and any mitigation or limitations that should be considered.

A related bill, S. 612, the Water Infrastructure Improvements for the Nation (WIIN) Act, was signed into law on December 16, 2016. The WIIN Act reauthorized the Denali Commission and contained provisions regarding conflicts of interest containing the changes recommended by OIG.

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. While we have no prior significant unimplemented recommendations, see Table 4 for a list of all unimplemented recommendations.

SECTION 5(A)(4): MATTERS REFERRED TO PROSECUTORIAL AUTHORITIES

This section requires a summary of matters referred to prosecutorial authorities and the resulting prosecutions and convictions. There were no matters referred to prosecutorial authorities or resulting prosecutions and convictions.

SECTIONS 5(A)(5) AND 6(C)(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. We were not refused access, information, or assistance.

SECTION 5(A)(10): PRIOR REPORTS WITH UNIMPLEMENTED AND/OR UNRESOLVED RECOMMENDATIONS

This section requires: a summary of each audit report, inspection report, and evaluation report issued before commencement of the reporting period (A) for which no management decision has been made by the end of the reporting period, an explanation of why a decision has not been made, and a statement concerning the desired timetable for delivering a decision on each such report; (B) for which no establishment comment was returned within 60 days of providing the report to the establishment; and (C) for which there are any outstanding unimplemented recommendations, including the aggregate potential cost savings of those recommendations. There are no reports for which no management decision was made by the end of the reporting period or for which no establishment comment was returned within 60 days of providing the report to the establishment. There are currently 5 reports, with 12 unimplemented recommendations, that do not have any associated potential cost savings (see table 4).

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. There were 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. There were no significant management decisions with which OIG disagreed.

SECTION 5(A)(13): NONCOMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEMS

Agencies are required to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. If an agency does not comply with federal financial systems, they are required to establish a remediation plan. This section requires the reporting of instances and reasons when an agency has not met target dates established in the remediation plan. There were no instances of noncompliance with federal financial management systems.

SECTION 5(A)(14) AND 5(A)(15): RESULTS OF PEER REVIEW RECEIVED BY OIG

This section requires an appendix containing the results of any peer review conducted by another OIG during the reporting period and a list of outstanding recommendations. The previous inspector general did not conduct audits and, therefore, did not require peer reviews. The Council of the Inspectors General on Integrity and Efficiency's audit committee included our office in the next round of peer reviews for the period ending September 30, 2017.

SECTION 5(A)(16) RESULTS OF PEER REVIEW CONDUCTED BY OIG

This section requires a list of any peer reviews conducted by the inspector general of another OIG during the reporting period, including a list of any outstanding recommendations made from any previous peer reviews. The previous inspector general did not conduct any peer reviews prior to the reporting period and the current Inspector General did not conduct any peer reviews during the reporting period. The Council of the Inspectors General on Integrity and Efficiency's audit committee included our office in the next round of peer reviews for the period ending September 30, 2017.

SECTIONS 5(A)(17) AND 5(A)(18): INVESTIGATIONS, CRIMINAL PROSECUTIONS, AND CRIMINAL INDICTMENTS & METRICS USED TO DEVELOP STATISTICAL DATA OF INVESTIGATIONS, CRIMINAL PROSECUTIONS, AND CRIMINAL INDICTMENTS

This section requires a description of the metrics used to develop the data related (1) the number of investigative reports issued, (2) number of persons referred to the Department of Justice for criminal prosecution, (3) number of persons referred to state and local authorities for criminal prosecution, and (4) number of criminal indictments and criminal information resulting from any prior referrals to prospective authorities. There were no investigations, criminal prosecutions, or criminal indictments.

SECTION 5(A)(19): SUBSTANTIATED INVESTIGATIONS OF SENIOR GOVERNMENT EMPLOYEES

This section requires a detailed description of each investigation involving a senior government employee where allegations of misconduct were substantiated, including a detailed description of (1) the facts and circumstances of the investigations and (2) the status and disposition of the matter—including, if referred to or declined by the Department of Justice, the date of referral or declination. There were no investigations involving senior government employees.

SECTION 5(A)(20): INSTANCES OF WHISTLEBLOWER RETALIATION

This section requires a detailed description of any instance of whistleblower retaliation, including (1) information about the official found to have engaged in retaliation and (2) the consequences the agency imposed to hold the official accountable. There were no instances of whistleblower retaliation.

SECTION 5(A)(21): INTERFERENCE WITH OIG INDEPENDENCE

This section requires a detailed description of any attempt by the Commission to interfere with the independence of OIG, including (1) budget constraints designed to limit OIG capabilities and (2) incidents where the establishment has resisted OIG oversight or delayed OIG access to information, including the justification of the establishment for such action. There were no instances of the Commission attempting to interfere with the independence of the OIG.

SECTION 5(A)(22): CLOSED OIG MATTERS NOT PUBLICLY DISCLOSED

This section requires a detailed description of the particular circumstances of each (1) inspection, evaluation, and audit conducted by OIG that is closed and was not publicly disclosed and (2) investigation conducted by the OIG involving a senior government employee that is closed and was not disclosed to the public. There were no instances of inspections, evaluations, and audits or investigations involving senior government employees that were not disclosed to the public.

REPORT

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