Denali Commission
Agency Financial Report (AFR)
Fiscal Year 2007

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Denali Commission Performance and Accountability Report, Alternative Agency Financial Report Fiscal Year 2007.

Anchorage, AK., November 2007

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Agency Financial Report (AFR)

Message from the Federal Co-Chair

Federal Co-Chair George J. Cannelos

The Denali Commission has chosen to produce an alternative to the consolidated Performance and Accountability Report called an ***Agency Financial Report (AFR)***. The Denali Commission has chosen to participate in the FY 2007 pilot pursuant to Circular A-136. We will include our FY 2007 annual performance report and FY 2009 performance plan with our Congressional Budget Justification and will post it on the Commission's website at www.denali.gov by February 28, 2008. In addition, the Commission will produce a "Highlights" document on the Commission's website at www.denali.gov by February 28, 2008.

The Commission prides itself on being flexible and innovative and we are happy to participate in the Office of Management and Budget's alternative PAR reporting process. Through this new reporting format, we look forward to providing information in a new, clear and concise format. Our *Highlights* report will provide a quick and easy overview of the Commission programs and our future goals and objectives.

We have much to share on our progress and program delivery outcomes for Fiscal Year 2007. This past fiscal year, the Commission hired an outside third party evaluator to assess the progress of the Commission over these past nine years. One of the best ways to measure performance is through objective, third-party program evaluations. To that end, the Commission (through the Bureau of Public Debt) retained the McDowell Group last year to conduct an overall independent program evaluation of the Commission.

Major findings conclude that the "Commission has facilitated and funded an impressive number of essential infrastructure projects in rural Alaska. The legacy programs in particular (Energy and Health) have been well-conceived and effective" and the "Commission is widely viewed as an effective and necessary organization."

Evaluations should also identify areas of concern and I welcome that important feedback. As discussed by McDowell, we must better communicate our processes and policies and develop outcome or impact studies that can give us a "lessons learned" approach to future projects. We must also do a better job following up with various communities who received Commission funding.

Message from the Federal Co-Chair (continued)

As reported by McDowell, the Commission has been effective at establishing a substantial quantity of badly needed infrastructure in rural Alaska and is widely regarded as essential for that purpose. To date, Commission-funded projects include:

- 160 completed energy projects
- 100 completed health projects
- 100 other completed infrastructure projects
- Employment training for more than 2,000 Alaskans

The work of the Denali Commission has resulted in improved access to healthcare for rural Alaskans, greater environmental safeguards around fuel storage, more efficient power generation, and a better-trained workforce than would have been the case in the absence of the Commission.

As reported by McDowell, a wide variety of tribal, non-profit and other service organizations around Alaska are stronger and more effective as a result of receiving Commission grants and partnering with the Commission in carrying out its programs. We will be reporting more on our program performance in our upcoming Annual Performance Report due out in February.

FY08 holds new plans for the Commission to improve our public decision-making process and our internal controls. Building on the successful model of our Health Steering Committee and our Transportation Advisory Committee, we are establishing four additional committees. Three are comprised of citizen experts from across Alaska – the Energy Advisory Committee, Training Advisory Committee, and Economic Development Advisory Committee. Our new Financial Management Advisory Committee also includes expert members from Washington DC. We look forward to engaging all members to improve all of our programs and projects.

Sincerely,

George J. Cannelos
Federal Co-Chair
November 15, 2007

Management Discussion and Analysis

Overview of the Denali Commission

In 1998, national attention was focused on the immense infrastructure and economic challenges faced by rural Alaskan communities by passing the Denali Commission Act. The Act became law on October 21, 1998 (Title III of Public Law 105-277, 42 USC 3121).

Commissioners:

(Seated Left to Right) - *Karen Rehfeld,* State Co-Chair, Director of the Office of Management & Budget - State of Alaska and *George J. Cannelos,* Federal Co-Chair

(Standing Left to Right) - *Kathie Wasserman,* Executive Director - Alaska Municipal League, *Richard Cattanach,* Executive Director - Associated General Contractors of Alaska, *Vince Beltrami,* Executive President - Alaska AFL-CIO, and *Karen Perdue,* Associate Vice-President for Health - University of Alaska

(Not Pictured) - *Julie Kitka,* President - Alaska Federation of Natives

The Denali Commission is an independent federal agency that acts as a regional commission focusing on the basic infrastructure needs of frontier Alaska. Working as a federal-state-local partnership, we provide critical utilities, infrastructure and support for economic development in Alaska by delivering federal services in the most cost-effective manner possible. By creating the Commission, Congress intended for those involved in addressing the unique infrastructure and economic challenges faced by America's most remote communities to work together in new ways to make a lasting difference.

Purpose:

- To deliver the services of the federal government in the most cost-effective manner practicable by reducing administrative and overhead costs.
- To provide job training and other economic development services in rural communities, particularly distressed communities (many of which have a rate of unemployment that exceeds 50%).
- To promote rural development and provide power generation and transmission facilities, modern communication systems, bulk fuel storage tanks, and other infrastructure needs.

The Commission Act required that seven leading Alaskan policy makers form a team as the Denali Commission:

- Federal Co-Chair appointed by the U.S. Secretary of Commerce
- State Co-Chair who is the Governor of Alaska
- Executive President of the Alaska, American Federation of Labor and Congress of Industrial Organizations
- President of the Alaska Federation of Natives
- President of the Alaska Municipal League
- President of the Associated General Contractors of Alaska
- President of the University of Alaska

Commissioners meet at least twice a year to develop and monitor annual work plans that guide its activities. Commissioners draw upon community-based comprehensive plans as well as comments from individuals, organizations and partners to guide funding decisions. This approach helps provide basic services in the most cost-effective manner by moving the problem solving resources closer to the people best able to implement solutions.

The Commission is staffed by a small number of employees, together with additional personnel from partner organizations. The Commission relies upon a special network of federal, state, local, tribal and other organizations to successfully carry out its mission.

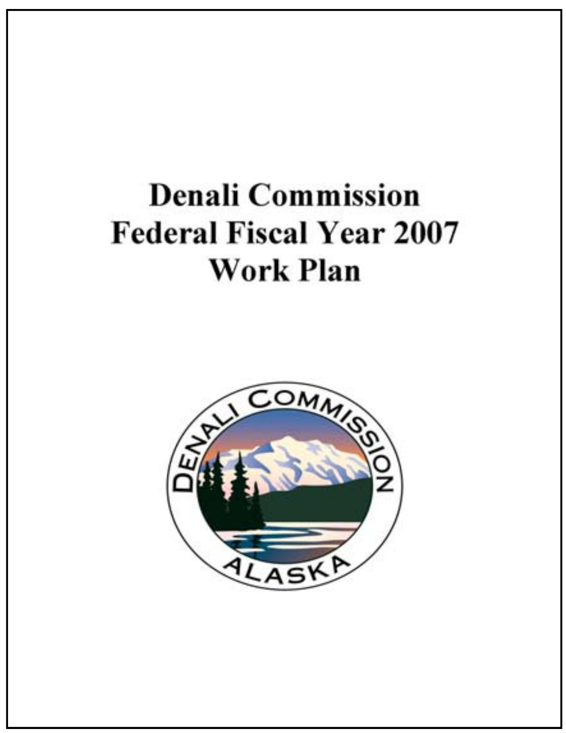
Work Plan

The Act outlines specific duties of the Commission primarily focused upon the development and implementation of an annual work plan. The Commission must develop an annual proposed work plan that solicits project proposals from local governments and other entities and organizations; and provides for a comprehensive work plan for rural and infrastructure development and necessary job training in the area covered under the work plan.

This proposed plan is submitted to the Federal Co-Chair for review who then publishes the work plan in the Federal Register, with notice and a 30 day opportunity for public comment.

The Federal Co-Chair takes into consideration the information, views, and comments received from interested parties through the public review and comment process, and consults with appropriate Federal officials in Alaska including but not limited to Bureau of Indian Affairs, the Department of Housing and Urban Development, Economic Development Administration, and USDA Rural Development.

The Federal Co-Chair then provides the plan to the Secretary of Commerce who issues the Commission a notice of approval, disapproval, or partial approval of the plan.


Denali Commission
Federal Fiscal Year 2007
Work Plan

See Appendix C: for the complete Denali Commission FY 07 Work Plan.

Vision, Mission and Organizational Structure

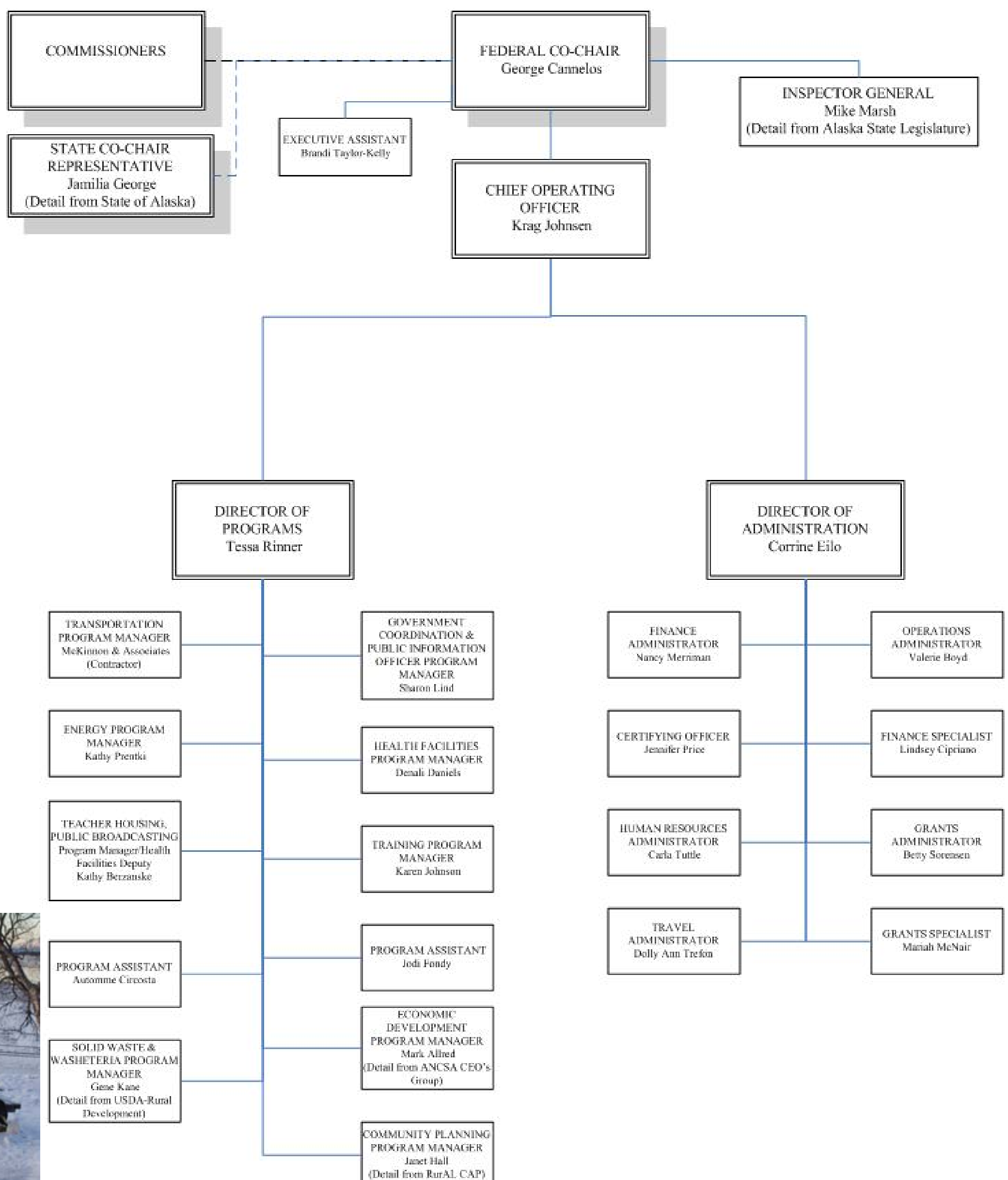
Vision

Alaska will have a healthy, well-trained labor force working in a diversified and sustainable economy that is supported by a fully developed and well-maintained infrastructure.

Mission

The Denali Commission will partner with tribal, federal, state, and local governments and collaborate with all Alaskans to improve the effectiveness and efficiency of government services, to develop a well-trained labor force employed in a diversified and sustainable economy, and to build and ensure the operation and maintenance of Alaska's basic infrastructure.

DENALI COMMISSION ORGANIZATIONAL CHART – October 2007



Denali Commission staff.

Summary of Performance Goals, Objectives and Results

The Commission is staffed by a small number of employees, together with additional personnel from partner organizations. The Commission relies upon a special network of federal, state, local, tribal and other organizations to successfully carry out its mission.

Since inception in 1998, the Denali Commission programs have included:

- Energy
- Health
- Training
- Economic Development
- Transportation
- Government Coordination
- Solid Waste
- Multi-use Facilities
- Washeterias
- Elder Housing
- Teacher Housing
- Domestic Violence

Bulk fuel farm in Buckland.

Historically, Energy, Health and Training represent the largest investments of Commission funding.

The remaining programs were either designated to the Commission by Congress or represent "emerging" programs, the potential of which is still being explored. Transportation, Government Coordination, and, to an extent, Economic Development fall into the last category.

Wind tower in Toksook Bay.

The Denali Commission has been effective at establishing a substantial quantity of badly needed infrastructure in rural Alaska and is widely regarded as essential for that purpose.

For example, Commission-funded projects include:

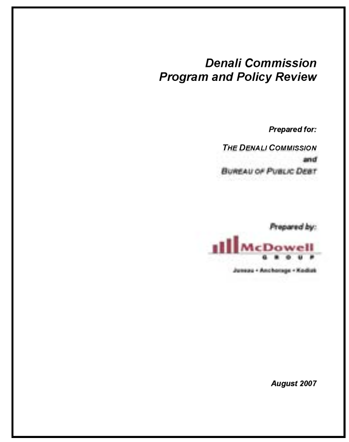
- 160 completed energy projects
- 100 completed health projects
- 100 other completed infrastructure projects
- Employment training for more than 2,000 Alaskans

The work of the Denali Commission has resulted in improved access to healthcare for rural Alaskans, greater environmental safeguards around fuel storage, more efficient power generation, and a better-trained workforce than would have been the case in the absence of the Commission. (See Appendix B: for McDowell findings.)

A wide variety of tribal, non-profit and other service organizations around Alaska are stronger and more effective as a result of receiving Commission grants and partnering with the Commission in carrying out its programs .

In FY 2007, in response to the independent program evaluation conducted for the Denali Commission by the McDowell Group (McDowell), the Commission's output and outcome measures and performance goals are under revision and development. The McDowell study included the evaluation of the Commission's infrastructure and training programs, and was designed to provide both qualitative and quantitative information regarding the success, effect and demonstrated outputs and outcomes of the Commission's programs and major federal investments in the state of Alaska. (See Appendix B: for McDowell findings.)

In response to the evaluation, each of the Commission's programs, which includes the following: Health Facilities, Energy, Training, Transportation, Economic Development and Other Infrastructure, have developed outcome reporting systems that capture both outputs and outcomes. The Commission believes strongly, and the McDowell report confirmed, that discussion of the number and nature of projects completed (output measurements), along with more detailed discussion of the effect of these project completions (outcome measurements) are critical for demonstrating the Commission's success and explaining its unique and critical mission in Alaska.


Denali Commission
Program and Policy Review

Prepared for:

The Denali Commission
and
Bureau of Public Debt

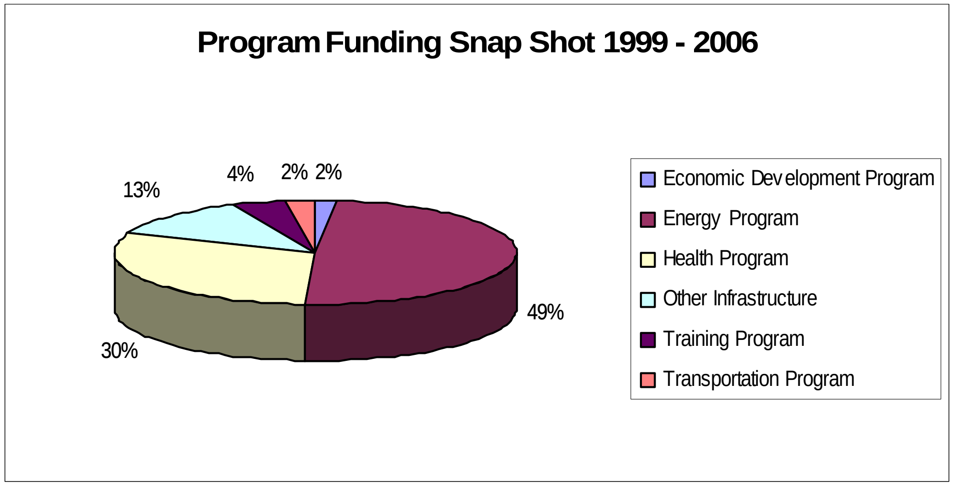
Prepared by:

McDowell Group
Juneau • Anchorage • Kodiak

August 2007

The Commission is in the process of implementing three primary outcome measurements, across all programs, in the areas of *cost*, *quality* and *access*. These outcome meas-

Nilavena sub-regional clinic in Iliamna. Photo inset - new urgent care room in the clinic.



ures, in coordination with the Commission's strategic goals and objectives in the areas of physical infrastructure, acquiring skills and knowledge, providing access to financial and technical resources and enhancing and improving the delivery of services provides a holistic summary of both annual and long-range performance. The Commission has selected the three primary outcome measures of *cost*, *quality* and *access* as they can be applied consistently across both infrastructure and training and economic development programs, and are also uniquely designed to discuss the Commission's work and accomplishments within Alaska.

The Transportation Program provides funds for dust control in rural

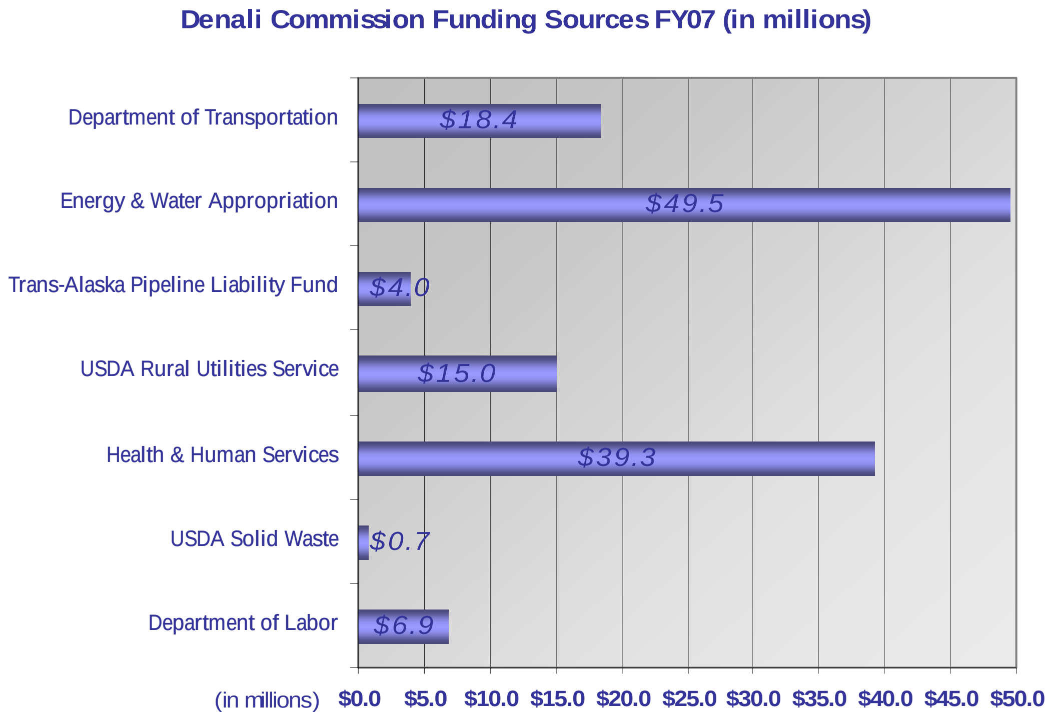
To achieve these outcomes, the Commission has instituted a structural change. This change incorporates a new advisory committee model for all major program areas within the Commission. Modeled after the already successful Transportation Advisory Committee and the Health Steering Committee, the Commission developed advisory groups comprising of experts in the field to assist and advise on future funding by the Commission. New advisory Committees include:

- Economic Development Advisory Committee
- Training Advisory Committee
- Energy Advisory Committee
- Financial Management Advisory Committee

Fiscal Year 2007 Programs Include:

- Energy Program
- Health Facilities Program
- Training Program
- Transportation

Teacher housing in Scammon Bay.



- Solid Waste
- Teacher Housing
- Economic Development
- Government Coordination

As the Commission looks to FY08 the Commission will see all Advisory Committees fully implemented and acting on behalf of the Commission.

- Health Steering Committee
- Transportation Advisory Committee
- Economic Development Advisory Committee
- Training Advisory Committee
- Energy Advisory Committee
- Financial Management Advisory Committee

This is a significant change at the Commission and we look forward to positive outcomes with this new process in FY08.

FY08 also holds a significant milestone for the Commission. The Commission was created through Public Law 105-277 (The Omnibus Appropriations Bill for Fiscal Year 1999). This bill was signed into law by President Clinton on October 21, 1998 and October 21, 2008 marks the Denali Commission's 10 Year Anniversary.

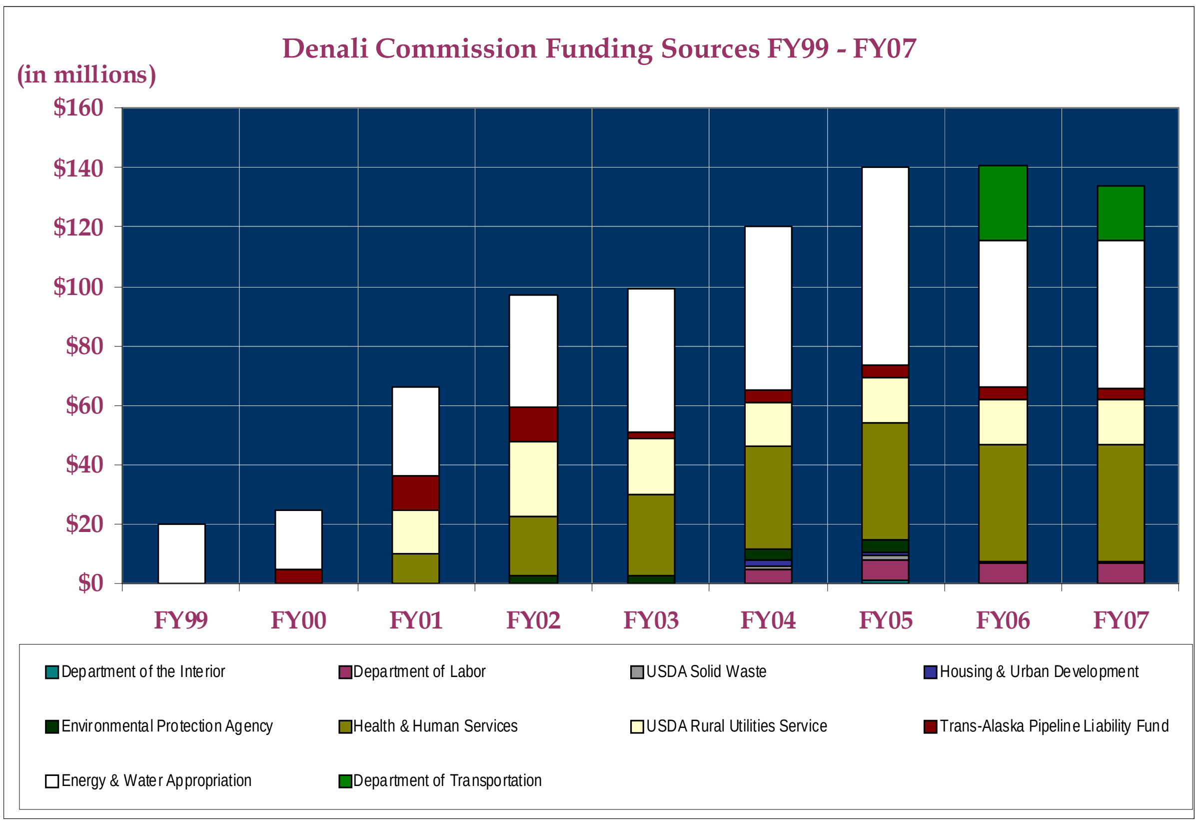
The Commission's focus on the ten year anniversary will be evaluating what still needs to be done in the state of Alaska to bring rural Alaska to equal footing with other rural communities in the lower 48 states.

While this section is intended to serve as a summary of goals, objectives and results for the Commission's programs, it is also important to note that detailed data and information, in each program area cited above, will be provided in the **Annual Performance Report (APR)** component of the Program Accountability Report (PAR) submitted by the Commission in February 2008.

Financial Performance Overview

As of September 30, 2007 the financial condition of the Denali Commission was sound with respect to having sufficient funds to meet program needs and adequate control of these funds in place to ensure obligations did not exceed budget authority. Agency audits are conducted in accordance with auditing standards generally accepted in the United States of America, OMB Bulletin 07-04 (*Audit Requirements for Federal Financial Statements)* and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Sources of Funds



The Denali Commission is funded through several appropriations. Primary is the Energy and Water Appropriation. In FY 2007, the US Department of Agriculture transmitted funds by appropriation transfer for solid waste program activities. Both of these sources are direct budget authority; funds are available until expended.

Denali Commission gained spending authority through expenditure transfers from three agencies, with the following appropriation limitations:

- The USDA (Rural Utilities Service). (No-year appropriation)
- The Department of Health and Human Services. (Annual appropriation)
- The Department of Labor (Annual appropriation, with a July through June program year)

Finally, Denali Commission is the recipient of a portion of the interest earned on the trust fund for the Trans-Alaska Pipeline Liability fund. In FY 2007, $4.2 million was transferred to Denali Commission to assist in efforts to make bulk fuel tanks in Alaska EPA code-compliant.

FY 07 Budgetary Authority	
Appropriations Received	$53,710,843
Offsetting Collections	64,397,986
Nonexpenditure Transfers	742,500
Total Budget Authority	$118,851,329

In FY 2007, Denali Commission's total budget authority was $118.8 million. In addition, $12.9 million from prior year appropriations was available to obligate in FY 2007.

Contract Authority from the US Department of Transportation, Federal Highway Administration (FHWA) in the amount of $18.4 million was transferred to the Commission in FY 2007. These funds are held in a joint account with the US DOT, and they are included in the US DOT's financial statements.

Uses of Funds by Function

The Denali Commission incurred obligations of $90.6 million in FY 2007 for program operations. An additional $4.8 million was obligated for administration (including personnel, office lease and office operations).

Unobligated funds in the amount of $36.4 million were carried forward, for obligation in FY 2008.

Financial Statement Highlights

The Denali Commission's financial statements summarize the financial activity and financial position of the agency. The financial statements, footnotes, and the balance of the required supplementary information appear in the Financial Section of this document.

Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 USC 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with GAAP for Federal entities and the format prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the US Government, a sovereign entity.

Balance Sheet

Assets

The Commission's assets were $237.1 million as of September 30, 2007. This is an increase of $16.9 million from the end of FY 2006. The assets reported in the Denali Commission's balance sheet are summarized in the accompanying table.

ASSET SUMMARY (in millions)		
	FY 2007	FY 2006
Fund balance with Treasury	$234.1	$215.0
Other assets	3.0	5.2
Total assets	$237.1	$220.2

The Fund Balance with Treasury represents the Denali Commission's largest asset of $234.1 million as of September 30, 2007, an increase of $19.1 million from the FY 2006 end-of-year balance. This balance accounts for over 98 percent of total assets and represents appropriated funds, transfers in, and offsetting collections.

Liabilities

The Denali Commission's liabilities were $9.4 million as of September 30, 2007, a decrease of $7.3 million from the end of FY 2007. This decrease is a direct result of a change in payroll service provider, which decreased the accrued liability for salaries; and improved grant management protocols over recipients' cash management practices, resulting in a decrease of grant payables.

LIABILITIES SUMMARY (in millions)		
	FY 2007	FY 2006
Accounts payable, intragovernmental	$0	$0
Other intragovernmental liabilities	2.7	3.0
Accounts payable, public	0.04	0.03
Other public liabilities	6.6	13.6
Total liabilities	$9.4	$16.7

Net Position

The difference between total assets and total liabilities, net position, was $227.8 million as of September 30, 2007. This is an increase of $24.3 million from the FY 2006 year-end balance.

NET POSITION SUMMARY (in millions)		
	FY 2007	FY 2006
Total Net Position	$227.8	$203.5

Statement of Net Cost

The Statement of Net Cost reports the cost of conducting the Denali Commission programs during the reporting period. The accompanying table displays the net cost for FY 2006 and 2007. The program costs consist of $2.7 million of intragovernmental costs to Commission trading partners; and $92.0 million in direct program costs. Earned revenues ($64.4 million) are transfers from other federal agencies.

NET COST (in millions)		
	FY 2007	FY 2006
Program costs	$94.7	$108.5
Less: earned revenue	64.4	62.0
Net Costs of Operations	$30.3	$46.5

Statement of Changes in Net Position

The Net Position for the year ended September 30, 2007 is $227.8 million, an increase of $24.3 million over FY 2006. This increase is primarily due to improved grants management during FY 2006, during which $27.9 million more was expended on grant payments than the prior year in an effort to have recipients draw payments from the Commission for amounts expended on grant projects. In FY 2007 grant payments normalized, and the net position was buoyed slightly.

Statement of Budgetary Resources

The Statement of Budgetary Resources shows what budget authority the Denali Commission possesses and compares the status of that budget authority. The Commission had $131.8 million in total budgetary resources for FY 2007 – comprised of direct appropriations, transfers from other federal agencies, and an unobligated balance available from FY 2006. During the fiscal year, $90.6 million was obligated for program purposes; $4.8 was obligated and expended on administrative functions; $36.4 million in funds were carried forward, and will be available for obligation in FY 2008. Net outlays in FY 2007 amounted to $35.4 million.

Statement of Financing

The reconciliation provided in the Statement of Financing ensures that the proprietary and budgetary accounts in the financial management system are in balance. The Statement of Financing takes budgetary obligations of $31.1 million and reconciles to the net cost of operations of $30.3 million by deducting non budgetary resources, costs not requiring resources, and financing sources yet to be provided.

Systems, Controls and Legal Compliance

Management Assurances

Federal Managers' Financial Integrity Act (FMFIA)

The FMFIA (or the Integrity Act) provides the statutory basis for management's responsibility for and assessment of accounting and administrative internal controls. Such controls include program, operational, and administrative areas, as well as accounting and financial management. The FMFIA requires federal agencies to establish controls that reasonably ensure that obligations and costs are in compliance with applicable laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to maintain accountability over the assets. The FMFIA also requires the agency head to annually assess and report on the effectiveness of internal controls that protect the integrity of federal program and whether financial management systems conform to related requirements.

FMFIA Statement of Assurance

The Denali Commission management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). I am able to provide an unqualified statement of assurance that the Denali Commission internal controls and financial management systems meet the objectives of FMFIA. The Commission's internal controls provide for effective and efficient program operations, reliable financial reporting, and compliance with laws and regulations. The Denali Commission conducted its assessment of the effectiveness of the Commission's internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control.* Based on the results of this evaluation, the Denali Commission can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2007, was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

George J. Cannelos
Federal Co-Chair

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act (FFMIA) is designed to improve financial and program managers' accountability, provide better information for decision-making, and improve the efficiency and effectiveness of federal programs. The FFMIA requires agencies to have financial management systems that substantially comply with the federal financial management systems requirements, applicable federal accounting standards, and the US Standard General Ledger at the transaction level.

FFMIA Compliance Determination

The Commission is responsible for maintaining its financial management system in compliance with government-wide requirements. These requirements are set forth in OMB Circular A-127 and are mandated in the Federal Financial Management Improvement Act (FFMIA). The Commission can attest that the system is substantially compliant with FFMIA.

Summary of Material Weaknesses, Non-Conformances and Corrective Action Plans

Summary of Financial Statement Audit

Audit Opinion	***Unqualified***				
Restatement	***No***				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
{None noted in FY 2007}	*0*	*0*	*0*	*0*	*0*
{None noted in FY 2006}	*1*		*1*		*0*
Total Material Weaknesses	*1*	*0*	*1*	*0*	*0*

Material Weakness, Non-Conformance and Corrective Actions

The FY 2006 financial audit report contained two findings, categorized as reportable conditions. They are user access to accounting software not being adequately restricted; and lack of timely close-out of grants. A remedy was implemented immediately to resolve the first finding. A disinterested System Administrator was put in place to certify roles and access. Written policies and procedures were developed to prevent the situation from recurring in the future. MD Oppenheim & Co (independent auditor who conducted the FY 2006 audit) acknowledged in their audit report that management had promptly implemented corrective action. In regard to timely grant close-outs, management began to define, implement and test procedures to resolve this weakness during FY 2007. Similarly, MD Oppenheim & Co. remarked in their FY 2006 audit report that management had initiated discussions to address their recommendation for remedy. The Denali Commission received an unqualified audit opinion on its FY 2007 financial statements.

Financial Management Trends

The Denali Commission has been strengthening its grants management practices over the past two years. Quarterly financial status reports have encouraged improved cash management on the part of recipients. Some grant partners are now receiving reimbursement payments rather than advances, a move that simplifies accounting while still delivering the resources necessary to get the project done timely. As a small agency, the Denali Commission values partnership and collaboration. Commission leadership understands and appreciates the vision and goals of the Financial Management Line of Business (FMLOB) initiative – to improve the cost, quality and performance of financial management systems by implementing shared services solutions. The Director of Administration has launched an assessment of each of the approved FMLOB's and anticipates setting a transition timeline during FY 2008.

Improper Payments Information Act (IPIA)

The Improper Payments Information Act (IPIA) requires executive branch agencies to review all programs and activities they administer and identify those that may be susceptible to significant improper payments. Significant improper payments are defined by OMB as annual improper payments in a program exceeding both 2.5 percent of program payments and $10 million.

In accordance with IPIA, the Commission assessed its programs and activities for susceptibility to significant improper payments. Based on this review, the Commission determined that none of its programs or activities is at risk for significant improper payments of both 2.5 percent and $10 million.

Inspector General

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INSPECTOR GENERAL

November 15, 2007

To: George Cannelos, Federal Co-Chair

From: Inspector General

We contracted with the independent certified public accounting firm of Brown & Company, PLLC to audit the financial statements of the Denali Commission as of September 30, 2007 and for the year then ended. The contract required that the audit be done in accordance with generally accepted government auditing standards and OMB's bulletin, *Audit Requirements for Federal Financial Statements.*

In its audit of the Denali Commission, Brown & Company found

- the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles,
- there were no material weaknesses in internal control,
- there was one significant deficiency in internal control which concerned policies and procedures for grants management and reconciliation, and
- no reportable noncompliance with laws and regulations it tested.

In connection with the contract, we reviewed Brown & Company's report and related documentation and inquired of its representative. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the Denali Commission's financial statements, conclusions about the effectiveness of internal control, or conclusions on compliance with laws and regulations. Brown & Company is responsible for the attached auditor's report dated October 30, 2007 and the conclusions expressed in the report. However, our review disclosed no instances where Brown & Company did not comply, in all material respects, with generally accepted government auditing standards.

Mike Marsh

Mike Marsh
Inspector General

Agency Financial Report (AFR)

Financial Section

Financial Performance Overview

Message from the Director of Administration

Director of Administration
Corrine Eilo

It is my honor to present the Denali Commission's FY 2007 financial statements as an integral part of the financial performance overview. I am pleased to report that, for the fourth consecutive year, independent auditors have rendered an unqualified opinion on our financial statements, stating that the statements do present fairly, in all material aspects, the assets, liabilities, and net position of the Commission for the year ending September 30, 2007. This year's audit was conducted by Brown & Company from Largo, Maryland.

The Denali Commission is nine years young. And the innovative collaboration of the Commission continues to contribute to the sustainable development of Alaskan communities. To support that endeavor, we strive to maintain a trustworthy, honest and transparent financial management environment.

The Finance team at Denali Commission takes seriously the stewardship of American taxpayers' dollars and attaining the highest standards of federal financial management. We are proud of resolving a material weakness reported on our FY 2005 audit: lack of controls over grant recipient cash management. This year, cash management was strengthened by requiring all grant recipients to submit timely quarterly financial status reports or reimbursement requests. Dedicated finance staff carefully review each report for accuracy and validity, and work with the recipients to correct cash management discrepancies.

Two reportable conditions identified in the FY 2006 audit were also addressed in FY 2007. Access over the financial management system was fortified by instituting additional controls, refined roles, and a disinterested System Administrator. This condition was fully resolved. The second condition, untimely grant close-out's, also garnered considerable focus from staff this year. Bolstered by additional staff resources, the Grants team re-prioritized the awards ready to close, and they developed new close-out procedures and timelines jointly with the Program team.

Message from the Director of Administration (continued)

Denali Commission is proud to support the President's Management Agenda. In our efforts to advance many of the initiatives, the Commission recently implemented our third OMB-approved Line of Business. Denali Commission now utilizes the expertise and uniform systems of the US Treasury Bureau of the Public Debt for eTravel, Human Resources and Procurement. FY 2007 saw the commencement of work to transition to our fourth Line of Business – US Department of Health and Human Services' GrantSolutions system. Transition is anticipated in FY 2008. Finally, we have recently launched an assessment of the four approved Financial Management Lines of Business. We expect to make a selection and collaborate to achieve conversion to their FSIO-approved financial system within the next two fiscal years.

As the Denali Commission continues to serve the needs of Alaskans, we put into practice what embodies our values: trustworthiness, integrity, honesty and transparency. In the end, the success of any of the internal control, financial management, and performance measurement systems put in place is the degree to which fiscal integrity is upheld over time, and Alaskan lives are enriched.

Corrine E. Eilo
Director of Administration

Financial Section

Financial Statements and Independent Auditor's Report

DENALI COMMISSION
ANCHORAGE, ALASKA

Financial Statements and
Independent Auditor's Report
September 30, 2007 and 2006

BROWN & COMPANY CPAs, PLLC
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

Financial Statements and Independent Auditor's Report

DENALI COMMISSION
ANCHORAGE, ALASKA

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Office of the Inspector General
Denali Commission
Anchorage, AK

We have audited the accompanying balance sheet of the Denali Commission (the Commission) as of September 30, 2007 and the related statements of net cost, changes in net position and budgetary resources for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of the Commission as of September 30, 2006 were audited by other auditors whose report dated November 10, 2006, expressed an unqualified opinion on those statements. We have considered internal control over financial reporting in place as of September 30, 2007; and we have examined compliance with selected provision of laws and regulations.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements.* Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Denali Commission as of September 30, 2007 and 2006, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with U.S. Government Auditing Standards and OMB Bulletin No. 07-04, we have also issued a report dated October 30, 2007 on our consideration of the Commission's internal control over financial reporting and its compliance with provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with U.S. Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The information in "Management's Discussion & Analysis" is presented for the purpose of additional analysis and is required by OMB Circular No. A-136, revised Financial Reporting Requirements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and, accordingly, express no opinion on it.

Brown & Company

Largo, Maryland
October 30, 2007

BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITORS REPORT ON INTERNAL CONTROL

Office of the Inspector General
Denali Commission
Anchorage, AK

We have audited the financial statements of the Denali Commission (the Commission) as of and for the year ended September 30, 2007 and have issued our report thereon dated October 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in U.S Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered the Commission's internal control over financial reporting by obtaining an understanding of the Commission's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide an opinion on internal control and therefore, we do not express an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiency. Under standards issued by the American Institute of Certified Public Accountants and OMB Bulletin No. 07-04, Significant Deficiency is a deficiency in internal control, or a combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. Material Weakness is a significant deficiency, or combination of significant deficiencies, that result in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Because of inherent limitations in internal controls, misstatements, losses, or non-compliance may nevertheless occur and not be detected. We noted one matter, discussed in the following paragraph, involving internal control and its operations that we consider to be a significant deficiency. However, the significant deficiency is not believed to be material weakness.

Lack of Grants Management and Reconciliation

The commission does not have written policies and procedures in place to ensure that grants are managed and reconciled timely and properly. Without properly managing and reconciling the grants, the Commission cannot ensure that the balance of all grant funds have been accounted for and recorded. We recommend that the Commission program and financial management coordinate to develop written policies and procedures to ensure all grants are managed and reconciled properly.

Status of Prior Year Internal Control Weakness

In FY 2006 audit, the auditor found that the commission did not have written policies and procedures in place to ensure the expired grants are closed out timely. The audit testing found grant closeout reports that were not submitted by the grantee within ninety days of grant expiration, and the Commission's internal closeout process took up to a year to complete once final reports were received. This condition occurred because the informal closeout process followed by the Commission in its early years is no longer adequate to handle the increased volume of grant awards now managed. The Commission has taken steps to address the internal control weakness and improved the grant close out process. Based on the testing we performed in FY 2007, grants that were closed did show status of closed by the Commission. We recommend that the Commission should develop grant management policies and procedures.

In addition, with respect to internal control objective related to the performance measures included in the "Management's Discussion & Analysis," we obtained an understanding of the design of internal controls relating to the existence and completeness assertions, and determined whether they have been placed in operation as required by OMB Bulletin No. 07-04. Our procedures were not designed to provide opinion on internal control over reported performance measures, and, accordingly, we do not express an opinion on such controls.

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

Brown & Company

Largo, Maryland
October 30, 2007

Financial Statements and Independent Auditor's Report

BROWN & COMPANY CPAs, PLLC
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH LAWS AND REGULATIONS

Office of the Inspector General
Denali Commission
Anchorage, AK

We have audited the financial statements of the Denali Commission (the Commission) as of and for the year ended September 30, 2007, and have issued our report thereon dated October 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements.*

The management of the Commission is responsible for complying with laws and regulations applicable to the Commission. As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Commission.

The results of our tests of compliance disclosed no reportable instances of noncompliance with other laws and regulations discussed in the preceding paragraph that are required to be reported under U.S. Government Auditing Standards or OMB Bulletin No. 07-04.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion. However, we noted no noncompliance with laws and regulations, which could have a direct and material effect on the determination of financial statement amounts.

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

Brown & Company

Largo, Maryland
October 30, 2007

DENALI COMMISSION
Balance Sheets
As of September 30, 2007 and 2006

	2007	2006
ASSETS		
Intragovernmental assets		
Fund balance with Treasury	$234,103,418	$215,044,178
Total intragovernmental assets	234,103,418	215,044,178
Other assets (Note 4)	3,053,932	5,188,658
TOTAL ASSETS	**$237,157,350**	**$220,232,836**
LIABILITIES AND NET POSITION		
Intragovernmental liabilities		
Accounts payable	$ 0	$ 8,943
Other intragovernmental liabilities (Note 2 and 6)	2,752,078	3,083,082
Total intragovernmental liabilities	2,752,078	3,092,025
Accounts payable	37,123	31,891
Other liabilities (Note 1, 5 and 6)	6,596,580	13,577,750
Total liabilities	**9,385,781**	**16,701,666**
Net position (Note 1 and 8)		
Unexpended appropriations	844,326	1,106,382
Cumulative results of operations – earmarked fund	4,205,698	122,376
Cumulative results of operations	222,721,545	202,302,412
Total net position	**227,771,569**	**203,531,170**
TOTAL LIABILITIES AND NET POSITION	**$237,157,350**	**$220,232,836**

The accompanying notes are an integral part of these financial statements.

DENALI COMMISSION
Statements of Net Cost
For the Years Ended September 30, 2007 and 2006

	2007	2006
Program costs	$94,706,828	$108,511,978
Less: earned revenue (Note 9)	(64,397,987)	(62,061,544)
NET COSTS OF OPERATIONS	**$30,308,841**	**$ 46,450,434**

The accompanying notes are an integral part of these financial statements.

DENALI COMMISSION
Statements of Changes in Net Position
For the Years Ended September 30, 2007 and 2006

	2007			2006		
	Earmarked Fund	Other Funds	Total	Earmarked Fund	Other Funds	Total
CUMULATIVE RESULTS OF OPERATIONS, BEGINNING	$ 122,376	$ 202,302,412	$202,424,788	$ 726,639	$194,785,208	$195,511,847
Budgetary financing sources (Note 1)						
Appropriations used	0	50,514,002	50,514,002		49,136,118	49,136,118
Transfers without reimbursement	4,201,398	0	4,201,398	4,227,257		4,227,257
Other Financing Source		95,897	95,897			
Total financing sources	4,201,398	50,609,899	54,811,297	4,227,257	49,136,118	53,363,375
Net cost of operations	(118,076)	(30,190,765)	(30,308,841)	(4,831,520)	(41,618,914)	(46,450,434)
Net change	4,083,321	20,419,134	24,502,456	(604,263)	7,517,204	6,912,941
CUMULATIVE RESULTS OF OPERATIONS, ENDING	**4,205,698**	**222,721,546**	**226,927,244**	**122,376**	**202,302,412**	**202,424,788**
UNEXPENDED APPROPRIATIONS, BEGINNING		1,106,382	1,106,382		-	-
Budgetary financing sources (Note 1)						
Appropriations received		49,509,446	49,509,446		50,000,000	50,000,000
Appropriations transferred		742,500	742,500		750,000	750,000
Other adjustments					(507,500)	(507,500)
Appropriations used		(50,514,002)	(50,514,002)		(49,136,118)	(49,136,118)
Net change		**(262,056)**	**(262,056)**		**1,106,382**	**1,106,382**
UNEXPENDED APPROPRIATIONS, ENDING		**844,326**	**844,326**		**1,106,382**	**1,106,382**
NET POSITION	**$4,205,698**	**$ 222,721,546**	**$227,771,569**	**$ 122,376**	**$203,408,794**	**$203,531,170**

The accompanying notes are an integral part of these financial statements.

DENALI COMMISSION
Statements of Budgetary Resources
For the Years Ended September 30, 2007 and 2006

	2007	2006
BUDGETARY RESOURCES		
Unobligated balance, brought forward, October 1	$ 12,951,025	$ 20,606,121
Budget authority		
Appropriations received	53,710,843	54,227,257
Spending authority from offsetting collections		
Earned:		
Collected	64,397,986	62,061,544
Nonexpenditure transfers, net, actual	742,500	750,000
Permanently not available		(507,500)
Total budgetary resources	**131,802,354**	**$137,137,422**
STATUS OF BUDGETARY RESOURCES		
Obligations incurred (Note 10)	95,424,236	124,186,397
Unobligated balance available	36,378,118	12,951,023
Unobligated balance not available	0	2
Total status of budgetary resources	**131,802,354**	**137,137,422**
CHANGE IN OBLIGATED BALANCES		
Unpaid obligated balance, brought forward, October 1	202,093,153	184,925,974
Obligations incurred	95,424,236	124,186,397
Less: gross outlays	(99,792,091)	(107,019,218)
Unpaid obligated balance, net, end of period	197,725,298	202,093,153
NET OUTLAYS		
Gross outlays	99,792,091	107,019,218
Less: offsetting collections	(64,397,987)	(62,061,544)
Net outlays	**$ 35,394,104**	**$ 44,957,674**

The accompanying notes are an integral part of these financial statements.

DENALI COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

Note 1 – Summary of Significant Accounting Policies

A. Reporting Entity

The Denali Commission (the Commission) was established under the Denali Commission Act of 1998 (P.L. 105-277, Division C, Title III), as amended and 42 U.S.C. Chapter 38, Sec. 3121. The Commission, a "designated" federal entity as published by the Office of Management and Budget under the Inspector General Act of 1978, functions as a unique federal-state-local partnership to address crucial needs of rural Alaskan communities, particularly isolated Native villages and other communities lacking access to the national highway system, affordable power, adequate health facilities and other impediments to economic self-sufficiency.

The Commission is comprised of seven members who are appointed by the Secretary of the U.S. Department of Commerce. The Federal Co-chair serves a term of four years and may be reappointed. The other six Commissioners are the heads of Alaskan state and non-governmental organizations and have been appointed for the life of the Commission.

The mission of the Denali Commission is to partner with tribal, federal, state, and local governments and collaborate with all Alaskans to improve the effectiveness and efficiency of government services, to develop a well-trained labor force employed in a diversified and sustainable economy, and to build and ensure the operation and maintenance of Alaska's basic infrastructure.

The Denali Commission provides approximately 95 percent of its funding to projects in the areas of economic development, energy, health care, training, and other infrastructure. Funding for the projects is provided from general federal appropriations as well as funds from the Department of Health and Human Services, the USDA Rural Utilities Service and the Department of Labor. Matching funds comprise approximately 41 percent of total project costs.

B. Basis of Accounting and Presentation

The accompanying financial statements have been prepared to report the financial position, net cost, changes in net position, budgetary resources and reconciliation of net cost to budgetary obligations of the Commission as required by the Accountability of Tax Dollars Act of 2002. These financial statements have been prepared from the books and records of the Commission in accordance with accounting principles generally accepted in the United States of American (GAAP) and the form and content requirements of the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official

DENALI COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

standard-setting body of the Federal Government. These financial statements present propriety and budgetary information.

The financial statements should be read with the realization that they are for a component of the United States Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources and legal authority.

The accounting structure of Federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds.

C. Fund Balance with Treasury

Cash receipts and disbursements for operations are processed by the Department of Treasury. Funds held by the Department of Treasury represent funds available for operations.

D. Liabilities Not Covered by Budgetary Resources

Liabilities represent the amount of monies or other resources that are likely to be paid by the Commission as the result of a transaction or event that has already occurred. No liability can be paid by the Commission absent an appropriation. Liabilities for which an appropriation has not been enacted and for which there is no certainty that an appropriation will be enacted are classified as liabilities not covered by budgetary resources.

E. Accrued Benefits

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. At least once a year, the balance in the accrued annual leave account is adjusted to reflect current pay rates of cumulative annual leave earned but not taken. Sick and other types of leave are expensed as taken.

F. Retirement and Other Benefit Plans

The Commission participates in the Federal Employees Retirement System

DENALI COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

(FERS) for federal employees, which is administered by the United States Office of Personnel Management (OPM). The Commission makes contributions at rates applicable to agencies of the federal government. The contributions do not equal the full service cost of the pension expense, which is the actuarial present value of benefits attributed to services rendered by covered employees during the accounting period. The measurement of service costs requires the use of actuarial cost methods to determine the percentage of the employees' basic compensation sufficient to fund their projected pension benefit. These percentages (cost factors) are provided by OPM. The excess of total pension expense over the amount contributed by the Commission and Commission employees represents the amount which must be financed directly by OPM.

Several employees also participate in the Federal Employees Health Benefit plan (FEHB) and the Federal Employees Group Life Insurance program (FEGLI), also administered by OPM. The Commission pays the cost of current employees. Post-retirement benefits are paid by OPM.

The Commission does not report in its financial statements FERS, FEHB or FEGLI assets, accumulated plan benefits or unfunded liabilities, if any, applicable to its employees.

The Commission does not recognize any of these costs in its financial statements as they are deemed to be immaterial.

G. Net Position

Unexpended appropriations include the unobligated balances and undelivered orders of the Commission's appropriated funds. Unobligated balances associated with appropriations that expire at the end of the fiscal year remain available for obligation adjustments, but not new obligations, until that appropriation is closed, five years after the appropriations expire. Multi-year appropriations remain available to the Commission for obligation in future periods. No-year appropriations are available until expended. Cumulative results of operations include the accumulated historical difference between expenses consuming budgetary resources and financing sources providing budgetary resources.

H. Financing Sources

The Commission receives annual, no-year and multi-year Federal appropriations to fund program grants and its operations. Funds are available until expended or until the time period expires. Intragovernmental funds transferred from other Federal agencies are used to carry out Commission programs.

DENALI COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

I. Use of Estimates

The preparation of the accompanying financial statements requires management to make estimates and assumptions that affect certain amounts and disclosures included in the financial statements. Accordingly, actual results may differ from those estimates.

J. Allocation Transfers

The Commission is a party to allocation transfers with Federal Highway Administration as a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived.

Note 2 – Non-Entity Assets

The Denali Commission Act of 1998 states that one of the purposes of the Commission is to deliver the services of the federal government in the most cost-effective manner practicable by reducing administrative and overhead costs. In the spirit of this legislation, the Commission has offered a service to other federal agencies whereby a federal agency may utilize the Commission to make payments to non-federal organizations in Alaska on the agency's behalf. No fee is collected for this service. Amounts received but not disbursed are recorded on the Balance Sheet in the Fund Balance with Treasury line and are offset by a liability on the Other Intragovernmental Liabilities line. This balance is $2,389, 045 and $2,597,712 as of September 30, 2007 and 2006, respectively.

DENALI COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

Note 3 – Fund Balance with U.S. Treasury

Funds with U.S. Treasury at September 30 consisted of the following:

	2007	2006
Fund Balance		
Appropriated Fund*	$ 229,898,006	$212,552,865
Trust Fund	4,205,411	2,491,313
Status of Fund Balance		
Unobligated Balance	$ 36,378,118	$ 12,951,025
Obligated Balance Not Disbursed	197,725,299	202,093,153
Non-Budgetary	0	0
Total	$ 234,103,417	$215,044,178

*Includes $2,389,045 and $2,597,712 in non-entity fund balance with Treasury as of September 30, 2007 and 2006, respectively.

Note 4 – Other Assets

Other Assets consist of advance payments to grantees. Advances included on the balance sheet are $3,053,932 and $5,188,659 as of September 30, 2007 and 2006, respectively.

Note 5 – Liabilities Not Covered by Budgetary Resources

The unfunded accrued annual leave liability for the Commission reported as other liabilities on the balances sheet was $76,744 and $81,685 as of September 30, 2007 and 2006 respectively.

Note 6 Other Liabilities

Current other liabilities on the balance sheet for the Commission are for accrued payables to vendors and grantees and for accrued salaries payable to staff. The non-current unfunded annual leave liability is described in Note 5.

DENALI COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

Other liabilities at September 30 consist of the following:

	2007	2006
Intragovernmental		
Accrued Services	$ 363,033	$ 485,370
Clearing Account Liability	0	0
Liability for Pass-through Funding	2,389,045	2,597,712
Total Intragovernmental	$ 2,752,078	$ 3,083,082
Public		
Accrued Services	$ 279,078	$ 285,909
Accrued Grants Payable	6,210,089	11,337,461
Accrued Salaries and Benefits	67,792	1,872,695
Unfunded Annual Leave	76,744	81,685
Total Public	$ 6,633,703	$13,577,750

Note 7 Operating Leases

The Commission's lease for its office commenced on February 1, 2003 and extends through July 31, 2010. It provides for increases in annual base rent of 2 percent per year beginning August 1, 2003, and every year thereafter for the remainder of the lease term. The lease future minimum lease payments required under this lease are as follows:

Year Ended September 30,	Amount
2008	$ 407,000
2009	415,000
2010	351,000
Total	$ 1,173,000

Note 8 Earmarked Funds

The Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1999 established the annual transfer of interest from the Oil Spill Liability Trust Fund to the Denali Commission. The Coast Guard and the Environmental Protection Agency enlist the assistance of the Commission to help in bringing bulk fuel tanks in Alaska up to environmental and safety standards as set by the two agencies. The Commission accounts for and reports on the use of these funds separately through its annual budget execution reporting.

DENALI COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

Condensed financial information for the year ended September 30, 2007 is:

Balance Sheet	
Assets	
Fund balance with Treasury	$4,205,411
Total assets	$4,205,411
Liabilities and Net Position	
Liabilities	$ 0
Cumulative results of operations	4,205,411
Total liabilities	$4,205,411
Statement of Net Cost	
Program costs	$ 118,076
Less: earned revenues	
Net cost of operations	$ 118,076
Statement of Changes in Net Position	
Net position, beginning of period	$ 122,376
Net cost of operations	(118,076)
Revenue	4,201,398
Change in net position	4,083,321
Net position, end of period	$4,205,698

Note 9 Intragovernmental Costs and Exchange Revenue

Intragovernmental costs and revenue from Federal entities are for purchases of goods and services. There is no exchange revenue with the public.

	2007	2006
Intragovernmental		
Costs	$ 2,741,880	$ 3,000,933
Revenue	64,397,987	62,061,544
Public		
Costs	$ 91,964,948	$105,511,045

DENALI COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

Note 10 Status of Budgetary Resources

A. Apportionment Categories of Obligations Incurred

Obligations incurred reported on the Statement of Budgetary Resources in 2007 and 2006 consisted of the following:

(Dollars in thousands)	2007	2006
Direct obligations		
Category A	$1,378	$3,414
Category B	36,523	58,711
Total direct obligations	37,901	62,125
Reimbursable obligations	57,523	62,062
Total obligations	$95,424	$124,187

B. Permanent Indefinite Appropriations

The Commission's permanent indefinite appropriations include the trust fund. These funds are described in Note 8.

Note 11 Undelivered Orders at the End of the Period

The open undelivered orders for the Commission are $190,805,307 and $188,119,329 as of September 30, 2007 and 2006, respectively.

DENALI COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

Note 12 Reconciliation of Net Cost of Operations to Budget

DENALI COMMISSION
Statement of Financing
Years Ended September 30

	2007	2006
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated		
Obligations Incurred	$ 5,424,236	$ 124,186,397
Less: Spending Authority from Offsetting Collections and Recoveries	(64,397,987)	(62,061,544)
Obligations Net of Offsetting Collections and Recoveries	31,026,249	62,124,853
Net Obligations	31,026,249	62,124,853
Other Resources		
Imputed Financing from Costs Absorbed by Others	95,897	0
Other Resources	0	
Net Other Resources Used to Finance Activities	95,897	0
Total Resources Used to Finance Activities	**31,122,146**	**62,124,853**
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services	(551,250)	(14,565,582)
Total Resources Used to Finance Items not Part of the Net Costs of Operations	**(551,250)**	**(14,565,582)**
Total Resources Used to Finance the Net Cost of Operations	**30,570,895**	**47,559,271**
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	(4,942)	81,685
Components not requiring or generating resources		
Total Components that Will Not Require or Generate Resources	(257,113)	(1,190,522)
Total Components that Will Not Require or Generate Resources in the Current Period	**(262,054)**	**(1,108,837)**
Net Cost of Operations	**$ 30,308,841**	**$ 46,450,434**

Agency Financial Report (AFR)

Other Accompanying Information

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INSPECTOR GENERAL

November 15, 2007

MEMORANDUM FOR FEDERAL CO-CHAIR CANNELOS

From: Mike Marsh, CPA, MPA, CFE, Esq.
Inspector General

Subject: Management and Performance Challenges Facing the Denali Commission

In August, GAO briefed a meeting of the ECIE inspector generals and indicated that Congress' auditor had started a review of the governance and accountability processes of small agencies classified as "designated federal entities." The Denali Commission is one of around 30 agencies that Congress has statutorily placed in this category.

The designated federal entities encompass a considerable spectrum of legal forms: independent federal agency; U.S. government corporation; private for-profit corporation; private nonprofit corporation; regional commission.

GAO indicated that its new review would employ the methodology from its recent study of two of these agencies — private nonprofit corporations known as the Legal Services Corporation and the Corporation for Public Broadcasting.[1] The studied concepts were defined in that report as follows:

> *For both governmental and nonprofit entities, governance can be described as the process of providing leadership, direction, and accountability in fulfilling the organization's mission, meeting objectives, and providing stewardship of public resources, while establishing clear lines of responsibility for results. Accountability represents the processes, mechanisms, and other means — including financial reporting and internal controls — by which an entity's management carries out its stewardship and responsibility for resources and performance. . .*[2]

GAO's insights as to optimal governance structures are of timely interest to the Denali Commission. Statutory changes can be considered by Congress when it addresses the

[1] GAO, *Legal Services Corporation: Governance and Accountability Practices Need to Be Modernized and Strengthened,* GAO-07-993 (August 2007). Though entitled as a study of the Legal Services Corporation, comparisons to the Corporation for Public Broadcasting are common in the report.

[2] Page 11.

commission's reauthorization.[3] Given the inspector general's role in reviewing legislation, I consulted GAO's team about their pending study in a visit to their office in October.

The framework for GAO's work on small agency governance and accountability is also a timely outline for my discussion of challenges facing the Denali Commission. My best distillation of GAO concerns about small agencies would be the factors that I list in Exhibit 1.

GAO has been invited to brief the commission's financial management advisory committee about the pending study when it meets in Washington, DC next month.

EXHIBIT 1 FACTORS PERTINENT TO GOVERNANCE AND ACCOUNTABILITY AT DESIGNATED FEDERAL ENTITIES
Role of multiperson board in agency governance
Ethics regulation and training
Audit committee
Annual financial audit
Transparency statutes: GISA, FOIA, APA
Federal spending controls
Quality of grantees' single audits
Program performance evaluation and reporting
Independence of inspector general function
Core competencies justifying an agency's existence

1. Role of Multiperson Board in Agency Governance

The Denali Commission functions as an independent federal agency. It directly submits its annual budget request to OMB and receives a direct appropriation from Congress. The U.S. Treasury processes its transactions under the account symbol for "other independent agencies." And OPM has classified it as an independent agency for personnel purposes.

GAO's recent report notes that *"[a] common form of governance for independent federal agencies and U.S. government corporations is a multiperson body consisting of either a board of directors (agencies and corporations) or a commission (only agencies) . . ."*[4]

However, though named the Denali *Commission,* this agency is not actually headed by a multiperson body. Rather, the enabling act places it under the sole control of an agency head, known as the "federal co-chair," who is appointed to four-year terms by the Secretary of Commerce.[5]

The enabling act does indeed establish a seven-member panel of "commissioners," which is composed of the agency head, five ex-officio statewide leaders from key organizations,[6] and the

[3] The Denali Commission is currently authorized through September 30, 2008.

[4] Report GAO-07-993, page 13.

[5] Denali Commission Act (P.L. 105-277, 42 U.S.C. § 3121) § 303(b)(2).

[6] The respective CEOs of the Alaska Federation of Natives, the Alaska AFL-CIO, the Associated General Contractors of Alaska, the Alaska Municipal League, and the University of Alaska.

state's governor. With the exception of the agency head, they serve the commission on a very intermittent, part-time basis and are physically present at the commission's office only when needed for meetings.

The statutorily-prescribed membership of this board reflects the agency's structure as an experimental collaboration of players from the federal, state, and nonprofit sectors. The agency has historically been partly staffed by technical specialists detailed from these players,[7] and some of these entities have key roles as the commission's implementing "program partners" (major grantees).

But the enabling act actually says very little about Congress' envisioned role for this prescribed panel of highly-respected leaders. Procedurally, the act provides that they will *"meet at the call of the Federal Co-chairperson,"* who will provide them with *"any proposals for discussion and consideration, and any appropriate background materials."*[8]

Substantively, the legislation — literally read — only specifies that the commissioners as a group will recommend an annual *"proposed work plan for Alaska,"* with projects and funding priorities, to the federal co-chair, who acts on behalf of the Secretary of Commerce. The statute directs the federal co-chair to either accept the work plan or return it to the panel for revision.[9]

In short, the panel of commissioners does not function as an oversight board that supervises the agency head. The latter has usually accorded great deference to the panel's recommendations over the past decade, but the group is still only an advisory board in practice. And only the federal co-chair has the legal authority to sign grant agreements.[10]

To put it another way, the roles of the federal co-chair and the board are structurally reversed from what they would be if the commission was in fact headed by a multiperson governing body.

The Denali Commission is statutorily listed with the Appalachian Regional Commission (and two other entities) as the nation's "regional commissions."[11] Though commonly compared to each other, the roles of the commissioners at the Denali Commission and the Appalachian Regional Commission (ARC) differ significantly. The oversight role of ARC's panel of commissioners is well-defined in its enabling act.[12] If commissioners at the Denali Commission are to have that role, Congress will need to specify it with the necessary amendments during reauthorization.

[7] See Denali Commission Act § 306(d) and Intergovernmental Personnel Act, 5 U.S.C. §§ 3372, 3374.

[8] Denali Commission Act § 303(d).

[9] Denali Commission Act § 304.

[10] Denali Commission Act § 305(d).

[11] See 42 U.S.C. § 3122(8).

[12] See 40 U.S.C. §§ 14302, 14322.

There are other significant structural differences between the Denali Commission and the often-compared ARC. The latter represents 13 states; Denali serves only Alaska. ARC splits the cost of administration with the states; Denali does not. ARC's statute says, with a few exceptions, that *"[m]embers, alternates, officers, and employees of the Commission are not federal employees for any purpose . . ."*[13] Most of Denali's staff are federal employees, and the Department of Justice has advised that the commissioners themselves have the status of "special government employees." For ARC, the panel of commissioners appoints the CEO. For Denali, the "federal co-chair" functions as the CEO.

There are also some substantive differences. ARC addresses water treatment, the educational system, telecommunications, and the construction of a major highway network. Denali addresses rural electrification.

In short, the historical model for ARC would not seem a ready template for the Denali Commission's permanent statutory structure. The destinies of these two agencies appear to lie on different paths.

The classic governance role for a multiperson body is a corporation's board of directors, and Congress could conceivably restructure the Denali Commission as a government corporation. While, in practice, government corporations have been established for many reasons,[14] GAO recently summarized the ideal, theoretical setting as follows:[15]

> *According to public administration experts, a government corporation is appropriate for the administration of governmental programs that*
>
> - *are predominately of a business nature,*
> - *produce revenue and potentially are self-sustaining,*
> - *involve a large number of business-type transaction with the public, and*
> - *require greater budget flexibility than a government department or agency.*

The commission's top management seems to have begun a gradual transition that suggests a goal of marshalling funding in the style of large-scale philanthropic foundations. If this is indeed to be the long-term role for the agency, Congress may wish to statutorily convert it to a corporate form that accommodates both non-appropriation self-support and greater operating flexibility.

Despite the comparatively limited role of Denali's multiperson body, I've repeatedly noted that this commission's most untapped resource is the commissioners themselves. They're no ordinary

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[13] See 40 U.S.C. § 14301(f).

[14] See GAO, *Profiles of Existing Government Corporations*, GAO/GGD-96-14 (Dec. 1995).

[15] GAO, *Pension Benefit Guaranty Corporation: Governance Structure Needs Improvements to Ensure Policy Direction and Oversight*, GAO-07-808 (July 2007), page 6.

advisory board. In the enabling act, Congress has assembled the most esteemed "dream team" of statewide experts since the drafting of the Alaska Constitution.

Denali's panel of statutory commissioners could collectively evolve into Alaska's think tank that brainstorms breakthroughs — the solutions-in-waiting that lie somewhere beyond the classic federal "just add money." The fact that this has so far not been their role is symptomatic of Congress' need to reconsider the agency's basic statutory structure during reauthorization.

2. Ethics Regulation and Training

Detailed employees from other entities[16] and the commission's own employees (including the federal co-chair) understand that they are subject to the federal ethics regulations administered by the U.S. Office of Government Ethics (OGE). These rules[17] cover such key areas as conflicts of interest, misuse of position, gifts, and the resolution of ethics questions.

However, the enabling act's combination of a FACA exemption[18] and an uncertain role for commissioners previously left the latter in an uncomfortable state of ethical "limbo." On one hand, the statute names them as ex-officio commissioners due to their organizations' presumed abilities to facilitate the commission's work around the state. On the other hand, federal conflict-of-interest rules disfavor serving two masters.

To protect all concerned, the federal co-chair and I jointly asked the Department of Justice (DOJ) for clarification of the ethics regulations applicable to the commissioners. DOJ advised that they are "special government employees" subject to the federal rules against conflicts of interest. Exclusion from these restrictions would require explicit guidance from Congress through a statutory amendment.

EXHIBIT 2 PUBLIC ACCOUNTABILITY TRAINING AT DENALI COMMISSION
Management training on federal spending restrictions by GAO attorneys (Washington, DC)
Staff training on federal spending restrictions by a contract trainer (Anchorage)
Staff and grantee training on grant restrictions by OMB technical manager (Anchorage)
Staff training on federal ethics rules by the Department of Commerce ethics division (Anchorage)
Staff training on federal ethics rules by the U.S. Office of Government Ethics (Anchorage)
Staff training on the Hatch Act by the U.S. Office of Special Counsel (Anchorage)
Commissioner training on federal ethics rules by the U.S. Office of Government Ethics (Juneau)
Observation of a public meeting of commissioners by trainers from the U.S. Office of Government Ethics (Juneau)
Commissioner training on board processes by retired state court judge (Anchorage)

[16] See 5 CFR § 2635.102(h) and Intergovernmental Personnel Act, 5 U.S.C. § 3374.

[17] 5 CFR parts 2634-2641.

[18] Denali Commission Act § 308.

Over the past 18 months, employees and commissioners have received the ethics training listed in Exhibit 2. Through an Economy Act MOU, the regional counsel for the FAA now serves as the commission's designated agency ethics official. The commissioners and top management file their OGE disclosure forms with this ethics official.

A "desk officer" at OGE has also been identified for the commission. This assures that local ethics advice will be coordinated with positions of the agency that writes and interprets the ethics regulations that apply across the federal system.

GAO's work on small agencies[19] emphasizes the need for employee training about the Whistleblower Protection Act enforced by the U.S. Office of Special Counsel (OSC).[20] I have confirmed with the latter that this statute applies to the Denali Commission.[21] OSC has previously trained the commission's employees about the Hatch Act and appears willing to assist with future training on whistleblower protections.

3. Audit Committee

Despite the limited formal role of the commissioners, the Denali Commission is a pioneer among small federal agencies in its establishment of a "financial management advisory committee."[22] This group — which includes two of the commissioners — meets to proactively advise the agency head and inspector general on key financial controls related to accountability and governance.

Per tradition, the commission's CFO functions as the committee's coordinator. She and I have actively drawn upon the national expertise of those instrumental in establishing these groups at other federal agencies. We recently attended the committees at GAO and SBA for comparison purposes.[23]

The commission's financial management advisory committee is fortunate to have expertise from around the country:

Peter Aliferis, national director of AGA's CGFM program (Virginia)
Richard Cattanach, PhD / CPA, commissioner (Alaska)
Mary Heath, assoc. director of VA financial consulting (Texas)
Joseph Kull, CPA (Virginia)
Karen Rehfeld, state OMB director and commissioner (Alaska)

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[19] Report GAO-07-993, pages 63-64.

[20] 5 U.S.C. § 2302.

[21] Chief of OSC's Washington field office, Oct. 4, 2007.

[22] The concept of these committees is discussed at KPMG, *Financial Management Advisory Committees for Federal Agencies: Suggested Practices* (March 2003) and GAO, *Inspectors General: Enhancing Federal Accountability*, GAO-04-117T (Oct. 8, 2003), pages 11-12.

[23] We appreciate the assistance that Ed Mazur, a member of the committees at both GAO and SBA, has provided us in understanding their role in the federal system.

Meetings are conducted via live videoconferencing due to the "transcontinental" nature of the group.

The Denali Commission is statutorily exempt from FACA. As this new committee meets in the months ahead, the agency head will need to carefully ration the experts' limited time among technical problem-solving, long-term brainstorming, guest presentations, and "housekeeping" details. Members' perception that advice translates into action will no doubt be critical to their continued participation.[24]

The new committee should serve as a constructive forum for resolving some important accountability issues — such as grant monitoring, funding suspensions, program impact evaluations, the quality of grantees' single audits and, last but not least, "lessons learned" from the commission's own financial audit. Regulators, grantees, co-funders, and auditors should be invited to the forum as needed to advance these resolutions.

4. Annual Financial Audit

The Denali Commission records transactions using the accounts prescribed for federal agencies by the *Standard General Ledger.* For the past two fiscal years, the annual financial statements have been reported using the FASAB paradigm for GAAP.

For the past four fiscal years, the Denali Commission has contracted with a CPA firm to audit its financial statements as required by OMB regulation.[25] Both contractors have been CPA firms from the Washington, DC area that are listed as qualified on the GSA schedule and have experience in auditing small federal agencies.

All four of these financial audits have resulted in an unqualified opinion.

In my selection of the current auditor, I assembled a technical review panel of five accountants whose expertise spans both the profession and the country. To maximize the independence of the audit, I also arranged for a contracting officer from a federal agency beyond the one from which the commission regularly obtains its contracting, HR, and payroll services (i.e., key cycles to be audited).

In my oversight of the FY 2007 audit, I went to the CPA firm's office and physically inspected its workpapers using the FSAN[26] monitoring procedures recommended for inspector generals.

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[24] The agency head ("federal co-chair") should continue to chair this group for two reasons. First, only he has the authority to issue the administrative orders that will translate the group's advice into decisions implemented by the commission's staff. Second, for purposes of sunshine law interpretations, his role as chair underscores that he is obtaining informal advice from other commissioners on functions that lie within his administrative discretion and do not require their formal approval. See 42 U.S.C. § 15911(c) and Richard K. Berg, Stephen H. Klitzman, and Gary J. Edies, *An Interpretative Guide to the Government in the Sunshine Act,* 2d ed. (American Bar Assn., 2005), page 17.

[25] OMB Bulletin 07-04 and its predecessors.

[26] Financial Statement Audit Network of the Federal Audit Executive Committee.

I much appreciate the advice that three long-time ECIE inspector general offices[27] have offered me as to how to apply these procedures with appropriate rigor.

The FY 2007 audit report is being published within the PAR submitted to OMB within 45 days of the end of the fiscal year. The Denali Commission appears to be the only civilian federal agency that is participating in all three of the following voluntary initiatives related to the PAR: (1) OMB's PAR "pilot project" for user-friendly reporting; (2) the CEAR review by an expert panel from the Association of Government Accountants (AGA); (3) the AGA "citizen centric" reporting project for succinctly briefing the public. (The commission also explored the availability of a Mercatus PAR review, a process that is currently limited to larger agencies.)

5. The Transparency Trilogy: GISA, FOIA, APA

In 2005, Congress enacted an open meetings law specifically applicable to the commission (42 U.S.C. § 15911(c)).[28] The wording of this law is not original; rather, Congress has adapted parts of the Government in the Sunshine Act (GISA)[29] that has been applied over 30 years to many other agencies. Authoritative interpretations of that act are thus applicable to the statute that Congress enacted specifically for the commission.

Under the direction of the Inspector General Act to review legislation,[30] I issued a detailed analysis of the new law's application to the commission's meetings. Based upon the best interpretations available,[31] I reported the boundaries that define the gatherings of commissioners that require public notice and public access.

However, it is important to remember that the commission-specific statute prescribes only the minimum level of openness required by law. In the context of any particular gathering, the commissioners are usually free to offer the public more access than the legally required minimum.[32]

The commissioners sometimes struggle with the circumstances and process for closing part of a meeting. Counsel or the inspector general should be encouraged to attend any closed sessions as corroboration of the closure's legality.[33] This is especially desirable since the commissioners lack certain protections found in the full-fledged Government in the Sunshine Act (advance certification by counsel; a transcript of the closed portion).

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27 Federal Election Commission; National Science Foundation; Smithsonian Institution.

28 Though not an amendment to the Denali Commission Act, the commission's open meetings statute is codified as a permanent part of the United States Code at 42 U.S.C. § 15911(c). There is no legislative history available concerning Congress' decision to enact this provision for the Denali Commission.

29 5 U.S.C. § 552b.

30 Sections 2 and 4.

31 Authoritative interpretations of GISA are detailed in Richard K. Berg, Stephen H. Klitzman, and Gary J. Edies, *An Interpretative Guide to the Government in the Sunshine Act*, 2d ed. (American Bar Assn., 2005) (referred to hereafter as *Interpretative Guide*). The key U.S. Supreme Court precedent is *FCC v. ITT World Communications*, 466 U.S. 463 (1984).

32 See *Interpretative Guide* 68-69.

33 See *Interpretative Guide* 23, 144.

The low incidence of FOIA requests at the commission is not surprising. The agency's work simply doesn't involve the processes such as adjudications, regulation, and military security that trigger access restrictions. Financial records and grant files are routinely available to the public during the ordinary business day without backlog, delay, or any formal FOIA request. And the commission's online public database (*www.denali.gov*) continues to offer extensive detail as to what's been built, where, for whom, and for how much.

Nevertheless, the prior lack of an experienced FOIA officer at the commission has now been remedied through an Economy Act MOU with the FAA's regional counsel. A specialist in the latter's local office now serves as the commission's FOIA officer as the need arises. And the commission's CFO has obtained guidance from GAO concerning the required preservation of agency records.

The Administrative Procedures Act (APA)[34] provides the public with the opportunity to comment on regulations that covered agencies propose to issue. While public testimony is a feature of the commission's meetings, the APA's application to its processes remains uncertain at this point. The agency's management should pursue guidance from its legal counsel as to whether the APA requires a more formal rulemaking process for policies such as grant applications and funding criteria.

6. Federal Spending Controls

The Denali Commission is funded through both a direct congressional appropriation and transfers from other agencies. An annual budget request is processed through OMB, and the commission's CFO regularly meets with OMB's assigned examiner for planning purposes.

The commission's management, certifying officer, and inspector general have attended GAO training on the application of appropriation laws such as the Purpose Statute and Antideficiency Act (see Exhibit 2). And we plan to attend it again in 2008.

As necessary, the commission's CFO has obtained informal guidance from GAO's appropriation law experts. One of those attorneys is assisting the CFO in clarifying the point at which grant funds are considered to be "obligated" under some nuances of the commission's decision-making.

The commission applies the Federal Travel Regulation (FTR), the Prompt Payment Act, and the Federal Acquisition Regulation (FAR) in its control over spending. However, under FAR § 1.404, the agency head may be able to adopt a customized, more-flexible purchasing policy for certain classes of purchases below various thresholds. That possibility should be explored with legal counsel and the GSA secretariat that administers the FAR.

[34] 5 U.S.C. § 553.

7. Quality of Grantees' Single Audits

Grantees that receive at least $500,000 in federal assistance are required to have an annual "single audit" from a CPA firm. OMB expects the awarding agency's management to review these audit reports and *"[i]ssue a management decision on audit findings within six months after receipt of the audit report and ensure that the recipient takes appropriate and timely corrective action."*[35] GAO has recently noted some national problems with the quality of these audits.[36]

The commission's management has traditionally cited its reliance on grantee single audits as a monitoring control. However, the commission currently has no system in place for reviewing these audit reports or assuring that the issuing CPAs are covering the commission's funding in their fieldwork.

Last spring, the commission's CFO suspended seven grants to one recipient over various compliance issues. I contacted the recipient's auditor and learned that the commission's funding was not among the federal grants that the auditor had examined.

Future direct communication between the CFO and recipients' CPAs can alert the latter as to any increased risks concerning the commission's grants that the auditors should consider in planning their fieldwork. The following excerpts from OMB Circular A-133 encourage such cooperation:[37]

> *The auditor's determination should be based on an overall evaluation of the risk of noncompliance occurring which could be material to the Federal program. . . [A]s part of the risk analysis, the auditor may wish to discuss a particular Federal program with auditee management and the Federal agency . . .*
>
> *Weaknesses in internal control over Federal programs would indicate higher risk. Consideration should be given to the control environment over Federal programs and such factors as the expectation of management's adherence to applicable laws and regulations and the provisions of contracts and grant agreements and the competence and experience of personnel who administer the Federal programs. . . When significant parts of a Federal program are passed through to subrecipients, a weak system for monitoring subrecipients would indicate higher risk. . .*
>
> *Oversight exercised by Federal agencies or pass-through entities could indicate risk. . . [M]onitoring which disclosed significant problems would indicate higher risk. . . Federal agencies, with the concurrence of OMB, may identify Federal programs which are higher risk. . .*

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[35] OMB Circular A-133 § 400(c)(5).

[36] GAO, *Single Audit Quality: Actions Needed to Address Persistent Audit Quality Problems*, GAO-08-213T (Oct. 25, 2007).

[37] OMB Circular A-133 § 525 (emphasis added).

Another proactive approach could be an invitation to a recipient and its auditor to review needed coordination with the commission's financial management advisory committee.

A less proactive approach, of course, would be after-the-fact "quality control reviews" of auditor workpapers by myself, or by another inspector general whose agency funds the same recipient.

8. Program Performance Evaluation and Reporting

In the case of the Denali Commission, the most significant deviation from GAO's implicit expectations would seem to be the commission's lack of a program evaluation function. This deficiency repeatedly resurfaces in several contexts.

In FY 2006, two conditions caused OMB to rate the commission as merely "adequate" in the publicly-reported PART evaluation:

> *"The program lacks adequate evaluations that assess program impact."*
>
> *"[T]he program's activities are duplicative of other federal programs that address the same needs and provide the same types of assistance."*[38]

In regards to the first condition, OMB elaborated as follows:

> *The Denali Commission has not created a schedule of independent impact evaluations of its programs. Currently, Commissioners conduct a review on a quarterly basis, the Inspector General conducts project audits and an independent advisory committee reviews energy facility program development and health care issues. However, these do not qualify as evaluations of sufficient quality, scope, and independence. While many of these reviews highlight important issues, they do not assess how Denali's collective activities are improving economic conditions in rural Alaskan communities. Rather, the Denali Commission should look to conduct a program evaluation that assesses the impact of programs on Alaskan communities by focusing on how Denali affects and influences the desired outcomes (e.g., health care, jobs, safety, etc.).*[39]

During FY 2007, the commission contracted with a research firm for a $200,000+ review of the agency's accomplishments. That review detailed the agency's structure, the buildings built, the populations trained, and the interviewees that were pleased to get the commission's funding. The review did not measure the degree to which the commission's projects are making "bush" Alaska a better (e.g., healthier) place to live.

A whole federal "industry" has arisen to investigate perceived abuses of flood-related assistance after recent hurricanes in southern states. Here at the Denali Commission, the lack of an evaluation function invites Katrina-like accountability criticism.

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[38] OMB, *Program Assessment of Denali Commission,* at *www.expectmore.gov.*

[39] OMB, *Program Assessment of Denali Commission,* sec. 2.6, at *www.expectmore.gov.*

Compounding the issue is the lack of an Alaskan consensus as to the role of evaluation among planners, social scientists, and the commission's own staff. The following are some of the justifications offered by various parties around the state for the lack of outcome measurements for programs like the Denali Commission: (1) outcomes are not measurable; (2) criteria (benchmarks) are not available; (3) assistance is a right (or reparation) given the policy area or the history; (4) data is not available; (5) data collection should be specified up front; (6) grantees should do their own evaluations; (7) Congress funds physical uses rather than results; (8) evaluations are the inspector general's problem.

A further complexity arises when one or more federal agencies are funding a project in addition to the Denali Commission. The co-funders need to coordinate their monitoring to assure that accountability isn't diffused among different tracking systems (or simply doesn't occur).

Nevertheless, other rural development agencies — both large and small — have evaluation functions. The Millennium Challenge Corporation (annual budget ≈ $1.7 billion) has a "department of accountability." The Inter-American Foundation (annual budget ≈ $25 million) has an "office of evaluation." The Denali Commission may be able to share the evaluation expertise of agencies such as these through Economy Act MOUs.

In May 2007, the comptroller general addressed a coordination meeting between GAO and the federal inspector generals. Within his list of accountability challenges were the following two concerns:

> *"The failure to link resources and authorities to results (outcomes)."*
>
> *"Rising expectations for demonstrable results and enhanced responsiveness."*[40]

In September 2007, OMB alerted federal CFOs and inspector generals that *"OMB and agency officials with responsibility for performance management will develop a separate framework for independent verification and validation of performance data starting for fiscal year 2008."*[41] However, no draft of such a new requirement has been issued so far. It thus remains to be seen whether "independent verification and validation" will translate in practice as new audit procedures by CPAs, expanded oversight by inspector generals, or program evaluations by research contractors. Thus, to the extent possible, the commission should explore the compatibility of any plans for an evaluation function with new OMB requirements that seem to lie just over the horizon.

Here at the Denali Commission, one of the most difficult, uncomfortable, and avoided evaluation subjects concerns the size of community that warrants public support (versus self-support). While national lore may abstractly decry construction to "nowhere," the choices are very real, and very serious, for rural families that must go without what most of America takes for granted.

The commission's strategic plan idealistically aspires that *"[a]ll Alaska, no matter how isolated, will have the physical infrastructure necessary to protect health and safety and to support self-sustaining economic development* [emphasis added]." This idealism is challenged by the logistics of serving

[40] Comptroller General David Walker's presentation to the IG-GAO coordination meeting held May 8, 2007 in Washington, D.C. (excerpt from slides).

[41] OMB Bulletin 07-04, transmittal letter.

tiny, often unincorporated settlements that are far from any road system. Given that roughly half of the state's communities have fewer than 300 people, many locations will have an inherently limited capacity to support their own facilities in the years after the commission has given them the key.

For instance, my inspection reports for FY 2007 recount the commission's choice to spend \$3.6 million to build four facilities to serve the fuel and electricity needs of approximately 20 households in a tiny, unincorporated, mountain settlement located deep in Alaska's interior. The commission has also paid for the design of a new clinic there, with construction estimated to cost \$1 million. And the state's transportation department is planning to spend \$12 million on a new airstrip.

A similar dilemma can arise when the commission funds a facility that supports a settlement's public school. When schools fall below 10 students in rural Alaska, they lose their lifeblood of state funding and may need to close. My inspections noted one location where the state counted only 11 students. Yet the commission chose to spend around \$450,000 to provide the school with a new fuel tank.

Theses tensions concerning serviceable size are not isolated anecdotes. Other examples of small settlements with Denali-funded energy facilities are Tenakee Springs (est. pop. 98), Chuathbaluk (est. pop. 95), Sleetmute (est. pop. 92), Atka (est. pop. 90), Hughes (est. pop. 69), Stevens Village (est. pop. 68), Clark's Point (est. pop. 65), Stony River (est. pop. 42), Alatna (est. pop. 41), Nikolski (est. pop. 31), and Lime Village (est. pop. 28).

The commission's grants for clinics are also challenged by the effort to serve such "micro-settlements." The commission's home page publicly presents its goal to build over 200 clinics around the state. This paradigm of a clinic in every village is based upon a 2000 study by other agencies that assumes a need for settlements from 20 to 100 people to have a 1,500 square-foot clinic, complete with pharmacy and morgue.[42]

Examples of small settlements that have received Denali grants to construct clinics are Sleetmute (est. pop. 92), Egegik (est. pop. 81), Twin Hills (est. pop. 71), Clark's Point (est. pop. 65), Stevens Village (est. pop. 68), Beaver (est. pop. 64), and Alatna (est. pop. 41).

Despite the small population served by such clinics, diagnostic code data is commonly collected by the regional health corporations in the ordinary course of treating patients. Analysis of this data for a sample of small clinics could reveal whether the paradigm of a clinic in every village results in better care and better health. The commission has so far, though, declined to attempt any analyses of diagnostic and treatment data.

As the commission builds away, it would be invaluable to know whether such "infrastructure" is making rural Alaskans any freer of past physical scourges and modern behavioral ones. The third world conditions of the "other Alaska" are still out there in the land beyond the tourism commercials.

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[42] See Alaska Native Tribal Health Consortium, Alaska Dept. of Health & Social Services, and Indian Health Service, *Alaska Rural Primary Care Facility Needs Assessment Project Final Report*, vol. I (Oct. 2000), pages 10, 23-25.

9. Independence of Inspector General Function

Both the Denali Commission Act and the Inspector General Act require the commission to have an inspector general. The commission is one of approximately 30 "designated federal entities" (DFE) that are now statutorily required to have this oversight function.

The "federal co-chair" functions as the agency head per the enabling act. As envisioned by the Inspector General Act and OMB memo M-93-01 (the Hodsoll letter), the inspector general here is appointed by, and subject to the "general supervision" of, the federal co-chair rather than the panel of commissioners.

I am the commission's first inspector general that is full-time, in-house, and Alaska-based — and the function's only employee at this point. I appear to be one of only two DFE inspector generals that are not based in Washington, DC (the other is in Chicago). The commission currently spends less than one-tenth of 1% of its annual $130 million budget on this statutory oversight function.

In June 2007, GAO reported to Congress concerning various legislative proposals to improve the Inspector General Act.[43] An appendix to that report lists the budget of all inspector general offices, and shows the function at the Denali Commission to lack its own budget.

I have discussed this deficiency with GAO and ECIE members. The agency head and I are working to correct this shortcoming in the interest of improving both the function's independence and its service level.

10. Core Competence Justifying An Agency's Existence

The federal system is populated with many small, specialized agencies. Implicitly lurking in GAO discussions is the perennial issue of whether it would be more efficient and effective "governance" for any given task to be directly accomplished by a cabinet-level department.

To draw upon the popular saw, the above nine factors all consider whether the studied agency is "doing things right" (playing by the rules). But this final factor asks the tougher question whether an agency is "doing the right things" (producing public value).

Uncomfortable as the issue is for any small agency, a proposed amendment to the Inspector General Act that recently passed the House of Representatives signals that Congress likes to see the matter considered. Section 11 of H.R. 928 instructs inspector generals to recommend *"whether an abolishment, reorganization, consolidation, or transfer of existing Federal programs and agencies is necessary."*

By the end of 2007, Congress will have funded its Denali Commission experiment with close to $1 billion. The omnipresent question thus looms as to what Alaskans have received through this experiment that they would otherwise have gone without. In other words, what outcomes made the commission more than a ceremonial layer?

[43] GAO, *Inspectors General: Proposals to Strengthen Independence and Accountability,* GAO-07-1021T (June 20, 2007).

Three possibilities have traditionally been assumed, and argued, as the "value added" over the commission's short history: (1) synergies from interagency coordination; (2) innovative solutions that would have been left undiscovered by traditional agencies; (3) enhanced mechanisms of accountability to the American public for what was done with what was given.

On the other hand, two commentators on governmental coordination observed over 30 years ago:

> *To coordinate is not necessarily to simplify. The innovations that have been introduced over the past decade for purposes of coordination have given us a more complicated federal system — one with five, six, or even seven levels of government where three or four sufficed before. . .*[44]

The commission provides rural Alaska with some of the basic local facilities that the rest of the nation has long taken for granted. The agency's "legacy" programs fund the construction of clinics, powerhouses, and fuel tanks in some of the most challenging locations in America. But scrutiny for a distinctive core competence suggests the broader issue of whether the commission's "legacy" programs should be defined in terms of innovative rural electrification and health care — or just the methodical addressing of longstanding state lists of needed clinics, generators, and tank farms.

But Alaska has six opportunities-in-waiting if the commission wants to distinguish itself.

First, in-river turbines may be a potent antidote to the paradigm of diesel dependency (basically a generator and a fuel tank in every village). The commission has funded the state's first demonstration project of this invention (Eagle on the Yukon). Given the diversity of our rivers, it should try some more. And the commission should consider the potential for training rural Alaskans to build and market these devices to the world.

Second, geothermal sources of various heat levels exist around the state. The commission has funded a resort's power plant (near Fairbanks) that innovatively demonstrates the ability to harness lower-temperature hot springs in a small setting. Again, the commission should try some more to offset the skyrocketing cost of shipping fuel into bush Alaska.

Third, Alaska has just opened one of 20 national quarantine stations operated by the U.S. Public Health Service.[45] To the extent that the network of rural health clinics can partner with this facility as a "biological DEW line,"[46] those clinics will have significance to the Lower 48.

Fourth, another new "DEW line" may be the hundreds of self-sustaining, satellite-linked, data sensors that various agencies are installing for various purposes around rural Alaska. They guide aircraft, report the weather, predict wildfires, watch highway traffic, register earthquakes, and will track climate warming over the next 50 years. Rural students may be inspired to careers

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[44] James L. Sundquist & David W. Davis, *Making Federalism Work: A Study of Program Coordination at the Community Level* (1969), page 242.

[45] See *www.cdc.gov/ncidod/dq/quarantine_stations.htm.* The Alaska quarantine station is at the Anchorage International Airport.

[46] The DEW line was an early Cold War radar network in Alaska and Canada that was designed to detect Soviet bombers heading toward the Lower 48.

in technology to the extent that the Denali Commission can expand its training efforts to include the servicing of these facilities by local residents.

Fifth, I note again that an entire federal "industry" has arisen to investigate perceived abuses of government assistance after recent natural disasters in the Lower 48. Alaskans can certainly argue that their state has been comparatively more accountable (and less controversial) in its application of federal aid to some of its natural disasters (e.g., earthquakes, wildfires, volcanic eruptions). To the extent that the Denali Commission can export the "lessons learned" to other states, the agency's value to the rest of the nation is demonstrated.

Sixth, the local public school is often the dominant structure and the dominant employer in Alaska's rural settlements. Exhibit 3 lists eight ways in which the commission can potentially partner with the local school when implementing a remote project. The agency head should found an interagency coordinating council for this purpose. The commission's "state co-chair" is the state's former commissioner of education and may be able to facilitate this effort.

EXHIBIT 3 EIGHT SCENARIOS FOR COORDINATION BETWEEN THE DENALI COMMISSION AND RURAL SCHOOLS
Concurrent construction mobilization for separate projects by school and Denali Commission in same remote community
Collocation of new non-school facility (clinic, community center) within a school building
School contributions of "in kind" equipment or services
School as major beneficiary of local facility (tank farm, power plant, teacher housing)
Risk of school closure due to low attendance after Denali funds associated facility
Use of former school buildings, rather than new construction, for Denali projects
School's management of construction of associated Denali-funded facility
School's operation of associated Denali-funded facility after construction

FINALE

No matter how the commission evolves, it should never forget its foundation to serve the "other Alaska" that most visitors never see.

I agree with GAO that the question of the optimal governance and accountability structure is a timely one for the Denali Commission. The combination of statutory framework, funding, and management ingenuity will decide the commission's fate as the little agency that *could* — or the little agency that *could have been.*

Alaskans look forward to reading some more of the answers same time and place next year.

Mike Marsh

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Management Response

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November 15, 2007

MEMORANDUM – RESPONSE TO CHALLENGES

From: George J. Cannelos
Federal Co-Chair

Subject: Management Response to Inspector General Challenges

The Denali Commission's Inspector General has written a thoughtful analysis of "Management and Performance Challenges Facing the Denali Commission". He organizes his remarks around important factors the GAO is now using to review the governance structure of small federal agencies, including the Commission.

We are pleased the GAO is undertaking their analysis and look forward to responding to their initiative as appropriate. We have invited them to present their progress to our next Financial Management Advisory Committee meeting in Washington DC in December.

Role of Multi-person Board in Agency Governance

Mr. Marsh speaks to the differences between the Denali Commission and the Appalachian Regional Commission, and notes that ARC splits the cost of administration with their 13 member states, while "Denali does not". While technically true, this statement masks the very strong federal-state partnership that is a hallmark of the Denali Commission's success.

Instead of splitting administrative costs, the State of Alaska provides two detailed employees and pays for their salary and benefits. The Governor's office provides a full-time liaison, while the State Legislature details a legislative liaison. In addition, the state Department of Commerce, Community & Economic Development announced they will shortly be designating a representative from their department to work at the commission.

Commissioners also recognize the tangible improvement in the strength of the federal-state partnership since Governor Palin took office last January. For the first time in the commission's eight-year existence, the State of Alaska included funding ($7.1 million) for the Denali Commission and our programs in the state's Capital Budget. In addition, the State Office of Management & Budget compared state vs. Denali Commission

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investments into rural Alaska over the past three years. Their conclusion – the State is outspending the commission by three to one. Also in October, the Federal and State Co-Chairs visited federal OMB, our congressional delegation, the Governor's Washington DC office and the Appalachian Regional Commission. These visits emphasized the strong partnership between the State of Alaska and the Denali Commission.

Ethics Regulation and Training

I concur with the IG's comments. The Denali Commission has been aggressively conducting public accountability training and will continue to do so.

Audit Committee

We are pleased to be in the lead among small federal agencies in establishing our Financial Management Advisory Committee. With two members based in the Washington DC area, we are successfully using video-teleconferencing to conduct our business.

Annual Financial Audit

The IG's comments are worth repeating: "The Denali Commission appears to be the only civilian federal agency that is participating in all three of the following volunteer initiatives related to the PAR: (1) OMB's PAR "pilot project" for user friendly reporting; (2) the CEAR review by an expert panel from the Association of Government Accountants (AGA); (3) the AGA "citizen centric" reporting project for succinctly briefing the public."

Transparency Statutes: GISA, FOIA, APA

Concur

Federal Spending Controls

Concur

Quality of Grantee's Single Audits

Concur that grantees' single audits often do not examine Denali Commission Funding.

Program Performance Evaluation and Reporting

Mr. Marsh correctly points out the most significant gap in our performance – the lack of an agency-wide systematic approach for evaluating and reporting the impact's of our programs and projects. To begin this process, the Denali Commission (through the Bureau of Public Debt) solicited proposals in 2006 from qualified firms nationwide to

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conduct the first overall evaluation of the commission's work in Alaska. The McDowell Group completed this evaluation in August 2007. Among their key findings:

> *The Denali Commission has been effective at establishing a substantial quantity of badly needed infrastructure in rural Alaska and is widely regarded as essential for that purpose*
>
> *The work of the Denali Commission has resulted in improved access to healthcare for rural Alaskans, greater environmental safeguards around fuel storage, more efficient power generation, and a better-trained workforce that would have been the case in the absence of the Commission*
>
> *A wide variety of tribal, non-profit and other service organizations around Alaska are stronger and more effective as a result of receiving Commission grants and of partnering with the Commission in carrying out its programs.*
>
> *Leaders in most communities believe critical, local projects would not have been accomplished without the Denali Commission.*
>
> *The Commission's role as an innovator and catalysts of rural development is highly valued by members of other agencies and by residents of affected communities.*
>
> *Community leaders consider the Commission more flexible and responsive than other agencies.*
>
> *The concept of "sustainability" has become a keystone of Denali Commission programs and has, in principle, widespread support.*

However, McDowell then addresses the issue at hand:

> *The Commission's output performance indicators do not reflect the impact or "outcome" of the Commission's programs and policies on the sustainability of projects or the wellbeing of communities. With the exception of the Training Program, the Commission has not identified outcome performance measures.*

Establishing an appropriate system at the Denali Commission is a top priority for FY08. As noted earlier in the Management Discussion and Analysis, we are in the process of implementing three primary outcome measurements, across all programs, in terms of *cost, quality* and *access*. These measures provide an excellent beginning since they can be applied consistently across both infrastructure, training and economic development.

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We are currently comparing performance and evaluation models among federal agencies and non-governmental organizations that invest in both domestic rural development and developing countries. These include models at the Inter-American Foundation, the Millennium Challenge Corporation, and NGO's like Geneva Global and others.

Mr. Marsh then raises an "elephant in the room" topic – how should the Denali Commission approach investment in very small communities across Alaska? How do we reconcile the need for basic community infrastructure with the limitations of small communities to operate and maintain Denali Commission projects?

Alaska is in many ways defined by our special constellation of over 200 communities which are not part of the national or state highway system, nor connected to a regional power grid. These are remote, far-flung places scattered among the wilderness and wild spaces that also define Alaska.

I disagree with the IG's use of the term "micro-settlements" to describe these small villages. In most all cases, we're working government-to-government with federally-recognized tribes who have lived in the vicinity for hundreds and thousands of years. Each of these communities survives on a combination of a limited cash economy and a hunting, fishing and gathering culture (subsistence). Like small towns across America, some places are increasing in population; others are declining.

The Denali Commission's policies and practices take great care to ensure our programs and projects have the greatest chance of long-term success. Business plans are required, for example, in most cases, to demonstrate who will be responsible for operations and maintenance, where the funding will come from, and how the project will benefit local people. The sizes of our primary care clinics, for example, are specifically scaled to meet current and projected population growth or decline.

We work with all our partners to find innovative solutions to keep Alaska's small communities vital and healthy. For example, we have funded electrical interties and combined energy facilities for nearby villages, reducing duplication and redundancy. We are taking a lead role in Alaska in promoting and investing in alternative energy strategies to find answers to the unaffordable cost of diesel fuel.

Independence of Inspector General Function

Concur

Core Competencies Justifying an Agency's Existence

I believe there is no question the Denali Commission adds significant public value for the limited federal dollars received. Without the commission's giving strategic guidance, staff coordinating capital improvement efforts, convening inter-agency work groups, engaging competent partners, adopting innovative practices, focusing on sustainability

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and listening to local people, rural Alaskan communities would be deprived of vital basic infrastructure and training. Our strategic focus on replacing critical bulk fuel facilities, upgrading rural power plants and improving access to health care would likely not have happened without action by the Denali Commission.

Mr. Marsh is correct in characterizing our "Energy" program as "Rural Electrification". By aggressively pursuing and co-funding demonstration projects in renewable and alternative energy, we seek the "tipping points" that will lower energy costs across Alaska to an acceptable long-term level.

By staying within our 5% overhead limitation, commission staff is compelled to work efficiently and creatively.

Lastly, Mr. Marsh has given our State Co-Chair Karen Rehfeld, the Director of the state's Office of Management and Budget, an inaccurate, though laudable field promotion. He cites her background as the former Commissioner of Education, while in fact she served as that department's Deputy Commissioner of Education & Early Development.

Sincerely,

George J. Cannelos

George J. Cannelos
Federal Co-Chair
Denali Commission

Agency Financial Report (AFR)

Other Accompanying Information
Appendix A:
Denali Commission Program and Policy Review
Executive Summary prepared by the McDowell Group

Other Accompanying Information

Appendix A: Denali Commission Program and Policy Review - Executive Summary prepared by the McDowell Group

Denali Commission Program and Policy Review

Prepared for:

THE DENALI COMMISSION
and
BUREAU OF PUBLIC DEBT

Prepared by:

McDowell GROUP

Juneau • Anchorage • Kodiak

August 2007

Other Accompanying Information

Appendix A: Denali Commission Program and Policy Review - Executive Summary prepared by the McDowell Group

SECTION 1: EXECUTIVE SUMMARY

1.1 Purpose of the Review

The purpose of this program and policy review is to provide an independent analysis of the performance impacts and outcomes of Denali Commission programs and policies as of the end of calendar year 2006. Since 1998, the Denali Commission has funded 1,600 projects in more than 200 communities throughout Alaska with more than half a billion dollars in total funding.

Denali Commission programs include:

- Energy
- Health
- Training
- Multi-use Facilities
- Washeterias
- Solid Waste
- Elder Housing
- Teacher Housing
- Domestic Violence
- Economic Development
- Transportation
- Government Coordination

Energy, Health and Training represent the largest investments (80 percent of total Commission funding) and the most extensive operating records. The remaining programs were either designated to the Commission by Congress or represent "emerging" programs, the potential of which is still being explored. Transportation, Government Coordination, and, to an extent, Economic Development fall into the last category.

This review also examines the impacts of seven Commission policies. These include:

- Sustainability
- Private Enterprise
- Cost Containment
- Open Door
- Investment
- Business Planning
- Community Planning

Descriptions of the programs and policies may be found in the body of the report.

Appendix A: Denali Commission Program and Policy Review - Executive Summary prepared by the McDowell Group

1.2 Methodology

Major tasks for the review included the following:

- Semi-structured interviews with current and former commissioners and staff, representatives of major program partners and funding partners, and other key informants
- Confidential, structured interviews with residents of 53 affected communities (91 interviews with residents with knowledge of local Denali Commission funded projects)
- A telephone survey of 250 past participants in Denali Training Fund trainings to measure the effect of training programs on trainees' ability to find work
- Site visits and in-person interviews with key informants in nine communities in four regions of Alaska:
  - Nome/Golovin
  - Kodiak/Port Lions
  - Bethel/Kwethluk and Napaskiak
  - Klawock/Craig on Prince of Wales Island
- Secondary research including a variety of documents related to the Commission, including Commission Annual Reports and strategic planning documents, commercial publications, government reports, a sampling of grant documents and other Commission files, and other literature by and about the Commission. Extensive use was also made of the Denali Commission on-line project database.

1.3 Denali Commission Purpose

The Denali Commission Act of 1998 defines the organization's purposes as follows:

- *To deliver the services of the Federal Government in the most cost-effective manner practicable by reducing administrative and overhead costs.*
- *To provide job training and other economic development services in rural communities particularly distressed communities (many of which have a rate of unemployment that exceeds 50 percent).*
- *To promote rural development, provide power generation and transmission facilities, modern communication systems, water and sewer systems and other infrastructure needs.*

The Commission's mission statement identifies collaboration as a means to accomplish the purposes in the Act:

> *The Denali Commission will partner with tribal, federal, state, and local governments and collaborate with all Alaskans to improve the effectiveness and efficiency of government services, to develop a well-trained labor force employed in a diversified and sustainable economy, and to build and ensure the operation and maintenance of Alaska's basic infrastructure.*

The Commission has also developed a vision statement and various principles, goals, policies, and other statements of its intent. These are described and discussed in the body of the report.

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1.4 Principle Findings

- ***The Commission has facilitated and funded an impressive number of essential infrastructure projects in rural Alaska. The legacy programs in particular have been well-conceived and effective.***
- ***The Commission is widely viewed as an effective and necessary organization.***
- ***In terms of performance measures, the Commission's focus has been on outputs rather than outcomes or impacts.***
- ***The Commission's policies are appropriate in concept, but unclear in practice.***

Overview of Program Accomplishments

- *The Denali Commission has been effective at establishing a substantial quantity of badly needed infrastructure in rural Alaska and is widely regarded as essential for that purpose.*

  For example, Commission-funded projects include:
  - 160 completed energy projects
  - 100 completed health projects
  - 100 other completed infrastructure projects
  - Employment training for more than 2,000 Alaskans
- *The work of the Denali Commission has resulted in improved access to healthcare for rural Alaskans, greater environmental safeguards around fuel storage, more efficient power generation, and a better-trained workforce than would have been the case in the absence of the Commission.*
- *A wide variety of tribal, non-profit and other service organizations around Alaska are stronger and more effective as a result of receiving Commission grants and of partnering with the Commission in carrying out its programs*

External Perceptions of Commission Programs and Policies

- *Leaders in most communities believe critical, local projects would not have been accomplished without the Denali Commission.*

  The 200-plus community representatives and rural experts interviewed were nearly unanimous in saying the Commission fills a unique need and has a central role to play in the future well-being of rural Alaska.
- *The Commission's role as an innovator and catalyst of rural development is highly valued by members of other agencies and by residents of affected communities.*
- *Community leaders consider the Commission more flexible and responsive than other agencies.*

  At the same time, many community leaders say the Commission's process should be less prescriptive with more local participation.

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- ***The concept of "sustainability" has become a keystone of Denali Commission programs and has, in principle, widespread support.***

  However, there is frustration and confusion over what sustainability means and how it is to be achieved.

- ***Neither the Commission nor any other agency systematically evaluates the cumulative demands placed on a community by multiple projects, including those funded by the Denali Commission and those funded by other agencies.***

  There is concern that those demands could exceed the financial capacity of a significant number of communities.

- ***There is concern about whether the scale of some projects is appropriate.***

  Site visits and interviews in communities suggest there has been and is potential for infrastructure projects to be designed at a size and level of sophistication that exceed a community's needs and/or its ability to support the infrastructure.

- ***The Commission's process of implementing projects through program partners has significantly strengthened the base of technical knowledge and operating capacity represented by those organizations.***

  However, there is some concern the Commission can't ensure that the goals and priorities of its partner organizations are consistently aligned with those of communities or the Commission. While grant agreements and other documentation often address common goals, goals are not consistent for all partners and are typically confined to the construction process.

- ***Most community residents and many local leaders are unaware, for a given project, of what the Commission's role was. The Commission's partner organizations have become the public "face" of most projects.***

  Further, many small villages depend on one or two individuals, or on someone from a borough, housing authority, health provider or other organization, to represent the village with respect to Denali Commission projects.

- ***The Denali Commission's "distressed/non-distressed" criteria are widely perceived as arbitrary and overly restrictive, even by Commission staff.***

  This is particularly true when the criteria are applied outside their originally intended purpose, which was to indicate a community's ability to contribute matching funds to a healthcare project. There is also concern that the criteria are used, inappropriately, to prioritize projects for active processing by the Commission. Further, the designation alone is not a reliable basis for tracking incremental progress or lack thereof in communities.

Other Accompanying Information

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Review of Program Impacts

Performance Measures

- *The Commission's current performance measures track "outputs," that is, the number and status of funded projects. Such measures are useful for evaluating progress relative to the Commission's statutory purpose of providing for infrastructure needs.*
- *The Commission's output performance indicators do not reflect the impact or "outcome" of the Commission's programs and policies on the sustainability of projects or the wellbeing of communities. With the exception of the Training Program, the Commission has not identified outcome performance measures.*
- *Beyond an accounting of the number of projects completed in each program area, there is little quantitative data available to measure the Commission's contribution to a community's economic diversity, sustainability or self-sufficiency.*

  This is due to:

  - Lack of meaningful local-level socioeconomic or other indicators of community wellbeing. In Alaska, most ongoing data collection and publication is at the census area level. The decennial US Census provides some detailed community and village level information, however, that information is timely for a short period only and in any case provides no useful trend data for evaluating programs that have been in place for only a few years.
  - Local economic and socioeconomic conditions that may be affected by Denali Commission projects are typically subject to a range of forces unrelated to – and beyond the control of – the Denali Commission.
  - Although it engages regularly in discussions with regional organizations and other agencies, the Commission has not adopted a strategic framework that defines the changes it is attempting to achieve at the community or regional level, either within each program or collectively across all programs. Neither has the Commission articulated how it expects its role to be complemented by the roles of other agencies.
- *The Denali Commission's major programs and numerous sub-programs are too loosely coordinated with one another for a third party to assess their combined effect.*

  This heterogeneity is largely the result of congressionally directed funding, rather than strategic choices by the Commission.
- *Information about the Commission and its programs that is readily available to the public, either in the Commission's project database or in other easy-to-find documents, is not sufficient for a third party to understand the effects of most projects.*

  The Commission is actively engaged in updating the database structure to make it more comprehensive and easier for all stakeholders to use, including grant recipients.

Other Accompanying Information

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Energy Program

The Energy Program is one of the Commission's three largest programs (known as the "legacy" programs). It funds primarily bulk-fuel storage and power generation projects. The program also funds power distribution systems and some alternative/renewable-energy projects.

- As a result of Denali Commission grants, 61 bulk fuel facilities are now in compliance with Coast Guard and other regulations. Another 48 are in the process of being made compliant.
- Many of the 36 rural power system upgrades completed by the Commission have resulted in cost savings through improved efficiency and heat recapture.
- Rural residents benefit from more reliable heat, power and other critical services, as well as better access to fuel, as a result of Commission projects.

Health Program

The major (legacy) component of the Health Program funds primary care clinics, both upgrades and new construction. Other funding components developed over time include behavioral health facilities, domestic violence facilities, elder housing, primary care in hospitals (primarily funds for new equipment), emergency medical services, and hospital design.

- The Commission has funded primary healthcare facilities in 84 communities. Facilities are under construction in another 34 communities and planning/design is underway in 59 additional communities.
- Commission-funded clinics are providing the foundation for new, more efficient and effective rural service strategies by regional and other healthcare providers. Regional provider statistics show more local patient visits and more preventative procedures, as well as new kinds of service, after Commission-funded clinics are built. Some healthcare providers estimate significant savings in patient transportation costs.
- Residents in communities where new clinics have been built or renovated say they now have access to better emergency care. They also highly value the increased privacy and new services made possible by the clinics.
- No data is available that correlates changes in rural public health with Commission projects.

Health Sub-Programs

- Elder housing projects are too new to show impacts on residents or communities. However, residents perceive these projects to be key to community and family stability. These projects also help keep elder-care funds and retiree income circulating in the community.
- Domestic violence program grants have improved the safety and functionality of shelters, based on anecdotal information. There is no data available on the client impacts of these grants.

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Training Program

The third legacy program, the Training Program, provides job training and other economic development services in rural communities, particularly communities that meet the Commission's "distressed" criteria. Training is coordinated through the Alaska Department of Labor and Workforce Development (DOLWD), with training provided by a variety of partner organizations.

- Based on DOLWD data, Commission training grants correlate with increases in employment and income for trainees, and those increases persist in subsequent years.
- Survey research conducted for this study indicates Denali Commission-funded training programs have increased the employability of trainees. More than 2,000 people had received Commission-funded training by March of 2006. Based on the results of a random-sample survey, 70 percent of trainees who were not employed at the time of the training found work immediately after the training. Two-thirds (64 percent) of those who found work said they would not have been able to get that job without the training.
- Trainees report greater confidence in themselves and stronger communities overall as a result of Commission funded training.

Economic Development Program

The Commission has funded a broad range of economic development projects, primarily through the Alaska Department of Commerce, Community & Economic Development (DCCED). Sub-programs include DCCED's Mini-Grant Program, a community mapping program, and business lending (through Alaska Growth Capital), as well as various marketing initiatives, and economic development conferences organized by the Alaska Federation of Natives and others.

- Past and ongoing evaluation efforts for Economic Development sub-programs demonstrate positive impacts in many cases, but ones that are difficult to generalize.

Teacher Housing Program

The Teacher Housing Program was congressionally designated in 2004 and funds upgrades and new construction based on priorities developed from a statewide survey of school districts.

- Reductions in teacher turnover correlate with Denali Commission grants that have improved the quality of housing for teachers in very small communities.
- Districts and teachers believe better teacher housing is critical to teacher retention and therefore to the quality of education in rural Alaska. At this time there is no data correlating improved teacher housing with student performance.

Washeteria and Multi-use Facility Programs

Both these congressionally designated programs provide funding for facilities considered important by many rural residents. In some communities the local washeteria is the only access to potable water and laundry facilities.

- Washeteria and multi-use facilities funded by the Commission have met high-priority community needs. However, measurable public health and other benefits to the community are difficult to identify.

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- The financial performance of these facilities after completion is not monitored, and community interviews indicate that some are not likely to be fully self-supporting.

Solid Waste Program

The Solid Waste Program funds improvements to solid waste handling in communities where existing conditions threaten drinking water supplies.

- Residents report cleaner communities and improved operator safety resulting from Solid Waste Program grants. However, there is no data correlating solid-waste projects with water quality or local health.

Transportation Program

The Transportation Program was funded by an act of Congress in 2005. It has two primary elements: roads and waterfront development. The Transportation Program funds smaller projects that typically are not part of the State Transportation Improvement Plan (STIP).

- There is broad support for the "gap-filling" strategy of this program and the advisory committee concept specified in the establishing legislation.

Government Coordination

The Denali Commission's government coordination efforts encompass a variety of activities from convening meetings to facilitating workgroups around topics relevant to other Commission programs. In the past, these efforts have lacked elements of structure normally associated with a "program" in that no explicit goals or budget allocations were adopted. The program is currently being modified and revitalized.

- Program and funding partners report better agency coordination and more innovative approaches as a result of the Commission's work.

- Regional and local organizations report they have been strengthened by their relationships with the Commission.

Review of Commission Policies

General Comments

- ***As a whole, the Commission's completed projects do not represent the impact of consistently applied policies.***

  Policies emerged and have been adapted within programs to meet complex and disparate situations, rather than to reflect a fully formed strategy. Many projects pre-date policy requirements. Inconsistent and confusing language and formats make the policies difficult to interpret and challenging to apply.

- ***The Commission has not attempted to track compliance of funded projects with its policies beyond the construction phase.***

  There is little post-construction monitoring to confirm that projects are proving sustainable or are being operated in a way that is consistent with the Open Door and Private Enterprise policies, for example.

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- ***The Commission's stated "vision," "mission," "policies," "principles," "values," and "goals," are so complex as to be more of an obstacle than an aid to understanding what the Commission is trying to do and the extent to which it has succeeded.***

  The Commission's various memoranda of agreement, along with other official documents, including planning documents, are similarly difficult to interpret, in part because concepts such as "sustainability" are presented in multiple contexts and with varying modifiers and implications.

Sustainability

- ***The concept of infrastructure-project sustainability is widely supported by communities, funding partners, and program partners.***

  However, Commission documents give limited direction on how to apply the policy.

- ***Based on application documents and interviews with program managers and partners, project sustainability as a concept is an important factor in the Commission's infrastructure project selection.***

  Prior to grant award, community and business planning requirements, community and regional support, appropriate project partner selection, and other factors are used to assess project sustainability.

- ***Program managers generally have neither the tools nor the resources to address concerns about sustainability should they arise after projects are constructed,.***

  With the exception of 20 business-plan reviews commissioned by the Alaska Energy Authority, limited effort has been made to determine if funded projects have proven to be sustainable after completion.

- ***Including "renewal and replacement" costs in the definition of project sustainability is perceived as unrealistic for some communities.***

- ***Application of the Sustainability Policy to infrastructure projects is confused by many with the much broader and ill-defined goals of rural sustainability or rural economic self-sufficiency, as discussed in some Commission documents.***

Investment

- ***The Investment and Sustainability Polices overlap.***

  The Investment Policy appears, at its core, to be a policy of project sustainability, for example, "The Commission will promote investment in infrastructure where the promise of sustainability can reasonably be demonstrated…"

- ***The Investment Policy does not address the heart of most investment issues, the relationship between risk and return.***

  Program managers use the policy as a check-list to help identify potential project problems. However, the relative importance of the ten criteria in the Investment Policy is not defined and neither are cumulative thresholds to help differentiate projects that are desirable from those that are not.

Other Accompanying Information

Appendix A: Denali Commission Program and Policy Review - Executive Summary prepared by the McDowell Group

Business and Community Planning

- *The concept of promoting business and community planning has widespread support.*

  However, the quality of plans is difficult to assure or confirm, in part because many communities depend on partners or consultants to prepare the plans.

- *With a few exceptions, neither the Commission nor its partners systematically monitors the performance of the plans over time.*

- *Most projects pre-date the community plan requirement, which was adopted in 2005.*

Open Door and Private Enterprise

- *The Open Door Policy is designed to assure that Commission-funded infrastructure is available to all Alaskans. It was created for health projects, but occasionally has been applied in other programs, for example Multi-use Facilities. Open Door has been an issue in only a small number of projects.*

- *The Private Enterprise Policy is appropriate in its intent but is vaguely defined. The policy offers little structured guidance or predictable constraint on investment in those areas of rural Alaska where private enterprise is at work.*

  There has been little effort to determine if funded projects have been compliant with the policy post-construction. Once a project is built, the Commission has little control over program partners who may not have the same interest in avoiding competition with private enterprise.

Cost Containment

- *The promotion of cost-control techniques is perceived as appropriate by program partners.*

  However, program staff question the usefulness of some Commission benchmarks. Detailed audits would be necessary to assess the degree to which cost control measures affect individual projects.

- *Program partners report that project costs can be substantially affected by the timeliness, or lack thereof, of grant disbursements.*

Other Accompanying Information

Appendix A: Denali Commission Program and Policy Review - Executive Summary prepared by the McDowell Group

1.5 Recommendations

1. ***Refine the mission and goals so that the Commission's priorities are clear to staff, Commissioners, and the public.***

   The mission of the Denali Commission is too broad and its principles and policies too complex for consistent interpretation or assessment. The Commission may choose to refocus on building infrastructure, or to pursue a broader mission of rural development. In either case, the mission should articulate the areas where the Commission intends to have measurable impact. Refining the mission may require discussion with other stakeholders.

   The new mission and goals should relieve the Commission of the perception that its program success is directly linked to the sustainability or self-reliance of rural Alaska communities. The issues affecting the long-term sustainability of rural Alaska are complex and diverse. The Commission lacks the resources and the authority to address this issue other than as part of a larger, as yet undefined, strategy. The Commission must clarify internally, but especially externally, what it will be held accountable for and what will fall to other entities.

   For example, the Commission can play only a small role in the "effectiveness and efficiency of government services." If the Commission adopts government efficiency as a goal, the mission should identify what the Commission's contribution to efficiency will be. Similarly, the Commission may train workers, but it cannot ensure they will be "employed in a diversified and sustainable economy." What workforce challenges will the Commission tackle?

2. ***Develop a system, possibly in conjunction with other agencies, for tracking and assessing the aggregated impacts of multiple infrastructure projects on communities and regions. This includes the financial impacts on local governments and residents of meeting sustainability requirements for what is typically an increasing number and range of projects.***

   In addition, if sustainability continues to be a core objective for Commission projects, take steps to bring the concept more fully into the public arena in order to develop a broader understanding of its implications as practiced by the Denali Commission, the State of Alaska, and others. Promote discussion and analysis of how sustainable projects are related to each other and to local and regional social-economies.

3. ***If sustainability remains a core objective for Commission projects, establish a more effective system for monitoring projects after construction and for intervening or arranging assistance, when project sustainability appears threatened.***

   If, on the other hand, the Commission chooses to focus purely on project planning and construction phases, then another entity or entities will need to accept the task of monitoring facility operations and management if sustainability is to be ensured.

4. ***To get the most benefit from Commission investments, initiate bi-annual program evaluations that assess performance program-by-program, and as a whole, toward better-defined goals. Identify indicators and require program partners to collect and report needed data regularly.***

5. ***Define more specifically the process by which communities, partners and the Commission reach a common understanding of the priority, scale, timing, and potential impacts of projects. The process should ensure that the expectations of all parties – not simply those of the Commission – are clear.***

Other Accompanying Information

Appendix A: Denali Commission Program and Policy Review - Executive Summary prepared by the McDowell Group

6. ***Reconsider the purpose and language of Denali Commission policies.***

   Though its purpose and application are currently confusing, the Investment Policy addresses many of the Commission's strategic priorities. Consider reformulating the Investment Policy as the primary project evaluation tool and develop project assessment measures defined narrowly for that policy. Sustainability, Open Door, Private Enterprise, and Cost Containment might be best used and described as principles or translated into criteria that are specific to the individual programs for which those criteria are relevant.

7. ***Look for more ways to tap the considerable expertise of the Commission's own staff.***

   The review process demonstrated that current and past staff and Commissioners represent a valuable storehouse of institutional knowledge. One way to tap it might be to give staff opportunities to develop "white papers" and other in-depth analyses of issues and choices confronting the organization and the field of Alaska rural development in general. Analyses might be purely for internal use or, where appropriate, for public discussion. At minimum such analyses would provide valuable context for current and future Commissioners and help the Commission's different programs be more consistent and focused in their efforts.

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PL 105-277 42 USC 3121.

TITLE III--DENALI COMMISSION

SEC. 301. SHORT TITLE.

This title may be cited as the ``Denali Commission Act of 1998".

SEC. 302. PURPOSES.

The purposes of this title are as follows:

(1) To deliver the services of the Federal Government in the most cost-effective manner practicable by reducing administrative and overhead costs.

(2) To provide job training and other economic development services in rural communities particularly distressed communities (many of which have a rate of unemployment that exceeds 50 percent).

(3) To promote rural development, provide power generation and transmission facilities, modern communication systems, water and sewer systems and other infrastructure needs.

SEC. 303. ESTABLISHMENT OF COMMISSION.

(a) Establishment.--There is established a commission to be known as the Denali Commission (referred to in this title as the ``Commission").

(b) Membership.—

(1) Composition.--The Commission shall be composed of 7 members, who shall be appointed by the Secretary of Commerce (referred to in this title as the ``Secretary"), of whom—

(A) one shall be the Governor of the State of Alaska, or an individual selected from nominations submitted by the Governor, who shall serve as the State Co-chairperson;

(B) one shall be the President of the University of Alaska, or an individual selected from nominations submitted by the President of the University of Alaska;

(C) one shall be the President of the Alaska Municipal League or an individual selected from nominations submitted by the President of the Alaska Municipal League;

(D) one shall be the President of the Alaska Federation of Natives or an individual selected from nominations submitted by the President of the Alaska Federation of Natives; [1]

[1] PL 106-31, SEC. 105, 1999

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(E) one shall be the Executive President of the Alaska State AFL-CIO or an individual selected from nominations submitted by the Executive President;

(F) one shall be the President of the Associated General Contractors of Alaska or an individual selected from nominations submitted by the President of the Associated General Contractors of Alaska; and

(G) one shall be the Federal Co-chairperson, who shall be selected in accordance with the requirements of paragraph (2).

(2) Federal Co-chairperson.—

(A) In general.--The President *pro temporare* of the Senate and the Speaker of the House of Representatives shall each submit a list of nominations for the position of the Federal Co-chairperson under paragraph (1)(G), including pertinent biographical information, to the Secretary.

(B) Appointment.--The Secretary shall appoint the Federal Co-chairperson from among the list of nominations submitted under subparagraph (A). The Federal Co-chairperson shall serve as an employee of the Department of Commerce, and may be removed by the Secretary for cause.

(C) Federal Co-chairperson vote.--The Federal Co-chairperson appointed under this paragraph shall break any tie in the voting of the Commission.

(4) Date.--The appointments of the members of the Commission shall be made no later than January 1, 1999.

(c) Period of Appointment; Vacancies.—The Federal Co-Chairperson shall serve for a term of four years and may be reappointed. All other members shall be appointed for the life of the Commission. Any vacancy in the Commission shall not affect its powers, but shall be filled in the same manner as the original appointment.[2]

(d) Meetings.—

(1) In general.--The Commission shall meet at the call of the Federal Co-chairperson not less frequently than 2 times each year, and may, as appropriate, conduct business by telephone or other electronic means.

(2) Notification.--Not later than 2 weeks before calling a meeting under this subsection, the Federal Co-chairperson shall—

(A) notify each member of the Commission of the time, date and location of that meeting; and

(B) provide each member of the Commission with a written agenda for the meeting, including any proposals for discussion and consideration, and any appropriate background materials.

[2] PL 106-31, SEC. 105, 1999

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(e) Quorum.--A majority of the members of the Commission shall constitute a quorum, but a lesser number of members may hold hearings.

SEC. 304. DUTIES OF THE COMMISSION.

(a) Work Plan.—

(1) In general.--Not later than 1 year after the date of enactment of this Act and annually thereafter, the Commission shall develop a proposed work plan for Alaska that meets the requirements of paragraph (2) and submit that plan to the Federal Co-chairperson for review in accordance with the requirements of subsection (b).

(2) Work plan.--In developing the work plan, the Commission shall—

> (A) solicit project proposals from local governments and other entities and organizations; and
>
> (B) provide for a comprehensive work plan for rural and infrastructure development and necessary job training in the area covered under the work plan.

(3) Report.--Upon completion of a work plan under this subsection, the Commission shall prepare, and submit to the Secretary, the Federal Co-chairperson, and the Director of the Office of Management and Budget, a report that outlines the work plan and contains recommendations for funding priorities.

(b) Review by Federal Co-chairperson.—

(1) In general.-- Upon receiving a work plan under this section, the Secretary, acting through the Federal Co-chairperson, shall publish the work plan in the Federal Register, with notice and an opportunity for public comment. The period for public review and comment shall be the 30-day period beginning on the date of publication of that notice.

(2) Criteria for review.--In conducting a review under paragraph (1), the Secretary, acting through the Federal Co-chairperson, shall—

> (A) take into consideration the information, views, and comments received from interested parties through the public review and comment process specified in paragraph (1); and
>
> (B) consult with appropriate Federal officials in Alaska including but not limited to Bureau of Indian Affairs, Economic Development Administration, and Rural Development Administration.

(3) Approval.--Not later than 30 days after the end of the period specified in paragraph (1), the Secretary acting through the Federal Co-chairperson, shall—

> (A) approve, disapprove, or partially approve the work plan that is the subject of the review; and

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(B) issue to the Commission a notice of the approval, disapproval, or partial approval that—

(i) specifies the reasons for disapproving any portion of the work plan; and

(ii) if applicable, includes recommendations for revisions to the work plan to make the plan subject to approval.

(4) Review of disapproval or partial approval.--If the Secretary, acting through the Federal Co-chairperson, disapproves or partially approves a work plan, the Federal Co-chairperson shall submit that work plan to the Commission for review and revision.

SEC. 305. POWERS OF THE COMMISSION.

(a) Information From Federal Agencies.--The Commission may secure directly from any Federal department or agency such information as it considers necessary to carry out the provisions of this Act. Upon request of the Federal Co-chairperson of the Commission, the head of such department or agency shall furnish such information to the Commission. Agencies must provide the Commission with the requested information in a timely manner. Agencies are not required to provide the Commission any information that is exempt from disclosure by the Freedom of Information Act. Agencies may, upon request by the Commission, make services and personnel available to the Commission to carry out the duties of the Commission. To the maximum extent practicable, the Commission shall contract for completion of necessary work utilizing local firms and labor to minimize costs.

(b) Postal Services.--The Commission may use the United States mails in the same manner and under the same conditions as other departments and agencies of the Federal Government.

(c) Gifts.--The Commission may accept, use, and dispose of gifts or donations of services or property.

"(d) The Commission, acting through the Federal Co-Chairperson, is authorized to enter into contracts and cooperative agreements, award grants, and make payments necessary to carry out the purposed of the Commission. With respect to funds appropriated to the Commission for fiscal year 1999, the Commission, acting through the Federal Co-chairperson, is authorized to enter into contracts and cooperative agreements, award grants, and make payments to implement an interim work plan for fiscal year 1999 approved by the Commission."[3]

SEC. 306. COMMISSION PERSONNEL MATTERS.

(a) Compensation of Members.--Each member of the Commission who is not an officer or employee of the Federal Government shall be compensated at a rate equal to the daily equivalent of the annual rate of basic pay prescribed for level IV of the Executive Schedule under section 5315 of title 5, United States Code, for each day (including travel time) during the time such member is engaged in the performance of the duties of the Commission. The Federal Co-Chairperson shall be compensated at the annual rate prescribed for a level IV of the Executive Schedule under section 5315, of title 5, United States Code.[4] All members of the Commission

[3] PL 106-31, SEC. 105, 1999
[4] PL 106-31, SEC. 105, 1999

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who are officers or employees of the United States shall serve without compensation that is in addition to that received for their services as officers or employees of the United States.

(b) Travel Expenses.--The members of the Commission shall be allowed travel expenses, including per diem in lieu of subsistence, at rates authorized for employees of agencies under subchapter I of chapter 57 of title 5, United States Code, while away from their homes or regular places of business in the performance of services for the Commission.

(c) Staff.—

(1) In general.--The Federal Co-chairperson of the Commission may, without regard to the civil service laws and regulations, appoint such personnel as may be necessary to enable the Commission to perform its duties.

(2) Compensation.--The Federal Co-chairperson of the Commission may fix the compensation of personnel without regard to the provisions of chapter 51 and subchapter III of chapter 53 of title 5, United States Code, relating to classification of positions and General Schedule pay rates.[5]

(d) Detail of Government Employees.--Any Federal Government employee may be detailed to the Commission without reimbursement, and such detail shall be without interruption or loss of civil service status or privilege.

(e) Procurement of Temporary and Intermittent Services.--The Federal Co-chairperson of the Commission may procure temporary and intermittent services under section 3109(b) of title 5, United States Code, at rates for individuals which do not exceed the daily equivalent of the annual rate of basic pay prescribed for level V of the Executive Schedule under section 5316 of such title.

(f) Offices.--The principal office of the Commission shall be located in Alaska, at a location that the Commission shall select.

(g) Administrative Expenses and Records. The Commission is hereby prohibited from using more than 5 percent of the amounts appropriated under the authority of this Act or transferred pursuant to section 329 of the Department of Transportation and Related Agencies Appropriations Act, 1999 (section 101 (g) of division A of this Act) for administrative expenses. The Commission and its grantees shall maintain accurate and complete records which shall be available for audit and examination by the Comptroller General or his or her designee.

(h) Inspector General. Section 8G(a)(2) of the Inspector General Act of 1978 (5 USC App 3, Section 8G(a)(2)) is amended by inserting 'the Denali Commission,' after 'the Corporation for Public Broadcasting,'.[6]

SEC. 307. SPECIAL FUNCTIONS.

(a) Rural Utilities.--In carrying out its functions under this title, the Commission shall as appropriate, provide assistance, seek to avoid duplicating services and assistance, and complement the water and sewer wastewater programs under section 306D of the Consolidated

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[5] PL 106-31, SEC. 105, 1999

[6] Subsections g & h derived from PL 106-31, SEC. 105, 1999

Farm and Rural Development Act (7 U.S.C. 1926d) and section 303 of the Safe Drinking Water Act Amendments of 1996 (33 U.S.C. 1263a).

(b) Bulk Fuels.-- Funds transferred to the Commission pursuant to section 329 of the Department of Transportation and Related Agencies Act, 1999 (section 101(g) of division A of this Act) shall be available without further appropriation and until expended. The Commission, in consultation with the Commandant of the Coast Guard, shall develop a plan to provide for the repair or replacement of bulk fuel storage tanks in Alaska that are not in compliance with applicable—[7]

(1) Federal law, including the Oil Pollution Act of 1990 (104 Stat. 484); or

(2) State law

(c) Demonstration Health Projects- In order to demonstrate the value of adequate health facilities and services to the economic development of the region, the Secretary of Health and Human Services is authorized to make grants to the Denali Commission to plan, construct, and equip demonstration health, nutrition, and child care projects, including hospitals, health care clinics, and mental health facilities (including drug and alcohol treatment centers) in accordance with the Work Plan referred to under section 304 of Title III – Denali Commission of Division C – Other Matters of Public Law 105-277. No grant for construction or equipment of a demonstration project shall exceed 50 percentum of such costs, unless the project is located in a severely economically distressed community, as identified in the Work Plan referred to under section 304 of Title III – Denali Commission of Division C – Other Matters of Public Law 105-277, in which case no grant shall exceed 80 percentum of such costs. To carry out this section, there is authorized to be appropriated such sums as may be necessary.[8]

SEC. 308. EXEMPTION FROM FEDERAL ADVISORY COMMITTEE ACT.

The Federal Advisory Committee Act shall not apply to the Commission.

SEC. 309. DENALI ACCESS SYSTEM PROGRAM.[9]

(a) ESTABLISHMENT OF THE DENALI ACCESS SYSTEM PROGRAM.—Not later than 3 months after the date of enactment of the SAFETEA–LU, the Secretary of Transportation shall establish a program to pay the costs of planning, designing, engineering, and constructing road and other surface transportation infrastructure identified for the Denali access system program under this section.

(b) DENALI ACCESS SYSTEM PROGRAM ADVISORY COMMITTEE.—

(1) ESTABLISHMENT.—Not later than 3 months after the date of enactment of the SAFETEA–LU, the Denali Commission shall establish a Denali Access System Program Advisory Committee (referred to in this section as the 'advisory committee') .

(2) MEMBERSHIP.—The advisory committee shall be composed of nine members to be appointed by the Governor of the State of Alaska as follows:

(A) The chairman of the Denali Commission.

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[7] PL 106-31, SEC. 105, 1999
[8] PL 106-113, SEC 701, 1999
[9] PL 109-59-Aug. 10, 2005 119 STAT. 1517

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(B) Four members who represent existing regional native corporations, native nonprofit entities, or tribal governments, including one member who is a civil engineer.

(C) Four members who represent rural Alaska regions or villages, including one member who is a civil engineer.

(3) TERMS.—

(A) IN GENERAL.—Except for the chairman of the Commission who shall remain a member of the advisory committee, members shall be appointed to serve a term of 4 years.

(B) INITIAL MEMBERS.—Except for the chairman of the Commission, of the 8 initial 11 members appointed to the advisory committee, 2 shall be appointed for a term of 1 year, 2 shall be appointed for a term of 2 years, 2 shall be appointed for a term of 3 years, and 2 shall be appointed for a term of 4 years. All subsequent appointments shall be for 4 years.

(4) RESPONSIBILITIES.—The advisory committee shall be responsible for the following activities:

(A) Advising the Commission on the surface transportation needs of Alaska Native villages and rural communities, including projects for the construction of essential access routes within remote Alaska Native villages and rural communities and for the construction of roads and facilities necessary to connect isolated rural communities to a road system.

(B) Advising the Commission on considerations for coordinated transportation planning among the Alaska Native villages, Alaska rural villages, the State of Alaska, and other government entities.

(C) Establishing a list of transportation priorities for Alaska Native village and rural community transportation projects on an annual basis, including funding recommendations.

(D) Facilitate the Commission's work on transportation projects involving more than one region.

(5) FACA EXEMPTION.—The provisions of the Federal Advisory Committee Act (5 U.S.C. App.) shall not apply to the advisory committee.

(c) ALLOCATION OF FUNDS.—

(1) IN GENERAL.—The Secretary shall allocate funding authorized and made available for the Denali access system program to the Commission to carry out this section.

(2) DISTRIBUTION OF FUNDING.—In distributing funds for surface transportation projects funded under the program, the Commission shall consult the list of transportation priorities developed by the advisory committee.

(d) PREFERENCE TO ALASKA MATERIALS AND PRODUCTS.—To construct a project under this section, the Commission shall encourage, to the maximum extent practicable, the use of employees and businesses that are residents of Alaska.

(e) DESIGN STANDARDS.—Each project carried out under this section shall use technology and design standards determined by the Commission to be appropriate given the location and the functionality of the project.

(f) MAINTENANCE.—Funding for a construction project under this section may include an additional amount equal to not more than 10 percent of the total cost of construction, to be retained for future maintenance of the project. All such retained funds shall be dedicated for maintenance of the project and may not be used for other purposes.

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(g) LEAD AGENCY DESIGNATION.—For purposes of projects carried out under this section, the Commission shall be designated as the lead agency for purposes of accepting Federal funds and for purposes of carrying out this project.

(h) NON-FEDERAL SHARE.—Notwithstanding any other provision of law, funds made available to carry out this section may be used to meet the non-Federal share of the cost of projects under title 23, United States Code.

(i) SURFACE TRANSPORTATION PROGRAM TRANSFERABILITY.—

(1) TRANSFERABILITY.—In any fiscal year, up to 15 percent of the amounts made available to the State of Alaska for surface transportation by section 133 of title 23, United States Code, may be transferred to the Denali access system program.

(2) NO EFFECT ON SET-ASIDE.—Paragraph (2) of section 133(d), United States Code, shall not apply to funds transferred under paragraph (1).

(j) AUTHORIZATION OF APPROPRIATIONS.—

(1) IN GENERAL.—There is authorized to be appropriated out of the Highway Trust Fund (other than the Mass Transit Account) to carry out this section $15,000,000 for each of fiscal years 2006 through 2009.

(2) APPLICABILITY OF TITLE 23.—Funds made available to carry out this section shall be available for obligation in the same manner as if such funds were apportioned under chapter 1 of title 23, United States Code; except that such funds shall not be transferable and shall remain available until expended, and the Federal share of the cost of any project carried out using such funds shall be determined in accordance with section 120(b).

"(C) $5,000,000 shall be available for each of fiscal years 2006 through 2009 for payments to the Denali Commission under the terms of section 307 (e) [Clarification: 309(e)] of the Denali Commission Act of 1998 (42 U.S.C. 3121 note) for docks, waterfront development projects , and related transportation infrastructure.

SEC. 310. AUTHORIZATION OF APPROPRIATIONS.[10]

(a) In General.--There are authorized to be appropriated to the Commission to carry out the duties of the Commission consistent with the purposes of this title and pursuant to the work plan approved under section 4 under this Act, $20,000,000 for fiscal year 1999, and such sums as may be necessary for fiscal years 2000, 2001, 2002, and 2003

(b) Availability.--Any sums appropriated under the authorization contained in this section shall remain available until expended.

SECTION 310 (no title provided)[11]

(a) The Federal Co-chairman of the Denali Commission shall appoint an Economic Development Committee to be chaired by the president of the Alaska Federation of Natives which shall include the Commissioner of community and Economic Affairs for the State of Alaska, a representative of the Alaska Bankers Association, the chairman of the Alaska Permanent Fund, a representative

[10] This was originally SECTION 309 when the Act was first passed in 1998. The SAFETEA-LU Act of 2005 renumbered this to SECTION 310.
[11] This section number was designated in the PL 108-199, SEC. 112, 2004. It now duplicates the numbering designated in the SAFETEA-LU Act above.

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from the Alaska Chamber of Commerce, and a representative from each region. Of the regional representatives, at least two each shall be from Native regional corporations, Native non-profit corporations, tribes, and borough governments.

(b) The Economic Development Committee is authorized to consider and approve applications from Regional Advisory Committees for grants and loans to promote economic development and promote private sector investment to reduce poverty in economically distressed rural villages. The Economic Development Committee may make mini-grants to individuals applicants and may issue loans under such terms and conditions as it determines.

(c) The State Co-Chairman of the Denali Commission shall appoint a Regional Advisory Committee for each region which may include representatives from local, borough, and tribal governments, the Alaska Native non-profit corporation operating in the region, local Chambers of Commerce, and representatives of the private sector. Each Regional Advisory Committee shall develop a regional economic development plan for consideration by the Economic Development Committee.

(d) The Economic Development Committee, in consultation with the First Alaskans Institute, may develop rural development performance measures linking economic growth to poverty reduction to measure the success of its program which may include economic, educational, social, and cultural indicators. The performance measures will be tested in one region for two years and evaluated by the University of Alaska before being deployed statewide. Thereafter performance in each region shall be evaluated using the performance measures, and the Economic Development Committee shall not fund projects which do not demonstrate success.

(e) Within the amounts made available annually to the Denali commission for training, the Commission may make a grant to the First Alaskans Foundation upon submittal of an acceptable work plan to assist Alaska Natives and other rural residents in acquiring the skills and training necessary to participate fully in private sector business and economic and development opportunities through fellowships, scholarships, internships, public service programs, and other leadership initiatives.

(f) The Committee shall sponsor a statewide economic development summit in consultation with the World Bank to evaluate the best practices for economic development worldwide and how they can be incorporated into regional economic development plans.

(g)There is authorized to be appropriated such sums as may be necessary to the following agencies which shall be transferred to the Denali commission as a direct lump sum payment to implement this section:

(1) Department of commerce, Economic Development Administration

(2) Department of Housing and Urban Development

(3) Department of the Interior, Bureau of Indian Affairs

(4) Department of Agriculture, Rural Development Administration, and

(5) Small Business Administration

Note: The following "open meetings" language is incorporated into the Commission's energy program authorizations within the *Energy Policy Act of 2005*, PL 109-190, SEC 356. The Act does not specify it's insertion into the enabling legislation.

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(c) OPEN MEETINGS-

(1) IN GENERAL- Except as provided in paragraph (2), a meeting of the Commission shall be open to the public if--

(A) the Commission members take action on behalf of the Commission; or

(B) the deliberations of the Commission determine, or result in the joint conduct or disposition of, official Commission business.

(2) EXCEPTIONS- Paragraph (1) shall not apply to any portion of a Commission meeting for which the Commission, in public session, votes to close the meeting for the reasons described in paragraph (2), (4), (5), or (6) of subsection (c) of section 552b of title 5, United States Code.

(3) PUBLIC NOTICE-

(A) IN GENERAL- At least 1 week before a meeting of the Commission, the Commission shall make a public announcement of the meeting that describes--

(i) the time, place, and subject matter of the meeting;

(ii) whether the meeting is to be open or closed to the public; and

(iii) the name and telephone number of an appropriate person to respond to requests for information about the meeting.

(B) ADDITIONAL NOTICE- The Commission shall make a public announcement of any change to the information made available under subparagraph (A) at the earliest practicable time.

(4) MINUTES- The Commission shall keep, and make available to the public, a transcript, electronic recording, or minutes from each Commission meeting, except for portions of the meeting closed under paragraph (2).

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INTRODUCTION

The Denali Commission (Commission) is an independent federal agency based on an innovative federal-state partnership designed to provide critical utilities, infrastructure and support for economic development and in training in Alaska by delivering federal services in the most cost-effective manner possible. The Commission was created in 1998 with passage of the October 21, 1998 Denali Commission Act (Act) (Title III of Public Law 105-277, 42 USC 3121).

The Commission's mission is to partner with tribal, federal, state, and local governments and collaborate with all Alaskans to improve the effectiveness and efficiency of government services, to develop a well-trained labor force employed in a diversified and sustainable economy, and to build and ensure the operation and maintenance of Alaska's basic infrastructure.

By creating the Commission, Congress mandated that all parties involved partner together to find new and innovative solutions to the unique infrastructure and economic development challenges in America's most remote communities.

Pursuant to the Denali Commission Act, as amended, the Commission determines its own basic operating principles and funding criteria on an annual federal fiscal year (October 1 to September 30) basis. The Commission outlines these priorities and funding recommendations in an annual Work Plan.

Pursuant to the Act, the Work Plan is first provided in draft for Commissioner discussion, recommended via motion by the Commission for publication in the *Federal Register* for a period of no less than 30 days and for broad dissemination for written public comment. Commission staff is responsible for compiling written public comment and forwarding it to the Commission's Federal Co-Chair (Mr. George J. Cannelos).

The Federal Co-Chair then adopts a final version of the Work Plan, which includes, to the degree the Federal Co-Chair deems appropriate, modifications, additions and deletions based on the policy and program recommendations of the full Commission and public comment. The final version of the Work Plan is adopted by the Commission, forwarded to the Secretary of Commerce and to the Federal Office of Management and Budget (OMB), on behalf of the Federal Co-Chair. The Work Plan is also disseminated widely to Commission program partners including, but not limited to the Bureau of Indian Affairs (BIA), the Economic Development Administration (EDA), and the United States Department of Agriculture – Rural Development (USDA-RD).

The Work Plan authorizes the Federal Co-Chair to enter into grant agreements, award grants and contracts and obligate the federal funds identified by appropriation below.

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Appendix C: Denali Commission FY07 Work Plan

In past federal fiscal year the Commission would provide a draft Work Plan for Commissioners' review, discussion, and forwarding to the *Federal Register* and public posting in the early fall or late winter. A revised final version of the plan would then be released by the Federal Co-Chair in late spring or early summer. However, due to the Continuing Resolution (CR) that affected all federal appropriations in FY 07, and which was not passed until February 15, 2007, the publication of the draft Work Plan has not followed the typical timeline.

The Federal Co-Chair may enter into grants for the FY 07 period after publication of the draft Work Plan, and before all public comment is received. This is necessary to ensure that construction, barge and project schedules are not compromised and that project costs do not escalate due to delays. If appropriations are passed within ordinary fiscal year timelines outlined above, this step would ordinarily not be necessary.

The Commission is also in the process of completing its first ever Program Evaluation, and will be using its findings to embark on a Strategic Planning initiative. References in this document to "the Strategic Planning" process refer to that activity which the Commission will begin undertaking in the summer of calendar year 2007.

FY 07 APPROPRIATIONS SUMMARY

The Denali Commission receives several federal funding sources (identified by the varying colors in the table below). These fund sources, commonly referred to as "appropriations," are governed by the following general principles:

- In FY 07 there are no project specific earmarks in any appropriations;
- Energy and Water Appropriations (commonly referred to as Commission "Base" funding) is eligible for use in all programs, but has historically been used substantively to fund the Energy Program.
- The Energy Policy Act of 2005 established new authorities for the Commission's Energy Program, with an emphasis on renewable and alternative energy projects. No new funding accompanied the Energy Policy Act, and Congressional direction has indicated that the Commission should fund renewable and alternative Energy Program activities from the available FY 07 "Base" appropriation.
- All other appropriations outlined below may be used only for the specific program area and may not be used across programs. For instance, Health Resources and Services Administration (HRSA) funding, which is appropriated for the Health Facilities Program, may not be moved to the Economic Development Program.

A 1% federal rescission was passed in the CR for FY 07. The application of this rescission is noted below. It is applied at the appropriation level, as is the Commission's 5% overhead. In instances where the rescission and/or overhead differs from the rates discussed above (1% and 5% respectively) it is due to the requirements related to that appropriation. For example, TAPL is not from an appropriation, so it is not subject to a rescission.

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Final transportation appropriations received will be slightly reduced due to agency modifications, reductions and fees determined by the U.S. Department of Transportation.

Some appropriation figures are estimates, pending receipt of funds, and clarification of the passage of the February 15, 2007 CR. Program appropriations that fall into this category have been identified by the term "estimate."

The table below provides the following information, by appropriation:

- **Total FY 07 Appropriations:**
  These are the figures that appear in various colors (i.e., blue, red, orange, etc.) and are the original appropriation amounts which do not include Commission overhead deductions. These appropriations are identified by their source name (i.e., "Energy and Water Appropriation; USDA, Rural Utilities Service, etc.)
- **Total FY 07 Program Available Funding:**
  These are the figures that appear in gray and are the amounts of funding available for program(s) activities after Commission overhead has been deducted.
- **Program Funding:**
  These are the figures that appear in yellow and are the amounts of funding, within each appropriation, (i.e., from the "Base" appropriation funding for the Economic Development Program in the amount of $2,000,000).
- **Subtotal of Program Funding**
  These are the figures that appear in white and are the subtotals of all program funding within a given appropriation (i.e., the sub-total of program funding in the "Base" is $47,025,000). The subtotal must always equal the Total FY 07 Program Available Funding.

Denali Commission FY 07 Appropriations Funding Table	
FY 07 Energy & Water Appropriation	**$49,500,000**
FY 07 Energy & Water Appropriations ("Base") - Program Available (less 5% Commission overhead)	**$47,025,000**
Energy Program: bulk fuel, RPSU, etc.	$27,025,000
Energy Program: alternative & renewable energy	$5,000,000
Teacher Housing Program: design & construction	$5,000,000
Health Facilities: planning, design & construction	$8,000,000
Economic Development Program: various	$2,000,000
Multi-Use Program	$0
Public Broadcasting Program	$0
Washeteria Program	$0
sub-total $	$47,025,000

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Other Accompanying Information

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FY 07 USDA, Rural Utilities Service (RUS)	**$15,000,000**
FY 07 USDA - Rural Utilities Service (RUS) - Program Available (less 4% overhead)	**$14,400,000**
Energy Program: high energy cost communities	$14,400,000
sub-total $	$14,400,000
FY 07 Trans Alaska Pipeline Liability (TAPL) Trust	**$4,201,398**
FY 07 Trans Alaska Pipeline Liability (TAPL) – Program Available (less 5% overhead) ESTIMATE	**$3,991,328**
Energy Program: bulk fuel	$3,991,398
sub-total $	$3,991,398
FY 07 DHHS - Health Resources & Services Administration (HRSA)	**$39,283,200**
FY 07 DHHS- Health Resources & Services Administration (HRSA) – Program Available (less 5% Commission overhead)	**$37,319,040**
Health Program: Primary Care clinic design, planning, construction	$29,119,040
Health Program: Behavioral Health	$5,063,000
Health Program: Primary Care in Hospitals	$2,500,000
Health Program: Equipment	$637,000
Health Program: Hospital Designs	$0
Health Program: Elder Supportive Housing/Assisted Living	$0
sub-total $	$37,319,040
FY 07 Department of Labor (DOL)	**$6,875,000**
FY 07 Department of Labor (DOL) – Program Available (less 5% Commission overhead)	**$6,531,250**
Training Program: Construction, Operations & Maintenance Training	$4,000,000
Training Program: Management Training For Commission Projects	$1,000,000
Training Program: Youth Initiatives	$1,000,000
Training Program: Construction, Operations & Maintenance Training of "Other Public Infrastructure"	$531,250
sub-total $	$6,531,250
FY 07 Federal Transportation Administration (FTA) – Estimate	**$5,000,000**
FY 07 Federal Highway Administration (FHWA) – Estimate	**$19,000,000**
FY 07 Transportation (less 5% Commission overhead) -Estimate	$22,800,000
Transportation Program: Docks & Harbors	$9,000,000
Transportation Program: Roads	$13,800,000
sub-total $	$22,800,000

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FY 07 USDA, Solid Waste	**$742,500**
FY 07 USDA - Solid Waste – Program Available (less 5% Commission overhead)	**$705,375**
Solid Waste Program: planning, design and construction	$705,375
sub-total $	$705,375
TOTAL FY 07 Appropriations - Estimate	**$139,602,098**

FY 07 PROGRAM SUMMARIES

The following section provides narrative discussion, by each of the Commission Programs identified for FY 07 funding in the table above, in the following categories:

- Program Background
- Program Approach
- FY 07 Program Funding
- FY 07 Program Implementation
- FY 07 Outputs & Outcomes

The following programs, or sub-program areas, which have been funded by the Commission in previous federal fiscal years **are not** recommended for funding in FY 07 and do not appear in the narrative below. Programs are not recommended for funding in FY 07 for a variety of reasons including the following: funds from previous FYs are still available for projects (public broadcasting and elder supportive/assisted living), the known universe of projects has been completed and/or additional projects are not feasible given sustainability requirements (washeterias); the Commission has completed its investment in a given program area (domestic violence and hospital designs),

- Washeterias
- Health Facilities:
  - Elder Supportive Housing/Assisted Living
  - Domestic Violence
  - Hospital Designs
- Multi-Use Facilities
- Public Broadcasting

In addition to the FY 07 funded program activities; the last section of the narrative provides an update on the Commission's Government Coordination Program. The Program is not funded by Commission appropriations, but is an integral component of the Commission's mission, the success of other programs, and the legacy of the Commission's work in Alaska.

Energy Program

Program Background: The Energy Program is the Commission's oldest program and is often identified, along with the Health Program, as a "legacy" program. The Program focuses on bulk fuel (BFU) and rural power system upgrades/power generation (RPSU) across Alaska.

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Since 1999, approximately 48% of all Commission funds have been allocated to the energy program ($337 million). This amount includes all energy projects in the legacy program, as well as some alternative energy projects. In FY06, $21.7 million went to legacy BFU, $17.6 million to RPSU plus $4.9 million to wind and $2.3 million to interties related to the RPSU projects. The needs in the bulk fuel and power generation projects are presently estimated at $198 million and $211 million, respectively, in 2004 construction costs. At FY06 funding rates, it will take another eight to nine years for BFU and ten to eleven years for RPSU before these programs are completed. The Commission has also funded a very successful program of competitively selected energy cost reduction-alternative energy projects. In three completed rounds of funding, approximately $6 million in grant funds have leveraged $8.1 million in participant funding, with estimated life-cycle cost savings (generally diesel fuel avoided over the life of the project) of $29 million.

The *Energy Policy Act of 2005* established new authorities for the Commission's Energy Program, with an emphasis on alternative and renewable energy projects, energy transmission, including interties, and fuel transportation systems. Although the 2005 Energy Policy Act did not include specific appropriations, the Commission is expected to carry out the intent of the Act through a portion of its "Base" funding. To date, the Commission has co-funded a number of renewable projects, including hydroelectric facilities, a geothermal power plant, a biomass boiler, and a number of diesel-wind power generation systems. The 07 draft Work Plan offers a strategy to rebalance the Energy Program in both legacy and renewable systems. About 94% of electricity in rural communities which receive Power Cost Equalization (PCE) payments is produced by diesel and about half the fuel storage in most villages is used for the power plants. Any alternative means of generating power can reduce the capacity needed for fuel storage. This reduces capital costs and operations and maintenance (O&M) and repair and renovation (R&R) costs for fuel storage facilities) and may reduce the cost of power to the community.

Thus, a renewable project sometimes is proposed in conjunction with a deficiency list project to reduce the dependence on diesel fuel, and the concomitant fuel storage requirements. So too, an intertie, can remove the need for a new power plant, and reduce fuel storage requirements in the intertied communities. Therefore, the legacy Program may include these types of energy infrastructure also. Each community and project must be evaluated holistically. Program partners also perform initial due diligence and Investment Policy screenings, as well as assisting in development of the business plans for the participants as the designs are underway. The Program is dynamic: priorities fluctuate throughout the year, based on design decisions, due diligence and investment policy considerations, site availability, the timing of funding decisions, etc.

Program Approach: The Energy Program has historically used a "universe of need" model to determine project and program funding. Specifically, the Program is focused on using the existing statewide deficiency lists of bulk fuel facilities and power generation/distribution systems to prioritize project funding decisions. A program partnership model is utilized for project management and partners are actively involved in the design and construction of projects. Partners coordinate project funding requests with the Commission to balance the relative priority or urgency of bulk fuel and power generation needs against available funding, readiness of individual communities and project participants for the project(s), and capacity of the partners to carry out the work.

FY 07 Program Funding: The Commission has historically directed that the Program continue to concentrate on completion of the legacy program of BFU and RPSU for communities on the statewide deficiency lists. In FY 07 the Program has received funding requests exceeding $93 million, primarily for deficiency list projects.

As has always been the case in the Program, the funding requests exceed funds available. The legacy of BFU and RPSU remain integral to completing the Program mission, but they cannot and should not be accomplished in a vacuum which prevents applying appropriate technology and reducing rural dependence on diesel for energy needs. A well-balanced portfolio of BFU, RPSU and renewable/alternative energy projects will accomplish the overall program mission, and result in increased savings over the long term.

Provide up to $27,025,000 to BFU and RPSU from the "Base" appropriation; and up to $5,000,000 from the "Base" appropriation to alternative/renewable energy projects for competitive selection and requiring a 1:1 match to Commission funding.

Provide approximately $14,400,000 to BFU and RPSU in communities with extremely high energy costs greater than 275% of the national average from the USDA-RUS appropriation; and $4,015,895 to the BFU sub-program area from the TAPL funding. A total of up to $49,440,895 in FY 07 program funding is planned.

In FY 07 the Commission intends to establish a new Energy Advisory Committee to make recommendations on future partners, organizations, and projects. The Committee will be comprised of a broad selection of individuals that are knowledgeable about energy in Alaska.

FY 07 Outputs & Outcomes: Program funding at the level identified above is likely to result in the following outputs:

- Completion of 2 interties
- 1 wind-diesel project
- 10 RPSU and 10 BFU projects
- Continuing design efforts
- Small number of energy cost reduction projects
- Small number of renewable/alternative energy projects

Completion of code-compliant bulk fuel storage facilities and power plant or distribution systems by definition has improved access to energy and created more safe and healthy rural communities. Program partners have collected anecdotal information on improved efficiencies and reduced costs at their upgraded facilities for the last several years.

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Additionally, the Commission has begun to gather and collate data more formally to quantify savings realized by individual projects and the Program.

Additional outcome measurements will be developed for the Program, and will largely be determined during the upcoming Strategic Planning process. Specifically, it is intended that the Program will develop more outcomes related to access and cost reduction.

Health Facilities Program

Program Background: The Denali Commission Act was amended in 1999 to provide for the, "planning, constructing and equipping of health facilities." Since 1999, the Health Facilities Program has been methodically investing in the planning, design and construction of primary care clinics across Alaska.

Primary care clinics have remained the "legacy" priority for the Program. However, in 2003 the "Other Than" primary care component of the Program was adopted in response to Congressional direction to fund a mix of other health and social service related facility needs. Over time, the Program has developed Program sub-areas such as Behavioral Health Facilities, Domestic Violence Facilities, Elder Housing, Primary Care in Hospitals, Emergency Medical Services Equipment and Hospital Designs.

Program Approach: The Program utilizes a "universe of need" model for primary care and a competitive selection process for other sub-program areas. In 1999 the Program created a deficiency list for primary care clinics, which totaled 288 communities statewide in need of clinic replacement, expansion and/or renovation. Currently, 70 clinics have been completed (either new construction or renovation), 33 are in construction and 62 are in planning/design.

The Program is guided by the Health Steering Committee, an advisory body comprised of the following membership organizations: the State of Alaska, Alaska Primary Care Association, the Alaska Native Tribal Health Consortium, the Alaska Mental Health Trust Authority, the Alaska Native Health Board, the Indian Health Service, the Alaska State Hospital and Nursing Home Association, and the University of Alaska.

Projects are recommended for funding if they demonstrate project readiness, which includes the completion of all due diligence requirements. This includes an approved business plan, community plan, site plan checklist, completed 100% design, documentation of cost share match, and realistic ability to move the project forward in a given construction season.

FY 07 Program Funding: The language in the HRSA Appropriations bill for FY06 read as follows: *The Committee provides $39,680,000 for the Denali Commission. The fiscal year 2005 comparable level was $39,680,000 and the administration did not request funding for this program in fiscal year 2006. These funds support construction and renovation of health clinics, hospitals and social service facilities in rural Alaska, as authorized by Public Law 106-113, to help remote communities in Alaska develop critically needed health and social service infrastructure for which no other funding*

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sources are available, thereby providing health and social services to Alaskans in remote rural communities as they are in other communities throughout the country. The Committee expects the Denali Commission to allocate funds to a mix of rural hospital, clinic, long-term care and social service facilities, rather than exclusively on clinic funding.

Background: As of spring 2007, nearly $45 million worth of clinic projects are projected as construction ready. In addition, some 40 communities are actively completing planning and design requirements and will likely be ready for the 2008 construction season. The Program's model of planning, design and construction has been very successful, and has resulted in the significant need described above.

Therefore the program will provide a total of $37,319,040 to primary care clinics, of which $8,000,000 is funded through "base" and $29,319,040 is funded through HRSA.

No funds are provided for hospital designs. The Commission has been actively engaged in hospital designs in partnership with the Indian Health Service for several years. While the Commission recognizes the ongoing need for construction funding for hospitals, the recommendation is that the Commission's health funding be limited only to design need.

Provide a total of up to $5,063,000 for the sub-program area of behavioral health. The behavioral health facilities sub-program has successfully developed a functional process for allowing organizations to expand capacity for serving a specific population of youth in residential treatment with the goal of keeping them closer to their homes in Alaska.

Provide a total of up to $2,500,000 to the primary care in hospitals sub-program area. Primary care improvements in hospitals focus on the primary care repair, renovation and equipment needs within a hospital setting. Project selection, prioritization and due diligence determined through a competitive process.

Provide a total of up to $637,000 to the emergency medical services (EMS) equipment sub-program. Since its inception the Health Program has funded EMS equipment needs across the state of Alaska. This sub-program area receives wide support and cost share matching from other funding organizations in Alaska. A condition for funding is that projects proceed to award within a timely manner, consistent with other program areas.

The FY 07 Program funding strategy is based on a total of $37,319,040 in HRSA appropriations and additionally up to $8,000,000 in "Base" appropriations for a total of up to $45,319,040 in program funding.

FY 07 Outputs & Outcomes: Program funding at the level identified above is likely to result in the following outputs:

- Clinics
  - 18 construction projects
- Behavioral Health
  - 4 construction projects

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- Primary Care in Hospitals
  - 9 equipment/renovation projects
- EMS Equipment
  - Unknown; pending selection

Outcome goals related to increased access and reduction in cost are anticipated for FY 2008 and will be developed in response to the Program Evaluation and pending Strategic Planning efforts.

Training Program

***Program Background*:** In a majority of rural communities unemployment rates exceed 50% and personal capita income rates are over 50% below the national average. When job opportunities in rural Alaska do become available, rural residents often lack the skills necessary to compete and often lose those jobs to people from outside the community, region or even state. With the limited number of jobs available the Commission believes it is imperative to ensure that local residents have the skills and knowledge necessary to work on the construction of projects funded by the Denali Commission. In addition the Commission builds sustainability into the development of infrastructure by providing training for the long term management, operations and maintenance of facilities and thus increasing local employment at the same time.

The Program's mission is to increase the employment and wages of unemployed or underemployed Alaskans through training for careers in construction, operations and maintenance of public facilities.

The Program is also guided by the following principles:

- Priority on training for construction, operations and maintenance of public infrastructure
- Training will be tied to a job
- Training will encourage careers not short term employment
- Funding will support a "Training System"

***Program Approach*:** To date the Commission has dedicated training funds to the careers associated with infrastructure development and long-term sustainability in rural Alaska. The Commission has funded construction, operations and maintenance training in communities statewide with large success.

The Training Program's primary purpose is to support the Commission's investment in infrastructure development by providing training for the careers related to the Commission infrastructure programs (such as Energy and Health Facilities).

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Following are the Program's priorities related to training activities that support infrastructure:

- Priority #1 - Training for Construction, Operations and Maintenance of Commission Projects

Description: At the core of the Training Program is the continuation of training related to the construction, operations and maintenance of Commission funded projects. The Commission training program centers on the goal of creating employment opportunities for local residents to construct Commission funded projects and develop the skills necessary to operate and maintain Commission facilities.

- Priority #2 - Management Training for Commission Projects

Description: A sustainable Commission facility not only requires the skills training for operations and maintenance of the physical facility but also requires the management training related to the operations of such a facility. The skills of planning, reporting and accounting are all essential to the survival of rural infrastructure.

- Priority #3 – Youth Initiatives in support of Commission Projects

Description: Preparing Alaskans youth for careers that support the Denali Commission's mission of building sustainable communities.

- Priority #4 - Construction, Operations and Maintenance Training of "Other Public Infrastructure"

Description: In order to build capacity in communities, regionally and statewide the Commission invests in the training for projects that are not funded by the Commission directly. This investment increases the skills and knowledge of rural residents in order to ultimately maintain Commission projects and all other publicly funded projects.

Historically the Commission has provided funding directly to organizations that are able to deliver results in the priority areas as described above. These organizations have typically been selected by the Commission directly or through competitive requests for proposals managed by partner organizations

FY 07 Program Funding: The Commission expects to have available $6,531,250 in FY 07 funding for the Training Program. This funding is provided by the U.S. Department of Labor to support the program. The Commission anticipates receipt of this funding in July 2007.

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Provide up to the following funding amounts in the following general categories pursuant to its priority areas, funds may also be moved from one priority area to another as appropriate:

Priority #1	Construction, Operations and Maintenance Training of Denali Commission Projects (to include health services and training related to allied health)	$4,000,000
Priority #2	Management Training for Commission Projects	$1,000,000
Priority #3	Youth Initiatives	$1,000,000
Priority #4	Construction, Operations and Maintenance Training of "Other Public Infrastructure"	$531,250

In FY 07 the Commission intends to establish a new Training Advisory Committee to make recommendations on the partners, organizations, and projects that should receive FY 07 funding under the priority areas outlined above. This Advisory Committee will be comprised of a broad representation of individuals that are knowledgeable of training in rural Alaska.

FY 07 Outcomes & Outputs: Program funding at the level identified above is likely to result in the following outputs:

- Over 1300 people trained
- Cost per participant trained is less than $5,000
- 5% increase in employment 7-12 months after Commission funded training
- 35% increase in annual earnings 7-12 months after Commission funded training

The following longer term outcome goals have been identified for the Program:

- 35% increase in annual earnings 5 years after Commission funded training

Additional outcome goals will be developed in response to the Program Evaluation and pending Strategic Planning efforts.

Transportation

Program Background: On August 10, 2005, the President signed into law new highway program reauthorization legislation titled Safe, Accountable Flexible Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). This Act provides the Commission with $15 million annually for fiscal years 2005-2009 for a Denali Access System program. The Act also provides the Commission $10 million annually for Fiscal Years 2005-2009 for docks, harbors and related waterfront development projects. The Act also outlined the array of road projects Denali Access System is designed to target, rural community streets and roads, roads between rural communities, state highway system; and roads to access resource development.

The Act requires the formation of an Advisory Committee to advise the Commission with members appointed by the Governor of Alaska. On November 11, 2005, Governor Murkowski announced appointments to the Denali Access Systems Transportation Advisory Committee (TAC). The nine member committee includes by law, four members who represent existing regional native corporations, native non-profit entities, tribal governments and four members who represent rural Alaska regions or villages. The committee chair is Denali Commission Federal Co-Chair, George J. Cannelos.

As a result of a TAC-directed public outreach and agency coordination effort, the $23,750,000 program has now begun to focus attention on two important transportation needs: roads and boardwalks, and barge landing moorage systems. Village connector roads and roads to local and regional resources will continue to receive significant attention, but to the extent practical each year, local roads and boardwalks in small rural communities will receive primary attention. The program will also maintain its focus on dust control in villages. In the waterfront development program, docks and harbors in small coastal communities will continue to receive attention, but there is a significant need for barge landings in coastal and riverine communities to improve operational safety and efficiencies. This class of project will receive primary consideration each year to the extent funding and construction schedules allow.

Another evolution in Program development, especially in the road Program, has been a shift from maximizing financial leveraging opportunities with other transportation agencies, to fully funding, as necessary, the program's highest priority projects. In FY 06, the $23 million transportation program leveraged almost $100 million in projects. In coming years, while striving to leverage funding opportunities, an emphasis on priorities over funding partnerships will likely reduce the overall program joint-fund total.

Program Approach: The TAC is a central feature of the amendments to the Denali Commission Act of 1998 that defines the Denali Access System. Section 309 defines key committee responsibilities that include: recommend transportation priorities and funding strategies; develop public involvement and coordinating planning programs; develop annual capital budget recommendations; and coordinate multi-region projects.

The TAC reviews project nominations on a semi-annual basis, once in December for project selections and once during the summer to monitor project development.

In addition to meeting transportation-specific criteria and processes, the Program fully incorporates Denali Commission policies including a commitment to sustainable community projects, and a commitment to the Commission's Investment Policy.

FY 07 Program Funding: The Commission will provide up to $14,750,000 to the roads component of the Program. Local roads projects have immediate benefits for health and quality of life, while having minimal impact on the environment. This program element includes boardwalks in many river delta and coastal areas of the state.

Provide up to $9,000,000 to the waterfront development component of the program. In the waterfront development program, small community harbor rehabilitation and expansion needs are recognized and will continue to receive attention. However, as demonstrated in several analyses since 2000, including the Alaska Department of Transportation and Public Facilities Yukon-Kuskokwim Plan and the Northwest Alaska

Plan, and the US Army Corps of Engineers Yukon-Kuskokwim Regional Port Study, barge landing design and construction is the most urgent unmet maritime need in rural Alaska.

FY 07 Outcomes & Outputs: Program funding at the level identified above is likely to result in the following outputs:

- Roads
  - 9 projects in design: 15 projects in construction
- Water Front Development
  - 9 projects in design; 11 projects in construction

Outcome goals related to increased access and reduction in transportation costs are anticipated for FY 08 and will be developed in response to the Program Evaluation and pending Strategic Planning efforts.

Solid Waste

Program Background: The Commission began receiving solid waste funding in FY 06. The Commission partners with USDA Rural Development to address deficiencies in solid waste disposal sites which threaten to contaminate rural drinking water supplies.

Proper solid waste collection, processing and disposal are an essential public service that often presents a difficult challenge in rural Alaska. Due to several factors, including limited rural Alaska local government budgets, community remoteness, limited transportation infrastructure and obstacles posed by Alaska's severe climate, solid waste service is a prominent widespread deficiency in the context of Alaska's wide array of environmental issues and public health and quality of life issues.

Program Approach: The program relies on a competitive RFP process to select and identify projects, and utilizes a multidiscipline review panel to ensure that projects meet all Commission due diligence and policy requirements. Typically this RFP process occurs once or twice in a given year depending on need and project eligibility.

Beginning in FY 07 funds will be granted to program partners and will not be awarded directly to individual recipients.

FY 07 Program Funding: Provide up to $705,375 to conduct a competitive RFP process to select eligible projects and program partners.

FY 07 Outputs & Outcomes: Program funding at the level identified above is likely to result in the following outputs:

- Funding of up to 15 projects

Outcome goals related to increased access and reduction in cost are anticipated for FY 08 and will be developed in response to the Program Evaluation and pending Strategic Planning efforts.

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Teacher Housing

Program Background: Teaching in rural Alaska can be one of the most rewarding and challenging professions. A critical issue for rural teachers is finding safe, affordable housing during the school year. Housing availability varies by community from newer adequate homes, to old housing units with multiple safety and structural problems, to a lack of enough available housing, requiring teachers to double-up or even live in the school.

Teacher turnover rates are high in rural Alaska, with many teachers citing unavailable or inadequate housing as a factor in their decision to move. The quality of education received by students is impacted by teacher retention. By improving the availability and quality of housing for teachers, the Commission strives to also increase the quality of education received by the next generation of Alaskans.

In FY04, Congress directed the Commission to address the teacher housing needs in rural Alaska. The Commission launched a statewide survey of 51 school districts and rural education attendance areas to identify and prioritize the teacher housing needs throughout the state. Urban districts in Anchorage, Fairbanks, Mat-Su and Juneau were not included in the survey.

Program Approach: The Commission utilizes a program partnership model to implement the teacher housing program. An annual RFP process identifies eligible projects and other funding sources, such as debt service, available to fill the gap between the project's capacity to carry debt and the total development cost of the project. Acquisition, rehabilitation, new construction, and multi-site rehabilitation are eligible development activities under this program.

FY 07 Program Funding: Provide up to $5,000,000 from the "Base" appropriation for ongoing funding of the Teacher Housing Program, via competitive annual RFP.

FY 07 Outputs & Outcomes: Program funding at the level identified above is likely to result in the following outputs:

- Funding of up to 20 units (renewal & replacement and new construction)

Outcome goals related to increased access and reduction in cost are anticipated for FY 08 and will be developed in response to the Program Evaluation and pending Strategic Planning efforts.

Economic Development

Program Background: Since its earliest days as a territory of the United States, Alaska has contributed to the economy of America, largely through supply of raw materials or partially processed products. Now Alaska's abundant natural resources, from fossil fuel and mineral products to timber and fish, must compete in the global marketplace. Innovation and entrepreneurship have become critical to business success.

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One of the purposes of the Commission is economic development. The Commission firmly believes that sustainable economic development for Alaska's rural communities, like that of the rest of America, will be generated in the private, commercial sector, not within government. To that end, the Commission supports the development of public infrastructure upon which the private sector creates jobs and wealth, and helps ensure that good businesses and business ideas have a chance to become long-term, self-sustaining enterprises.

Over the history of the Program, the Commission has supported and advanced a wide-array of economic development program activities ranging from community profile mapping to supporting innovative models for lending, and equity investment in Alaska.

Program Approach: The Program has a documented history of involvement with numerous partners and program activities. However, the Program has lacked a cohesive and well-articulated focus and project selection process.

FY 07 Program Funding: Provide up to $2,000,000 from the "Base" appropriation for the Program.

In FY 07 the Commission intends to establish a new Economic Development Advisory Committee to make recommendation on the partners, organizations, and projects that should receive FY 07 funding. In addition this Committee, in concert with the Commission would provide priority areas for funding and project focus, similar to the process of priority identification in the Training Program. The Committee will be comprised of a broad selection of individuals that are knowledgeable about economic development in rural Alaska.

FY 07 Outputs & Outcomes: Specific outputs have not been recorded for the Program. To date output data has been generated on a project-by-project basis as it related to economic investment, development, job creation, income enhancement, quality of life, etc.

Output and outcome goals related to increased access and reduction in cost are anticipated for FY 08 and will be developed in response to the Program Evaluation and pending Strategic Planning efforts, and in concert with the development of the Program's Advisory Committee.

<u>Multi-Use Facilities</u>

Program Background: In 2003 the Commission received Congressional direction for a multi-use facility program. The Program was originally managed by Commission staff and funded only construction-ready projects. A Multi-Use Facility is a facility which provides two or more uses. A variety of uses may be consolidated into a single facility, but priority for funding under this program will go to uses associated with life, health and safety. In accord with the purpose of the Denali Commission, as established in the enabling legislation, the Multi-Use Facility Program is designed to encourage consolidation of compatible essential community services eliminating duplication of services and increasing the efficiency with which services are delivered.

Program Approach: The Program utilizes a program partnership model. The Alaska Department of Commerce, Community and Economic Development, Division of Community Advocacy (A-DCCED, DCA) manages the program on the Commission's behalf, and also manages the request for proposal process that identifies eligible planning, design and construction projects.

In FY 07 the Commission intends to conduct an external evaluation of the Multi-Use Program. This evaluation will include review of cost per square foot, project selection and design/construction management processes, eligibility requirements and other evaluation factors as appropriate.

Additional outcome data will be developed for the program in concert with the external evaluation process discussed above.

Government Coordination

Program Background: The Commission is charged with the special role of increasing the effectiveness of government programs by acting as a catalyst to coordinate the many federal and state programs that serve Alaska. The Commission led the way by committing state, federal, and non-profit organizations and agencies to this effort in jointly signing a Memorandum of Understanding (MOU). This MOU outlines the role of agencies in coordinating resources and efforts in areas such as community planning, sustainability, information technology and data sharing and coordination of pre-construction activities. This MOU served as the basis for the creation of several multi-agency work groups and cooperative projects that have served to increase the agencies' collective effectiveness. The MOU was amended in 2003 with increased pariticipation from both the state and federal partners.

FY 07 Program Goals: The Commission is planning to begin work on a revised MOU in FY 07 and anticipates further broadening the partner and signatory list to include members of the philanthropic, development and Community Development Quota (CDQ) groups. In addition the Commission is working actively with other federal and state partners to evaluate the current MOU workgroups, update membership as necessary and continue critical discussions related to infrastructure, community planning and collaborative funding and project selection.