

Financial Section

Inspector General Transmittal Letter



Denali Commission
Office of Inspector General
Anchorage, AK 99501

November 13, 2015

MEMORANDUM FOR: Denali Commission Commissioners

FROM:

A handwritten signature in blue ink, appearing to read "David Sheppard".

David Sheppard
Inspector General

SUBJECT:

FY 2015 Financial Statements
Final Report No. DCOIG-16-001-A

I am pleased to provide you with the attached audit report in which SB & Company, LLC, an independent public accounting firm, presented an unmodified opinion on the Denali Commission's fiscal year 2015 financial statements. However, a significant deficiency was identified in internal control. SB & Company performed the audit in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget Bulletin 15-02, *Audit Requirements for Federal Financial Statements*.

In its audit of the Commission, SB & Company

- identified a significant deficiency in internal control over financial reporting due to inadequate segregation of duties;
- identified no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards or OMB audit guidance;
- determined that the financial statements were fairly presented in all material respects and in conformity with U.S. generally accepted accounting principles.

My office oversaw the audit performance, including the review of SB & Company's report and related documentation and inquiries of its representatives. Our review disclosed no instances where SB & Company did not comply, in all material respects, with U.S. generally accepted government auditing standards. As differentiated from an audit in accordance with these standards, our review was not intended to enable us to express any opinion on the Commission's financial statements. Therefore, we do not express any opinion on the Commission's financial statements, conclusions about the effectiveness of internal control, or conclusions on compliance with laws, regulations, contracts, and grant agreements. SB & Company is solely responsible for the attached audit report, dated November 13, 2015, and the conclusions expressed in it.

We appreciate the cooperation and courtesies the Commission extended to both SB & Company and my office during the audit. If you wish to discuss the contents of this report, please call me at (206) 220-7970.

Agency Financial Report (AFR)

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Attachment

cc: Corrine Eilo, Chief Financial Officer, Denali Commission
David Smith, Acting Inspector General, U.S. Department of Commerce

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Report of Independent Public Accountants



REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Office of the Inspector General and the Denali Commission

Report on the Financial Statements

We have audited the accompanying balance sheets of the Denali Commission (the Commission) as of September 30, 2015 and 2014 and the related statements of net cost, changes in net position and budgetary resources for the years then ended and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Commission's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of September 30, 2015 and 2014, and its net cost, changes in net position, and budgetary resources for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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S B & COMPANY, LLC
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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board and OMB Circular A-136, *Financial Reporting Requirements*. This required information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The other information as listed in the table of contents is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The other information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated November 13, 2015 on our consideration of the Commission's internal control over financial reporting and over compliance, and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope and results of our testing of that and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance.

Hunt Valley, Maryland
November 13, 2015

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**INDEPENDENT PUBLIC ACCOUNTANTS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Office of the Inspector General and the Denali Commission

We have audited in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements* the financial statements of the Denali Commission (the Commission) as of and for the year ended September 30, 2015, and the related notes to the financial statements which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated November 13, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting and compliance (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be a significant deficiency as 2015-01.

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Limitation of Internal Control

Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with controls may deteriorate.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. We did not test compliance with all laws and regulations applicable to the Commission. We limited our tests of compliance to those provisions of laws and regulations OMB audit guidance requires that we test that we deemed applicable to the financial statements for the fiscal year ended September 30, 2015. We caution that noncompliance may have occurred and may not have been detected by these tests, and that such testing may not be sufficient for other purposes. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB audit guidance.

Commission's Response to Finding

The Commission's response to the finding identified in our audit is described in the accompanying schedule of findings. The Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hunt Valley, Maryland
November 13, 2015

A handwritten signature in black ink that reads 'SB & Company, LLC' in a cursive, stylized font.

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Schedule of Findings

Finding 2015	Significant deficiency in Internal Control Over Financial Reporting—Inadequate Segregation of Duties
Criteria	During the 2015 year end close process, management did not adhere to existing policies and procedures to update, maintain, and review schedules tracking grant payables and reconciling such balances to amounts recorded in the financial statements. As a result, an audit entry of approximately \$1.3 million was required to be recorded to properly state the financial statements.
Condition	During the year ended September 30, 2015, there was transition in personnel responsible for recordation of grant payables. Due to limited number of personnel, the reconciliation to grant confirm information received from grantees was not fully reviewed.
Cause	The entity's limited size and staffing resources have made it difficult for management to provide sufficient staffing to reconcile and review all financial transactions.
Effect or Potential Effect	Without sufficient review procedures, the risk significantly increases that errors related to grant expenditures and related payables could occur and not be detected on a timely basis.
Recommendation	Management and the board should consider a formal evaluation of the number of personnel and related training in financial reporting positions, with a particular focus on grant activity at year end. In response to this, consideration should be given to implementing controls that mitigate the risks associated with understatement of the grant payable liabilities including training and enhanced review procedures.
Responsible Official's Response	The Denali Commission concurs with this finding.