Denali Commission
Agency Financial Report (AFR)
Fiscal Year 2017

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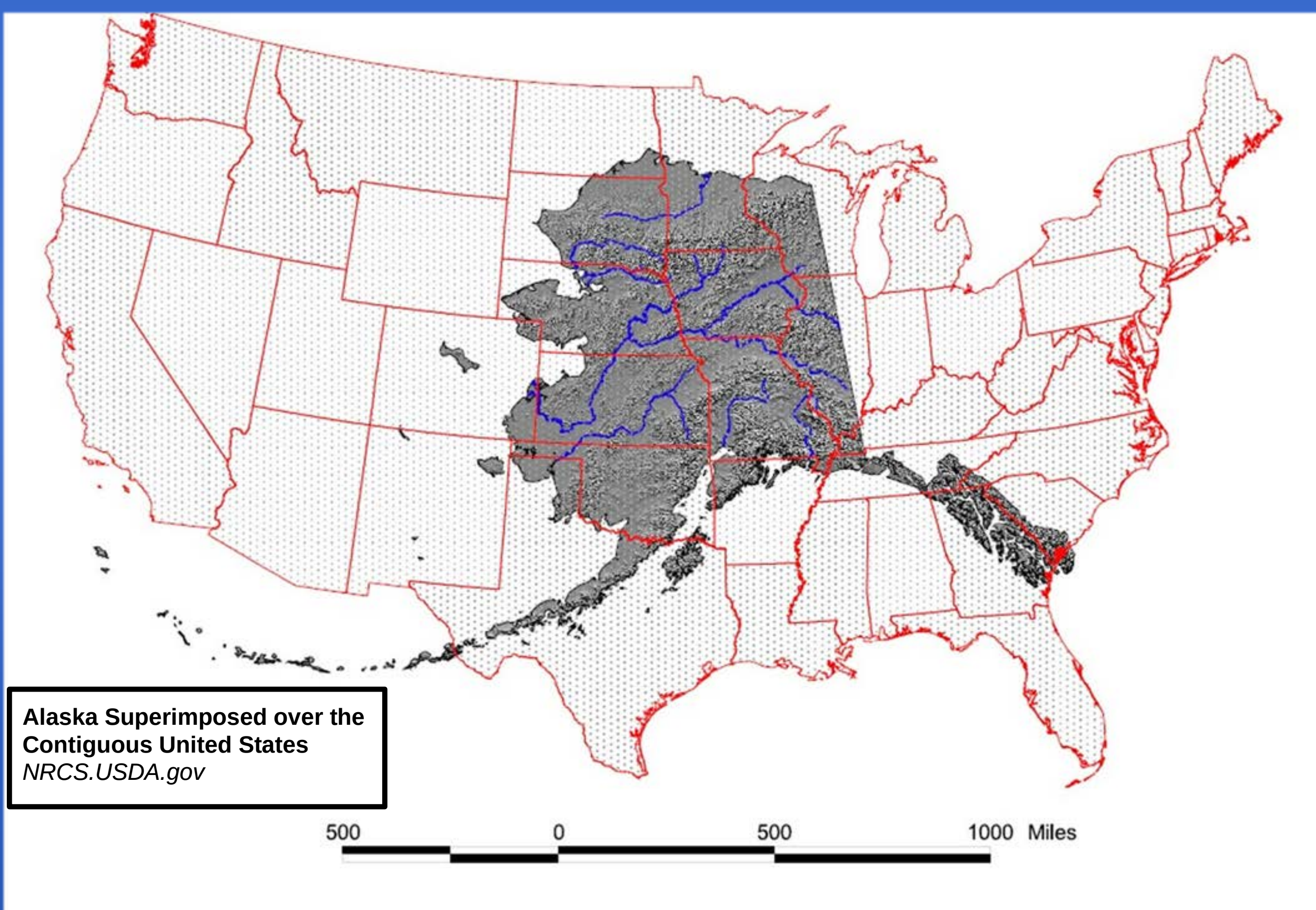

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This report is available on the internet on the Denali Commission's website at http://www.denali.gov under the Finance tab at the top of the home page, or at this specific address: http://www.denali.gov/finance#par

To order copies of the report or to submit comments on how to improve the report, contact:

Denali Commission
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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 the passing of the Denali Commission Act (the full text of which is available on the Denali Commission's website at https://www.denali.gov/about-us#act). The Act became law on October 21, 1998 (Title III of Public Law 105-277, 42 USC 3121) establishing the Denali Commission an independent federal agency that acts as a regional commission focusing on the basic infrastructure needs of rural Alaska. Working as a federal-state-tribal-local partnership, the Commission provides critical utilities, infrastructure and promotes economic growth in the rural areas of the state. The agency also coordinates and streamlines federal program efforts in rural Alaska, and better leverages federal investments. 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.

Management Discussion and Analysis

Mission, Purpose Statement, Organizing Principles and Priority Initiatives

Mission

The mission of the Denali Commission is to provide infrastructure, job training and to support economic development. The Commission was established with a specific focus on promoting rural development in the following areas: bulk fuel storage, power generation, health care facilities, surface transportation and waterfront facilities, communication systems and specialty housing (e.g. domestic violence shelters). In executing the mission, the Commission strives to deliver services in the most cost-effective manner possible.

Purpose Statement

Promote Rural Development by Unlocking More Powerful Solutions

Organizing Principles

- Lead transformational change to meet the infrastructure needs of rural communities in a sustainable manner
- Deliver federal services in the most cost-effective and transparent manner, utilizing public input every step of the way
- Focus on community infrastructure
- Use existing statutory authority, maximize Federal agencies in Alaska to effectively leverage infrastructure funds and maximize federal-state-municipal-tribal coordination
- Actively promote good governance, accountability and innovation

Priority Initiatives

1. Work with Federal and non-Federal stakeholders to define the future of the Denali Commission and ensure alignment of all partners.
2. Protect existing infrastructure investments.
3. Continue to develop and implement the new Village Infrastructure Protection program.
4. Maintain relevance and impact in rural Alaska.

Management Discussion and Analysis

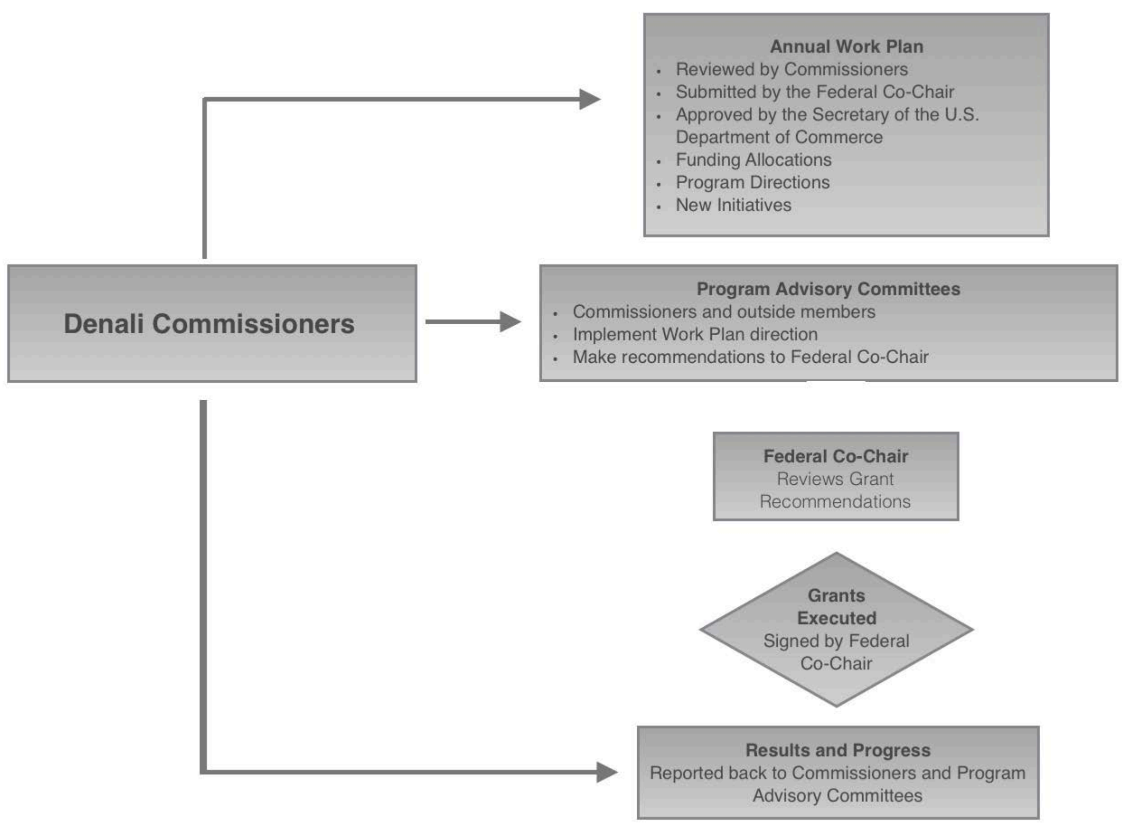
Denali Commissioners

The Denali Commission Act designates seven leading Alaskan policy makers by position to form a team as the Denali Commissioners:

- Federal Co-Chair, appointed by the U.S. Secretary of Commerce
- The Governor of Alaska, who serves as the State Co-Chair*
- President of the University of Alaska
- President of the Alaska Municipal League
- President of the Alaska Federation of Natives
- Executive President of the Alaska AFL-CIO
- President of the Associated General Contractors of Alaska

Commissioners meet at least twice a year to develop and monitor annual work plans that guide the agency's activities. Commissioners draw upon community-based comprehensive plans as well as comments from individuals, organizations and partners to guide funding recommendations. 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 Governor has delegated this authority to the Lieutenant Governor.



Management Discussion and Analysis

Work Plan

The Denali Commission 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 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 protection.

This proposed work plan is submitted to the Federal Co-Chair for review, and then published 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, the Bureau of Indian Affairs, the Department of Housing and Urban Development, the Economic Development Administration, and the United States Department of Agriculture 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.

The Fiscal Year 2017 Work Plan

In FY 2017 the agency implemented a three-phase annual work plan approach. First, in a work session, the Commissioners identified general funding levels for specific programs. Second, the agency held a public hearing (August 3, 2016) and accepted written comments up to August 8, 2016. Three comments were received and related to Workforce Development. Commissioners made no changes to the draft FY 2017 Work Plan based on public comments. They approved the draft Work Plan on August 29, 2016. A transcript of the verbal comments and all the written comments were then provided to Commissioners on. Commissioners reconvened in a public meeting on to consider public comments and then voted on the FY 2017 work plan. The draft FY 2017 work plan was then published in the Federal Register on September 21, 2016 The comment period was through 21 October 2016. No comments were received. The FY 2017 Work Plan was approved by the Department of Commerce on 13 January 2017.

The FY 2017 Work Plan outlined the Commission’s intentions to allocate $6.8M to the Energy Program, $3.6M to the Bulk Fuel Program, $15.4M to the Environmentally Threatened Community Program, and approximately $3 million for administrative costs.

The full FY 2017 Work Plan can be found in the Other Accompanying Information section of this document.

Management Discussion and Analysis

Summary of Performance

In FY 2017 no project specific funds were provided in any appropriations to the Commission. The Energy and Water Appropriations (commonly referred to as Commission "Base" funding) are funds that remain available for use in all programs until expended.

While the Base funds may be applied to any Commission program area, all other appropriations and transfers are restricted. Where restrictions apply, the funds may be used only for specific program purposes.

Functional Uses of FY 2017 Budgetary Resources

The FY 2017 Commission budgetary authority primarily funded and administered the following program and functional areas:

Energy Program

- Bulk Fuel Storage – new and refurbished
- Community Power Generation and Rural Power System Upgrades
- Energy Cost Reduction Projects
- Energy Maintenance and Improvement Projects and Activities

Village Infrastructure Protection Program

- Projects and Activities for the communities of Newtok, Kivalina, Shishmaref, and Shaktoolik
- Other Projects and Activities for communities identified in GAO Report 09-551
- General Program Development and Support Activities

Administration

- Operating costs

New Power Plant and Bulk Fuel Tank Farm Project for Togiak, Alaska Under Construction – September 2017
Photo by Alaska Village Electric Cooperative

Management Discussion and Analysis

Summary of Performance

FY 2017 Program Performance

Each year, the Commission produces an annual work plan (AKA investment plan) based on direction from the Commissioners and public input. The work plan includes target investment amounts in various program areas such as Energy Reliability & Security, Bulk Fuel Safety & Security, and Transportation System Improvements to name a few. The investment amounts are based on anticipated appropriations, match, and other funding sources. Commission staff implement the annual work plan via grants, cooperative agreements, and contracts.

The pillars of the Commission's investment strategy over the past 18 years can be summarized as follows:

- Investments must be tailored to the needs of rural Alaska.
- Owner/operators for prospective capital project investments must demonstrate that both the grant applicant and the proposed project are sustainable.
- Investments should complement, but not duplicate the work of other Federal and State agencies.

It is difficult to directly link funding in a particular year, with performance/outcomes in the same year because of certain timing issues. For example, in some years the Work Plan approval process has not been completed until the third or fourth quarter of the fiscal year. And in some years, the Base funds have been delayed due to the congressional appropriation process not being complete by 30 September, and/or direct transfers from other agencies (e.g. USDA) were delayed. In addition, because the construction season is very short in most of rural Alaska, unless funds can actually be obligated very early in the fiscal year, physical construction cannot start until the following year. Finally, larger projects typically involve winter shut down periods and take several construction seasons to complete. For these reasons, it is more informative to summarize the approved Work Plans for both FY 2016 and FY 2017, followed by a summary of the actual grants, agreements and contracts issued over the past 19 months. Invariably, the obligating documents issued during this period involved a mixture of funds from both fiscal years, and the projects supported with these funds will take longer than a year to complete.

The FY 2016 Work Plan, which was approved by the Department of Commerce on 5 August 2016, included $3.8 million of Base funds for the Energy Program and $6 million of Base funds for the Village Infrastructure Protection Program. As required by statute, all of the program funds available from the FY 2016 Trans-Alaska Liability Fund (TAPL) allocation ($11.6 million) were used for Bulk Fuel related projects. The FY 2016 Work Plan also included $1.7 million of recaptured prior year USDOT funds for the Commission's Transportation Program, and $2.4 million of USDA High Energy Cost Program funds transferred to the Commission to supplement our Energy and Bulk Fuel Programs.

Management Discussion and Analysis

Summary of Performance

The FY 2017 Work Plan, which was approved by the Department of Commerce on 13 January 2017, included $6.8 million of Base funds for the Energy Program and $5 million of Base funds for the Village Infrastructure Protection (VIP) Program. The FY 2017 TAPL allocation for Bulk Fuel projects was $1.6 million. USDA transferred $2.4 million of FY 2017 funds to the Commission for our Energy and Bulk Programs in October 2017.

As is customary, if additional Base or TAPL funds become available during the year once actual project budgets are finalized and/or when active projects are completed under budget, those funds are applied to the programs approved in the current year Work Plan.

The following is a summary of the investments made during FY 2017. It is noteworthy that this list represents a shift from prior years when investments in the Energy, Bulk Fuel and Transportation Programs focused almost exclusively on new capital projects. Across all programs (including VIP) the 35% of the investments in the table below were for projects and initiatives related to protecting, maintaining and sustaining existing infrastructure. Note too, that in addition to the Base, TAPL, USDA and USDOT funds referenced in the Annual Work Plans, the table also includes special projects/initiatives totaling approximately $1 million funded primarily with funds transferred from other agencies (e.g., Centers for Disease Control and Prevention) under the Commission's Public Law 112-141, the Moving Ahead for Progress in the 21st Century Act (MAP-21, Sec. 1531) Amends the Denali Commission Act of 1998 to authorize the Denali Commission to accept transfers of funds from other federal agencies.

Program Awards Issued Since Commissioner Approval of the 2016 and 2017 Work Plans

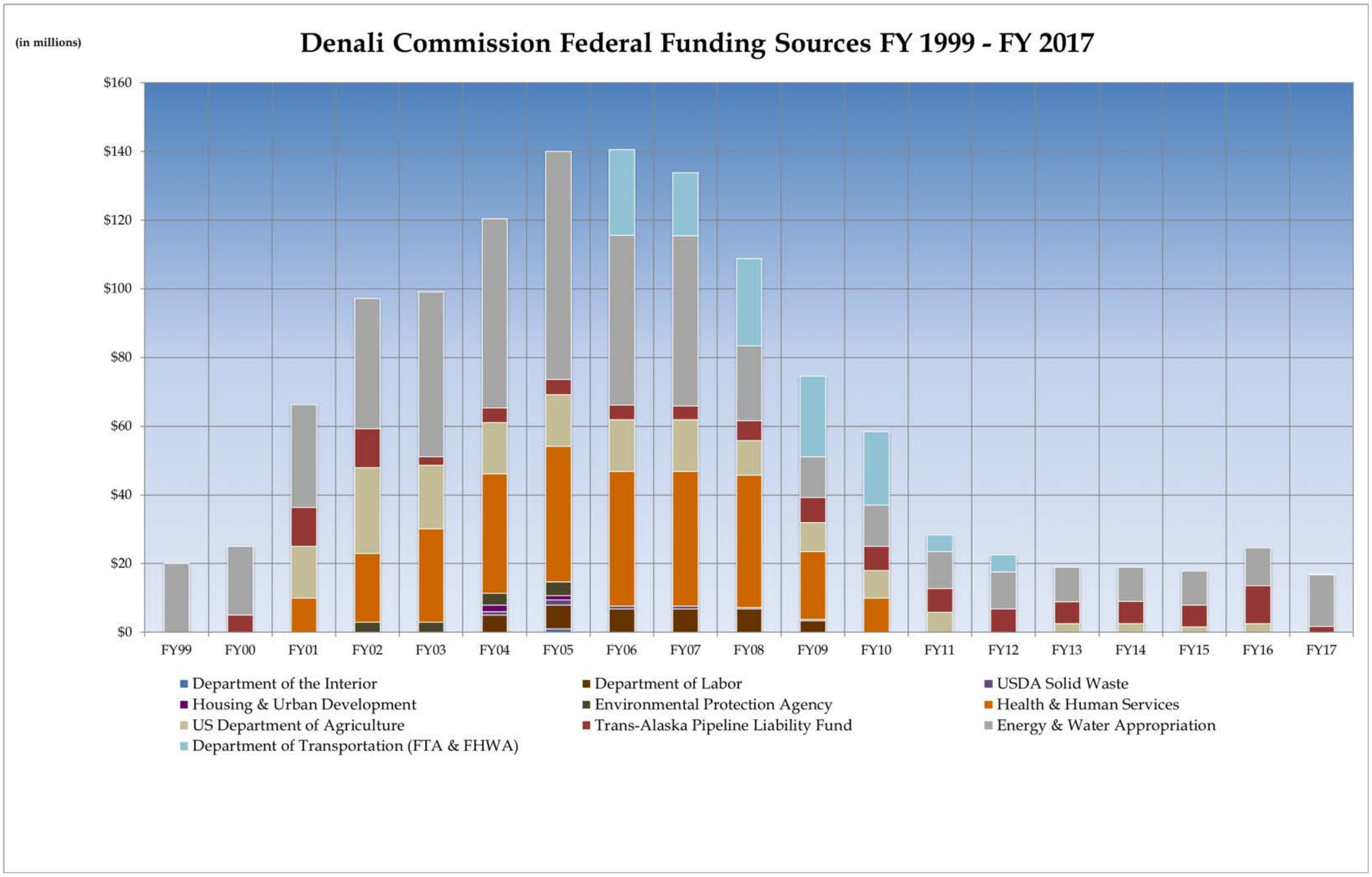
1 April 2016 - 31 October 2017

ENERGY	
New Diesel Power Plants	$3,709,200
Power Plant Maintenance & Improvement Projects	$548,776
Audits, TA, Training and Community Energy Efficiency Improvements	$1,865,000
Subtotal	**$6,122,976**
BULK FUEL	
New/Refurbished Facilities	$9,288,776
Maintenance & Improvement Projects	$620,000
Improve Administrative and Operation & Maintenance Practices	$668,035
Subtotal	**$10,576,811**
TRANSPORTATION	
Trails	$1,587,680
Mooring Points	$5,600,000
Maintenance & Improvement Projects	$382,975
Subtotal	**$7,570,655**
VILLAGE INFRASTRUCTURE PROTECTION	
Newtok/Mertarvik	$3,915,000
Shaktoolik	$1,486,750
Shishmaref	$908,000
Kivalina	$500,000
Program Development and Support for Other Vulnerable Communities	$2,287,100
Subtotal	**$9,096,850**
TOTAL	**$33,367,292**

Management Discussion and Analysis

Financial Performance Overview

As of September 30, 2017 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 were 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.



Management Discussion and Analysis

Financial Performance Overview

Sources of Funds

The Denali Commission is funded through the Energy and Water Appropriation, which is direct budget authority; funds remain available until expended.

MAP-21 granted authority to accept funding from both federal and non-federal sources to carry out the purposes of the Denali Commission Act.

The Commission is the recipient of a portion of the interest earned on the trust fund for the Trans-Alaska Pipeline Liability (TAPL) fund. In FY 2017, $1.70 million was transferred to the Commission to assist in efforts to make bulk fuel tanks in Alaska code-compliant.

Budget Authority	FY 2017
Appropriations Received	$15,000,000
Nonexpenditure Transfers	$ 1,703,998
Offsetting Collections	$12,566,059
Total Budget Authority	**$29,270,057**

In FY 2017, Denali Commission’s total budgetary resources were $35.95 million, which includes $0.95 million in unobligated balances brought forward and $5.72 million in recoveries of prior year obligations.

Uses of Funds by Function

The Denali Commission incurred obligations of $34.94 million in FY 2017 for program and administration operations. Unobligated funds in the amount of $1.01 million were carried forward, for obligation in FY 2018.

Management Discussion and Analysis

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 Generally Accepted Accounting Principles (GAAP) for Federal entities and the formats 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 $69.82 million as of September 30, 2017. This is a decrease of $8.26 million from the end of FY 2016. The Commission's largest asset, Fund Balance With Treasury, decreased due to an increase in grant dispursments to recipients. The assets reported on the Commission's balance sheet are summarized in the accompanying table.

Assets Summary	FY 2017	FY 2016
Fund Balance With Treasury	$67,817,705	$78,078,714
Other Intragovernmental Assets	2,000,000	-
Accounts Receivable, Public	324	611
Other Accounts Receivable, Public	-	239
Total Assets	**$69,818,029**	**$78,079,564**

Management Discussion and Analysis

Financial Statement Highlights

Liabilities

The Denali Commission's liabilities were $3.37 million as of September 30, 2017, a decrease of $1.39 million from the end of FY 2016. The decrease in liabilities is attributed to a reduction in pending reimbursements in relation to 2016. The liabilities reported on the Commission's balance sheet are summarized in the accompanying table.

Liabilities Summary	FY 2017	FY 2016
Accounts Payable, Intragovernmental	$122,608	$257,152
Other Intragovernmental Liabilities	464,379	265,656
Accounts Payable, Public	31,684	40,880
Other Liabilities, Public	2,747,189	4,187,188
Total Liabilities	**$3,365,860**	**$4,750,876**

Net Position

The difference between total assets and total liabilities, net position, was $66.45 million as of September 30, 2017. This is an decrease of $6.88 million from the FY 2016 year-end balance. The net position reported on the Denali Commission's balance sheet is summarized in the accompanying table.

Net Position Summary	FY 2017	FY 2016
Unexpended Appropriations	$2,588,086	$3,634,392
Cumulative Results of Operations	63,864,083	69,694,296
Total Net Position	**$ 66,452,169**	**$73,328,688**

Management Discussion and Analysis

Financial Statement Highlights

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 2017 and FY 2016. These costs consist of approximately $8.25 million of intragovernmental costs and $27.97 million in public costs.

Net Cost	FY 2017	FY 2016
Program Costs	$36,216,417	$24,424,829
Less: Earned Revenue	-	-
Total Net Costs of Operations	**$36,216,417**	**$24,424,829**

Statement of Changes in Net Position

The net position for the year ended September 30, 2017 was $66.45 million, a decrease of $6.88 million from FY 2016. This decrease is primarily due to a change in spending patterns in FY 2017.

Statement of Budgetary Resources

The Statement of Budgetary Resources reflects the budget authority that the Denali Commission possesses and compares the status of that budget authority. The Commission had $35.95 million in total budgetary resources for FY 2017 – comprised of direct appropriations, nonexpenditure transfers from other federal agencies, and an unobligated balance available from FY 2016. During the fiscal year, $34.94 million was obligated for program and administrative functions; $1.00 million in funds were carried forward, and will be available for obligation in FY 2018. Net outlays in FY 2017 amounted to $26.93 million.

Analysis of Systems, Controls and Legal Compliance

Financial Performance Overview

Federal Managers' Financial Integrity Act (FMFIA)

The Federal Managers' Financial Integrity Act (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 executive agencies to establish internal and administrative controls in accordance with standards prescribed by the Comptroller General that provide reasonable assurance 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 programs 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 of the agency's compliance with the FMFIA. The Commission's internal controls provide for effective and efficient programmatic operations, reliable financial reporting, and compliance with applicable laws and regulations. Assessments have been conducted in regard to the internal controls over financial reporting. The Commission attests the reasonable assurance that the internal controls over financial reporting comply with the requirements of the FMFIA.

Further, evaluations tested the effectiveness of the internal control over 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 these evaluations, the Denali Commission can provide reasonable assurance that
its internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2017, was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

Finally, the US Treasury, Bureau of Fiscal Service (BFS) (Denali Commission's Financial Management Line of Business partner) engages a contractor to independently review its financial management systems in accordance with OMB Circular A-127, Financial Management Systems. Based on the results of this review, BFS and therefore the Denali Commission can provide reasonable assurance that its financial management systems are in compliance with the applicable provisions of the FMFIA as of September 30, 2017.

Analysis of Systems, Controls and Legal Compliance

Financial Performance Overview

Federal Financial Management Improvement Act (FFMIA)

The Federal Financial Management Improvement Act (FFMIA) is designed to advance Federal financial management by ensuring that Federal financial management systems provide accurate, reliable, and timely financial management information to the government's managers. Compliance with the FFMIA provides the basis for the continuing use of reliable financial management information by program managers, and by the President, Congress and the public.

FFMIA Compliance Determination

The Commission utilizes the services of US Treasury BFS and its financial management system. Annual audits of their system indicate that the system complies with federal financial management systems requirements, standards promulgated by the Federal Accounting Standards Advisory Board (FASAB), and U.S. Standard General Ledger (USSGL) at the transaction level. The annual financial audit confirms this finding.

Goals and the supporting financial systems strategies

As a small agency, the Commission has arrived at the conclusion that human and financial resources internal to the agency are not sufficient to meet the increasing federal standards for financial systems and the costs involved. Therefore, in 2009, the Commission outsourced our financial management system and transactional level activities to the U.S. Treasury BFS. This strategy has proven effective and efficient and allows this small agency to assure the President, Congress and the public that federal budget authority entrusted to the Commission is executed responsibly and with full accountability.

Joel Neimeyer
Federal Co-Chair

Financial Section

Inspector General Transmittal Letter

UNITED STATES DEPARTMENT OF COMMERCE
Office of Inspector General
Washington, D.C. 20230

Denali Commission
Office of Inspector General
Anchorage, AK 99501

November 14, 2017

MEMORANDUM FOR: Denali Commission Commissioners

FROM: Mark H. Zabarsky
Principal Assistant Inspector General for Audit and Evaluation

SUBJECT: *Denali Commission FY 2017 Financial Statements Audit*
Final Report No. DCOIG-18-002-A

I am pleased to provide you with the attached audit report in which SB & Company, LLC (SBC)—an independent public accounting firm—presented an unmodified opinion on the Denali Commission's (the Commission's) fiscal year (FY) 2017 financial statements.[1] SBC performed the audit in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget (OMB) Bulletin 17-03, *Audit Requirements for Federal Financial Statements.*

In its audit of the Commission, SBC

- identified no instances of deficiency or material weakness in internal control over financial reporting;
- identified no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards or OMB audit guidance; and
- 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 SBC's report and related documentation and inquiries of its representatives. Our review disclosed no instances where SBC 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. SBC is solely responsible for the attached audit report, dated November 6, 2017, and the conclusions expressed in it.

We appreciate the cooperation and courtesies the Commission extended to both SBC and my office during the audit. If you wish to discuss the contents of this report, please call me at (202) 482-3884.

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[1] The Department of Commerce Office of Inspector General provides oversight services to the Denali Commission.

Financial Section

Inspector General Transmittal Letter

Attachment

cc: Corrine Eilo, Chief Financial Officer, Denali Commission
Peggy E. Gustafson, Inspector General, U.S. Department of Commerce

Financial Section

Report of Independent Public Accountants

SB & COMPANY, LLC
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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, 2017 and 2016 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. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 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.

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Financial Section

Report of Independent Public Accountants

SBC

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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, 2017 and 2016, 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.

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 analysis of systems, controls and legal compliance and the other accompanying 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 analysis of systems, controls, and legal compliance and other accompanying 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 6, 2017 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 6, 2017

SB + Company, LLC

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Financial Section

Report of Independent Public Accountants

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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. 17-03, *Audit Requirements for Federal Financial Statements* the financial statements of the Denali Commission (the Commission) as of and for the year ended September 30, 2017, 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 6, 2017.

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.

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Financial Section

Report of Independent Public Accountants

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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, 2017. 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.

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 6, 2017

SB + Company, LLC

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Financial Section

Financial Statements

DENALI COMMISSION

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
SEPTEMBER 30, 2017 AND 2016

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Financial Statements

DENALI COMMISSION
FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

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DENALI COMMISSION
BALANCE SHEET
AS OF SEPTEMBER 30, 2017 AND 2016
(In Dollars)

		2017		2016
Assets:				
Intragovernmental				
Fund Balance With Treasury (Note 3)	$	67,817,705	$	78,078,714
Other		2,000,000		-
Total Intragovernmental		69,817,705		78,078,714
Accounts Receivable, Net (Note 4)		324		611
Other		-		239
Total Assets	$	69,818,029	$	78,079,564
Liabilities:				
Intragovernmental				
Accounts Payable	$	122,608	$	257,152
Other (Note 6)		464,379		265,656
Total Intragovernmental		586,987		522,808
Accounts Payable		31,684		40,880
Other (Note 6)		2,747,189		4,187,188
Total Liabilities (Note 5)	$	3,365,860	$	4,750,876
Net Position:				
Unexpended Appropriations - Other Funds	$	2,588,086	$	3,634,392
Cumulative Results of Operations - Funds from Dedicated Collections (Note 8)		14,926,268		19,736,455
Cumulative Results of Operations - Other Funds		48,937,815		49,957,841
Total Net Position	$	66,452,169	$	73,328,688
Total Liabilities and Net Position	$	69,818,029	$	78,079,564

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

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DENALI COMMISSION
STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(In Dollars)

		2017		2016
Program Costs:				
Gross Costs (Note 9)	$	36,216,417	$	24,424,829
Less: Earned Revenue		-		-
Net Program Costs	$	36,216,417	$	24,424,829
Net Cost of Operations	$	36,216,417	$	24,424,829

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

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STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(In Dollars)

	2017 Funds from Dedicated Collections	2017 All Other Funds	2017 Consolidated Total	2016 Funds from Dedicated Collections	2016 All Other Funds	2016 Consolidated Total
Cumulative Results of Operations:						
Beginning Balances	$ 19,736,455	$ 49,957,841	$ 69,694,296	$ 18,845,286	$ 39,279,617	$ 58,124,903
Budgetary Financing Sources:						
Appropriations Used	-	16,046,306	16,046,306	-	18,879,900	18,879,900
Transfers In/Out Without Reimbursement	1,703,998	12,566,059	14,270,057	6,223,410	10,792,428	17,015,838
Other Financing Sources (Non-Exchange):						
Imputed Financing Sources (Note 10)	-	69,841	69,841	-	98,484	98,484
Total Financing Sources	1,703,998	28,682,206	30,386,204	6,223,410	29,770,812	35,994,222
Net Cost of Operations	(6,514,185)	(29,702,232)	(36,216,417)	(5,332,241)	(19,092,588)	(24,424,829)
Net Change	(4,810,187)	(1,020,026)	(5,830,213)	891,169	10,678,224	11,569,393
Cumulative Results of Operations	$ 14,926,268	$ 48,937,815	$ 63,864,083	$ 19,736,455	$ 49,957,841	$ 69,694,296
Unexpended Appropriations:						
Beginning Balances	$ -	$ 3,634,392	$ 3,634,392	$ -	$ 11,514,554	$ 11,514,554
Budgetary Financing Sources:						
Appropriations Received	-	15,000,000	15,000,000	-	11,000,000	11,000,000
Other Adjustments	-	-	-	-	(262)	(262)
Appropriations Used	-	(16,046,306)	(16,046,306)	-	(18,879,900)	(18,879,900)
Total Budgetary Financing Sources	-	(1,046,306)	(1,046,306)	-	(7,880,162)	(7,880,162)
Total Unexpended Appropriations	$ -	$ 2,588,086	$ 2,588,086	$ -	$ 3,634,392	$ 3,634,392
Net Position	$ 14,926,268	$ 51,525,901	$ 66,452,169	$ 19,736,455	$ 53,592,233	$ 73,328,688

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

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DENALI COMMISSION
STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(In Dollars)

		2017		2016
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$	954,820	$	5,997,075
Recoveries of Prior Year Unpaid Obligations		5,723,596		4,106,773
Other changes in unobligated balance		1,316		9,769
Unobligated balance from prior year budget authority, net		6,679,732		10,113,617
Appropriations		16,703,998		17,223,410
Spending authority from offsetting collections		12,566,059		10,792,428
Total Budgetary Resources	$	35,949,789	$	38,129,455
Status of Budgetary Resources:				
New obligations and upward adjustments (total)	$	34,940,927	$	37,174,635
Apportioned, unexpired account		1,008,862		954,820
Unobligated balance, end of year (total)		1,008,862		954,820
Total Budgetary Resources	$	35,949,789	$	38,129,455
Change in Obligated Balance				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$	76,303,513	$	65,205,225
New obligations and upward adjustments (Note 12)		34,940,927		37,174,635
Outlays (gross)		(39,495,609)		(21,969,574)
Recoveries of Prior Year Unpaid Obligations		(5,723,596)		(4,106,773)
Unpaid Obligations, End of Year (Gross)		66,025,235		76,303,513
Memorandum entries:				
Obligated Balance, Start of Year	$	76,303,513	$	65,205,225
Obligated Balance, End of Year	$	66,025,235	$	76,303,513
Budget Authority and Outlays, Net:				
Budget authority, gross	$	29,270,057	$	28,015,838
Actual offsetting collections		(12,567,375)		(10,802,197)
Recoveries of prior year paid obligations		1,316		9,769
Budget Authority, net, (total)	$	16,703,998	$	17,223,410
Outlays, gross	$	39,495,609	$	21,969,574
Actual offsetting collections		(12,567,374)		(10,802,197)
Agency outlays, net	$	26,928,235	$	11,167,377

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

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DENALI COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Denali 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 Denali Commission reporting entity is comprised of Trust Funds, General Funds, Special Funds and General Miscellaneous Receipts.

The Denali Commission is a party to allocation transfers with other federal agencies 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 (allocation 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 is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived. The Denali Commission receives allocation transfers, as the child, from the Federal Highway Administration under the Department of Transportation.

Trust Funds are credited with receipts that are generated by terms of a trust agreement or statute. At the point of collection, our receipts are unavailable until appropriated by the U.S. Congress. The Trust Fund in our financial statements includes the Trans-Alaska Pipeline Liability Fund (TAPL), which is managed by the U.S. Treasury Bureau of Fiscal Service, and assists the efforts to make bulk fuel tanks in Alaska EPA code-compliant.

General Funds are accounts used to record financial transactions arising under congressional appropriations or other authorizations to spend general revenues. Denali Commission manages two General Fund accounts.

Special Funds are receipt accounts credited with collections earmarked by law but included in the Federal funds group rather than classified as trust fund collections.

General Fund Miscellaneous Receipts are accounts established for receipts of non-recurring activity, such as fines, penalties, fees and other miscellaneous receipts for services and benefits.

B. Basis of Presentation

The financial statements have been prepared to report the financial position and results of

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Financial Statements

operations of the Denali Commission. The Balance Sheet presents the financial position of the agency. The Statement of Net Cost presents the agency's operating results; the Statement of Changes in Net Position displays the changes in the agency's equity accounts. The Statement of Budgetary Resources presents the sources, status, and uses of the agency's resources and follow the rules for the Budget of the United States Government.

The statements are a requirement of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. They have been prepared from, and are fully supported by, the books and records of the Denali Commission in accordance with the hierarchy of accounting principles generally accepted in the United States of America, standards issued by the Federal Accounting Standards Advisory Board (FASAB), Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements,* as amended, and the Denali Commission accounting policies which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control the Denali Commission's use of budgetary resources. The financial statements and associated notes are presented on a comparative basis. Unless specified otherwise, all amounts are presented in dollars.

C. Basis of Accounting

Transactions are recorded on both an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements on the use of federal funds.

D. Fund Balance with Treasury

Fund Balance with Treasury is the aggregate amount of the Denali Commission's funds with Treasury in expenditure, receipt, and deposit fund accounts. Appropriated funds recorded in expenditure accounts are available to pay current liabilities and finance authorized purchases.

The Denali Commission does not maintain bank accounts of its own, has no disbursing authority, and does not maintain cash held outside of Treasury. Treasury disburses funds for the agency on demand.

E. Accounts Receivable

Accounts receivable consists of amounts owed to the Denali Commission by other Federal agencies and the general public. Amounts due from Federal agencies are considered fully collectible. Accounts receivable from the public include reimbursements from employees. An allowance for uncollectible accounts receivable from the public is established when, based upon a review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur considering the debtor's ability to pay.

F. Advances and Prepaid Charges

Advance payments are generally prohibited by law. There are some exceptions, such as reimbursable agreements, subscriptions and payments to contractors and employees. Payments made in advance of the receipt of goods and services are recorded as advances or prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

G. Liabilities

Liabilities represent the amount of funds likely to be paid by the Denali Commission as a result of transactions or events that have already occurred.

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The Denali Commission reports its liabilities under two categories, Intragovernmental and With the Public. Intragovernmental liabilities represent funds owed to another government agency. Liabilities With the Public represents funds owed to any entity or person that is not a federal agency, including private sector firms and federal employees. Each of these categories may include liabilities that are covered by budgetary resources and liabilities not covered by budgetary resources.

Liabilities covered by budgetary resources are liabilities funded by a current appropriation or other funding source. These consist of accounts payable and accrued payroll and benefits. Accounts payable represent amounts owed to another entity for goods ordered and received and for services rendered except for employees. Accrued payroll and benefits represent payroll costs earned by employees during the fiscal year which are not paid until the next fiscal year.

Liabilities not covered by budgetary resources are liabilities that are not funded by any current appropriation or other funding source. These liabilities consist of accrued annual leave, actuarial FECA, and the amounts due to Treasury for collection and accounts receivable of civil penalties and FOIA request fees.

H. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. The balance in the accrued leave account is adjusted to reflect current pay rates. Liabilities associated with other types of vested leave, including compensatory, restored leave, and sick leave in certain circumstances, are accrued at year-end, based on latest pay rates and unused hours of leave. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Nonvested leave is expensed when used. Credit is given for sick leave balances in the computation of annuities upon the retirement of Federal Employees Retirement System (FERS)-covered employees effective at 100%.

I. Accrued and Actuarial Workers' Compensation

The Federal Employees' Compensation Act (FECA) administered by the U.S. Department of Labor (DOL) addresses all claims brought by the Denali Commission employees for on-the-job injuries. The DOL bills each agency annually as its claims are paid, but payment of these bills is deferred for two years to allow for funding through the budget process. Similarly, employees that the Denali Commission terminates without cause may receive unemployment compensation benefits under the unemployment insurance program also administered by the DOL, which bills each agency quarterly for paid claims. Future appropriations will be used for the reimbursement to DOL. The liability consists of (1) the net present value of estimated future payments calculated by the DOL and (2) the unreimbursed cost paid by DOL for compensation to recipients under the FECA.

J. Other Post-Employment Benefits

The Denali Commission employees eligible to participate in the Federal Employees' Health Benefits Plan (FEHBP) and the Federal Employees' Group Life Insurance Program (FEGLIP) may continue to participate in these programs after their retirement. The Office of Personnel Management (OPM) has provided the Denali Commission with certain cost factors that estimate the true cost of providing the post-retirement benefit to current employees. The Denali Commission recognizes a current cost for these and Other Retirement Benefits (ORB) at the time the employee's services are rendered. The ORB expense is financed by OPM, and offset by the Denali Commission through the recognition of an imputed financing source.

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K. Use of Estimates

The preparation of the accompanying financial statements in accordance with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

L. Imputed Costs/Financing Sources

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. The Denali Commission recognized imputed costs and financing sources in fiscal years 2017 and 2016 to the extent directed by accounting standards.

M. Reclassification

Certain fiscal year 2016 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with the current year presentation.

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 from the State of Alaska, 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 Liabilities line. This balance is $446,104 and $482,877 as of September 30, 2017 and September 30, 2016, respectively.

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NOTE 3. FUND BALANCE WITH TREASURY

Fund balance with Treasury account balances as of September 30, 2017 and 2016, were as follows:

	2017	2016
Fund Balances:		
Trust Funds	$ 15,460,249	$ 21,980,837
Appropriated Funds	51,911,352	55,615,000
Other Fund Types	446,104	482,877
Total	$ 67,817,705	$ 78,078,714
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	$ 1,008,862	$ 954,820
Obligated Balance Not Yet Disbursed	66,025,235	76,303,513
Temporary Sequestration-TAPL	337,504	337,504
Non-Budgetary FBWT	446,104	482,877
Total	$ 67,817,705	$ 78,078,714

No discrepancies exist between the Fund Balance reflected on the Balance Sheet and the balances in the Treasury accounts.

The available unobligated fund balances represent the current-period amount available for obligation or commitment. At the start of the next fiscal year, this amount will become part of the unavailable balance as described in the following paragraph.

The unavailable unobligated fund balances represent the amount of appropriations for which the period of availability for obligation has expired. These balances are available for upward adjustments of obligations incurred only during the period for which the appropriation was available for obligation or for paying claims attributable to the appropriations.

The obligated balance not yet disbursed includes accounts payable, accrued expenses, and undelivered orders that have reduced unexpended appropriations but have not yet decreased the fund balance on hand.

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NOTE 4. ACCOUNTS RECEIVABLE

Accounts receivable balances as of September 30, 2017 and 2016, were as follows:

		2017		2016
Total Intragovernmental Accounts Receivable	$	-	$	-
Total Public Accounts Receivable		324		611
Total Accounts Receivable	$	324	$	611

Historical experience has indicated that the majority of the receivables are collectible. There are no material uncollectible accounts as of September 30, 2017 and 2016.

NOTE 5. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities for the Commission as of September 30, 2017 and 2016, include liabilities not covered by budgetary resources. Congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities.

		2017		2016
Intragovernmental – FECA	$	1,355	$	1,355
Intragovernmental – Unemployment Insurance		12,605		-
Unfunded Leave		77,433		74,679
Total Liabilities Not Covered by Budgetary Resources	$	91,393	$	76,034
Total Liabilities Covered by Budgetary Resources		3,274,467		4,674,842
Total Liabilities	$	3,365,860	$	4,750,876

Unfunded leave represents a liability for earned leave and is reduced when leave is taken. The balance in the accrued annual leave account is reviewed quarterly and adjusted as needed to accurately reflect the liability at current pay rates and leave balances. Accrued annual leave is paid from future funding sources and, accordingly, is reflected as a liability not covered by budgetary resources. Sick and other leave is expensed as taken.

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NOTE 6. OTHER LIABILITIES

Other liabilities account balances as of September 30, 2017 were as follows:

	Current	Non Current	Total
Intragovernmental			
FECA Liability	$ 1,355	$ -	$ 1,355
Unemployment Insurance Liability	12,605	-	12,605
Payroll Taxes Payable	11,568	-	11,568
Other Accrued Liabilities	438,851	-	438,851
Total Intragovernmental Other Liabilities	$ 464,379	$ -	$ 464,379
With the Public			
Payroll Taxes Payable	$ 2,028	$ -	$ 2,028
Accrued Funded Payroll and Leave	60,514	-	60,514
Unfunded Leave	77,433	-	77,433
Other Accrued Liabilities Grants	2,082,415	78,695	2,161,110
Deposit Fund Liability (State of Alaska)	446,104	-	446,104
Total Public Other Liabilities	$ 2,668,494	$ 78,695	$ 2,747,189

Other liabilities account balances as of September 30, 2016 were as follows:

	Current	Non Current	Total
Intragovernmental			
FECA Liability	$ -	$ 1,355	$ 1,355
Payroll Taxes Payable	10,078	-	10,078
Other Accrued Liabilities	254,223	-	254,223
Total Intragovernmental Other Liabilities	$ 264,301	$ 1,355	$ 265,656
With the Public			
Payroll Taxes Payable	$ 1,944	$ -	$ 1,944
Accrued Funded Payroll and Leave	451,146	-	451,146
Unfunded Leave	74,679	-	74,679
Other Accrued Liabilities Grants	3,119,047	57,495	3,176,542
Deposit Fund Liability (State of Alaska)	382,877	100,000	482,877
Total Public Other Liabilities	$ 4,029,693	$ 157,495	$ 4,187,188

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NOTE 7. LEASES

Operating Leases

Denali Commission occupies office space under a lease agreement that is accounted for as an operating lease. The lease term began on June 1, 2013 and expires on October 1, 2021. Lease payments are increased annually based on the adjustments for operating cost and real estate tax escalations. The total operating lease expense for fiscal years 2017 and 2016 were $395,892 and $391,990, respectively. Below is a schedule of future payments for the term of the lease.

Fiscal Year	Office Space
2018	$ 399,910
2019	427,541
2020	431,804
2021	436,196
Total Future Payments	$ 1,695,451

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NOTE 8. FUNDS FROM DEDICATED COLLECTIONS

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.

Schedule of Funds from Dedicated Collections as of September 30, 2017 and 2016.

	2017	2016
Balance Sheet		
ASSETS		
Fund Balance with Treasury	$ 15,460,249	$ 21,980,837
Total Assets	$ 15,460,249	$ 21,980,837
LIABILITIES AND NET POSITION		
Accounts Payable	$ -	$ 68,332
Other	533,981	2,176,050
Cumulative Results of Operations	14,926,268	19,736,455
Total Liabilities and Net Position	$ 15,460,249	$ 21,980,837
Statement of Net Cost		
Program Costs	$ 6,514,185	$ 5,332,241
Less: Earned Revenues	-	-
Net Cost of Operations	$ 6,514,185	$ 5,332,241
Statement of Changes in Net Position		
Net Position Beginning of Period	$ 19,736,455	$ 18,845,286
Net Cost of Operations	(6,514,185)	(5,332,241)
Other Revenue	1,703,998	6,223,410
Change in Net Position	(4,810,187)	891,169
Net Position End of Period	$ 14,926,268	$ 19,736,455

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NOTE 9. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental costs and revenue represent exchange transactions between Denali Commission and other federal government entities, and are in contrast to those with non-federal entities (the public). Such costs and revenue are summarized as follows:

	2017	2016
Intragovernmental Costs	$ 8,250,537	$ 7,518,343
Public Costs	27,965,880	16,906,486
Total Net Cost	$ 36,216,417	$ 24,424,829

NOTE 10. IMPUTED FINANCING SOURCES

The Commission recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees that are attributable to OPM. The assets and liabilities associated with such benefits are the responsibility of the administering agency, OPM. For the years ended September 30, 2017 and 2016, respectively, imputed financing was as follows:

	2017	2016
Office of Personnel Management	$ 69,841	$ 98,484
Total Imputed Financing Sources	$ 69,841	$ 98,484

NOTE 11. BUDGETARY RESOURCE COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT

The President's Budget that will include fiscal year 2017 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2018 and can be found at the OMB Web site: *http://www.whitehouse.gov/omb/*. The 2018 Budget of the United States Government, with the "Actual" column completed for 2016, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

For the Fiscal Year Ended September 30, 2016

FY2016	Budgetary Resources	Obligations Incurred	Net Outlays
Statement of Budgetary Resources	$38,000,000	$37,000,000	$11,000,000
Budget of the U.S. Government	$38,000,000	$37,000,000	$11,000,000

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NOTE 12. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

	2017	2016
Direct Obligations, Category A (Admin)	$ 16,065,626	$ 10,370,031
Direct Obligations, Category B (Program)	18,779,004	26,582,449
Reimbursable Obligations, Category B (Program)	96,297	222,155
Total Obligations Incurred	$ 34,940,927	$ 37,174,635

Obligations incurred and reported in the Statement of Budgetary Resources in 2017 and 2016 consisted of the following:
Category A apportionments distribute budgetary resources by fiscal quarters.

Category B apportionments typically distribute budgetary resources by activities, projects, objects or a combination of these categories.

NOTE 13. UNDELIVERED ORDERS AT THE END OF THE PERIOD

For the years ended September 30, 2017 and 2016, budgetary resources obligated for undelivered orders amounted to $65,443,387 and $72,358,303, respectively.

NOTE 14. CUSTODIAL ACTIVITY

The Commission custodial collection primarily consists of grant monies returned from cancelled funds. While these collections are considered custodial, they are neither primary to the mission of the Commission nor material to the overall financial statements. The Commission's total custodial collections are $489 and $66 for the years ended September 30, 2017, and 2016, respectively.

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NOTE 15. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

The Commission has reconciled its budgetary obligations and non-budgetary resources available to its net cost of operations.

	2017	2016
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$ 34,940,927	$ 37,174,635
Spending Authority from Offsetting Collections and Recoveries	(18,290,971)	(14,908,970)
Obligations Net of Offsetting Collections and Recoveries	16,649,956	22,265,665
Other Resources		
Imputed Financing from Costs Absorbed by Others	69,841	98,484
Net Other Resources Used to Finance Activities	69,841	98,484
Total Resources Used to Finance Activities	16,719,797	22,364,149
Resources Used to Finance Items Not Part of Net Cost of Operations	19,481,261	2,060,680
Total Resources Used to Finance the Net Cost of Operations	36,201,058	24,424,829
Generate Resources in the Current Period	15,359	-
Net Cost of Operations	$ 36,216,417	$ 24,424,829

Other Accompanying Information

Denali Commission FY 2017 Work Plan

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Title; Associated Form; and OMB Number: USMEPCOM MEPS Customer Satisfaction Survey, OMB Control Number 0704–0470.

Needs and Uses: The information collection requirement is necessary to aid the MEPS in evaluating effectiveness of current policies and core processes, identifying unmet customer needs, and allocating resources more efficiently.

Affected Public: Individuals or households.

Annual Burden Hours: 12,500.

Number of Respondents: 75,000.

Responses per Respondent: 1.

Annual Responses: 1.

Average Burden per Response: 10 minutes.

Frequency: On occasion.

USMEPCOM, with headquarters in North Chicago, Ill., is a joint service command staffed with civilians and military from all five branches of service. The command, through its network of 65 Military Entrance Processing Stations, determines whether applicants are qualified for enlistment based on standards set by each of the services. USMEPCOM Regulation 601–23, Enlistment Processing, directs the information collection requirement for all 65 Military Entrance Processing Stations (MEPS) to obtain timely feedback on MEPS core processes. This web-based tool will allow MEPS to efficiently administer voluntary surveys on a routine basis to their primary customer, the applicants, for military service. This information collection requirement is necessary to aid the MEPS in evaluating effectiveness of current policies and core processes, identifying unmet customer needs, and allocating resources more efficiently.

Dated: September 16, 2016.

Aaron Siegel,

Alternate OSD Federal Register, Liaison Officer, Department of Defense.

[FR Doc. 2016–22695 Filed 9–20–16; 8:45 am]

BILLING CODE 5001–06–P

DENALI COMMISSION

Fiscal Year 2017 Draft Work Plan

AGENCY: Denali Commission.

ACTION: Notice.

SUMMARY: 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 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 Pub. L. 105–277, 42 U.S.C. 3121). The Act requires that the Commission develop proposed work plans for future spending and that the annual Work Plan be published in the **Federal Register**, providing an opportunity for a 30-day period of public review and written comment. This **Federal Register** notice serves to announce the 30-day opportunity for public comment on the Denali Commission Draft Work Plan for Federal Fiscal Year 2017 (FY 2017).

DATES: Comments and related material to be received by October 21, 2016.

ADDRESSES: Submit comments to the Denali Commission, Attention: Sabrina Cabana, 510 L Street, Suite 410, Anchorage, AK 99501.

FOR FURTHER INFORMATION CONTACT: Ms. Sabrina Cabana, Denali Commission, 510 L Street, Suite 410, Anchorage, AK 99501. Telephone: (907) 271–1414. Email: *scabana@denali.gov.*

SUPPLEMENTARY INFORMATION:

Background: The Denali 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 build and ensure the operation and maintenance of Alaska's basic infrastructure, and to develop a well-trained labor force employed in a diversified and sustainable economy.

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. Consistent with its statutory mission, in September of 2015 President Obama designated the Commission as the lead federal agency for coordinating federal efforts to mitigate the impacts of erosion, flooding and permafrost degradation in rural Alaska. The primary goal is to build climate resilience with respect to infrastructure in environmentally threatened communities.

Pursuant to the Act, 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. The FY 2017 Work Plan was developed in the following manner.

- A workgroup comprised of Denali Commissioners and Commission staff developed a preliminary draft Work Plan.
- The preliminary draft Work Plan was published on *www.denali.gov* for review by the public in advance of public testimony.
- A public hearing was held to record public comments and recommendations on the preliminary draft Work Plan.
- Written comments on the preliminary draft Work Plan were accepted for another two weeks after the public hearing.
- All public hearing comments and written comments were provided to Commissioners for their review and consideration.
- Commissioners discussed the preliminary draft Work Plan in a public meeting and then voted on the Work Plan during the meeting.
- The Commissioners forwarded their recommended Work Plan to the Federal Co-Chair, who then prepared the draft Work Plan for publication in the **Federal Register** providing a 30-day period for public review and written comment. During this time, the draft Work Plan will also be disseminated to Commission program partners including, but not limited to, the Bureau of Indian Affairs (BIA), the Economic Development Administration (EDA), Department of Agriculture—Rural Utilities Service (USDA/RUS), and the State of Alaska.
- At the conclusion of the **Federal Register** Public comment period Commission staff provides the Federal Co-Chair with a summary of public comments and recommendations, if any, on the draft Work Plan.
- If no revisions are made to the draft, the Federal Co-Chair provides notice of approval of the Work Plan to the Commissioners, and forwards the Work Plan to the Secretary of Commerce for approval; or, if there are revisions the Federal Co-Chair provides notice of modifications to the Commissioners for theirconsideration and approval, and upon receipt of approval from Commissioners, forwards the Work Plan to the Secretary of Commerce for approval.
- The Secretary of Commerce approves the Work Plan.
- The Federal Co-Chair then approves grants and contracts based upon the approved Work Plan.

FY 2017 Appropriations Summary

The Commission has historically received federal funding from several sources. These fund sources are governed by the following general principles:

- In FY 2017 no project specific direction was provided by Congress.
- The Energy and Water Appropriation (*i.e.* ''discretionary'' or

Other Accompanying Information

Denali Commission FY 2017 Work Plan

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"base" funding) is eligible for use in all programs.

- Certain appropriations are restricted in their usage. Where restrictions apply, the funds may be used only for specific program purposes.
- Final appropriation funds received may be reduced due to Congressional action, rescissions by the Office of Management and Budget (OMB), and other federal agency action.
- All Energy and Water Appropriation and Trans-Alaska Pipeline Liability (TAPL) funds, including operating funds, identified in the Work Plan, are "up to" amounts, and may be reassigned to other programs included in the current year work plan, if they are not fully expended in a program component area or a specific project.
- The proposed FY 2017 Work Plan is based upon the funds allocated to the Commission in Senate appropriation bill S.2804 of $15,000,000.

Approximately $3,000,000 of the $15,000,000 was allocated to administrative expenses and non-project program support leaving $12,000,000 available for program activities. The Commission anticipates TAPL funds of $3,600,000 will be allocated to the Commission with $200,000 of that amount being utilized for administrative expenses and non-project program support leaving $3,400,000 available for program activities.

DENALI COMMISSION FY 2017 FUNDING SUMMARY

Source	Available for program activities
Energy & Water Funds	
FY 2017 Appropriation [a]	$12,000,000
Subtotal	12,000,000
TAPL Funds	
FY 2017 Annual Allocation [b]	3,400,000
Subtotal	3,400,000
Grand Total	15,400,000

Notes:
a. Estimated FY 2017 program funds based on S.2804 Appropriations Bill; if the final Base appropriation is less than the amount in S.2804, the Federal Co-Chair shall reduce investments in the Energy Program to balance the FY 2017 Work Plan.
b. Estimated FY 2017 program funds based on discussions with OMB.

DENALI COMMISSION FY 2017 WORK PLAN

Program and type of investment	Energy and water funds	TAPL funds	Total
Energy			
Diesel Power Plants	$5,800,000		$5,800,000
Interties			
Wind/Microgrids			
Hydro, Biomass, Geothermal & Other Renewables			
Hydrokinetics & Others Emerging Technologies			
Audits, Technical Assistance, & Community Energy Improvements	500,000		500,000
RPSU Maintenance & Improvements	500,000		500,000
Subtotal	6,800,000	$0	6,800,000
Bulk Fuel			
New/Refurbished Facilities and Maintenance & Improvement Projects		3,200,000	3,200,000
Improve Administrative and Operation & Maintenance Projects	200,000	200,000	200,000
Subtotal	200,000	3,400,000	3,600,000
Environmentally Threatened Communities			
Mertarvik	1,500,000		1,500,000
Shaktoolik	500,000		500,000
Shishmaref	500,000		500,000
Kivalina	500,000		500,000
27 Other Communities in 2009 GAO Report	1,000,000		1,000,000
Program Development	1,000,000		1,000,000
Subtotal	5,000,000	0	5,000,000
Grand Total	12,000,000	3,400,000	15,400,000

Other Accompanying Information

Denali Commission FY 2017 Work Plan

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Energy and Bulk Fuel Programs

FY 2017 Denali Commission investments in Energy and Bulk Fuel will include:

- Remote Power System Upgrade (RPSU) projects at locations selected based on need in consultation with the Alaska Energy Authority (AEA) and Alaska Village Electric Cooperative (AVEC).
- Bulk Fuel Upgrade (BFU) projects at locations selected based on need in consultation with AEA and AVEC.
- Rural power system and bulk fuel facility Maintenance and Improvement (M&I) projects at locations selected based on need in consultation with AEA and AVEC.
- Continued support of the rural power system and bulk fuel facility operator training programs managed by AEA.
- Continued support of initiatives at the State of Alaska Department of Community and Regional Affairs (DCRA) and the Alaska Community Foundation (ACF) to improve the administrative capacity related to operating bulk fuel facilities in rural Alaska.
- Continued support of the Sanitation Energy Efficiency Program at the Alaska Native Tribal Health Consortium (ANTHC).

Environmentally Threatened Communities Program

In order to fulfill its role as lead federal coordinating agency the Commission staff, in consultation with State, Federal, and other partners, and the referenced communities in particular, proposes the following investments in support of the new Environmentally Threatened Communities (ETC) Program. United States Government Accountability Office (GAO) Report 09–551 (*http://www.gao.gov/products/GAO-09-551*) was instrumental in charting prospective Commission investments.

Mertarvik

The community of Newtok has initiated its relocation to Mertarvik and has started building infrastructure at Mertarvik. The Commission funds summarized above will be used for the following activities:

- Continued support for the existing Community Relocation Coordinator.
- Continued support for professional project management services.
- Match/gap funds for on-going relocation activities.

Shaktoolik

The community of Shaktoolik has decided to protect the community in place for now. The Commission funds summarized above will be used for the following activities:

- Continued support for the existing Community Relocation Coordinator.
- Design of protect in place projects.
- Design and procure household and community emergency kits.
- Match/gap funds for other related activities.

Shishmaref

Shishmaref is considering relocation but has not yet selected a new site. The Commission funds summarized above will be used for the following activities:

- Continued support for the existing Community Relocation Coordinator
- Design of protect in place projects
- Design and procure household and community emergency kits
- Match/gap funds for other related activities

Kivalina

Kivalina is considering relocation and has selected a site for a new school. The Commission funds summarized above will be used for the following activities:

- Continued support for the existing Community Relocation Coordinator
- Design of protect in place projects
- Design and procure household and community emergency kits
- Match/gap funds for other related activities

Other Communities in the 2009 GAO Report

The Commission funds summarized above will be used for the following activities in support of the 27 other communities in GAO Report 09–551:

- Design of site specific projects based on existing Federal Emergency Management Administration approved Hazard Mitigation Plans and Small Community Emergency Response Plans

Program Development

The Commission intends to make $1,000,000 available for general ETC program development initiatives such as the following.

- Continued support of a fund that compliments other state and federal agencies responding to ETC related disasters
- Continued support of an ETC Grant Writing Center of Excellence being established at the Alaska Native Tribal Health Consortium
- Design of a prototype community shelter that can be site adapted to Shaktoolik, Shishmaref and Kivalina
- Analysis of existing erosion, permafrost degradation and flood data to quantify threats to infrastructure related to climate change
- ETC related outreach travel and partner support

Joel Neimeyer,
Federal Co-Chair.

[FR Doc. 2016–22704 Filed 9–20–16; 8:45 am]
BILLING CODE 3300–01–P

DEPARTMENT OF EDUCATION

Authorization of Subgrants for the Disability Innovation Fund—Automated Personalization Computing Project

AGENCY: Office of Special Education and Rehabilitative Services, Department of Education.

ACTION: Notice.

[Catalog of Federal Domestic Assistance Number: 84.421A]

SUMMARY: This notice authorizes the use of subgrants with Disability Innovation Fund—Automated Personalization Computing (APC) Project funds awarded to the Board of Regents of the University of Wisconsin System under CFDA number 84.421A, as provided by the Consolidated Appropriations Act, 2014, for the purpose of carrying out its proposed activities to implement a demonstration of automated personalization computing for individuals with disabilities.

DATES: September 21, 2016.

FOR FURTHER INFORMATION CONTACT: Douglas Zhu, U.S. Department of Education, Rehabilitation Services Administration, 550 12th Street SW., Room 5048, Potomac Center Plaza, 20202–5076. Telephone: (202) 245–6037 or by email: *Douglas.Zhu@ed.gov.*

If you use a telecommunications device for the deaf or a text telephone, you may call the Federal Relay Service, toll free, at 1–800–877–8339.

SUPPLEMENTARY INFORMATION:

Purpose of Program: The purpose of the Disability Innovation Fund is to support innovative activities aimed at improving the outcomes of ''individuals with disabilities,'' as defined in section 7(20)(B) of the Rehabilitation Act of 1973, as amended.

Under this authority, the Department has entered into a cooperative agreement with the grantee to implement the Disability Innovation Fund—Automated Personalization Computing Project (APCP). This project is designed to improve outcomes for individuals with disabilities by increasing access to information and communication technologies through

Other Accompanying Information

Financial Management Trends

As a micro agency, the Commission continues to expand use of the services of the Administrative Resource Center (ARC) under the US Treasury, Fiscal Service. These services, which include Travel, Finance, Human Resources and Procurement, allow for our independent agency to continue to meet all federal mandates despite our reduced staff level. ARC has served, and continues to serve, as a cost effective solution to operational budget challenges during times of decreased appropriations. In a professional manner, ARC ensures that our agency still maintains high quality and exceptional performance in all of our management systems. We look forward to many more years of partnership with this federal Center of Excellence.

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

For FY 2017, the Commission received an unmodified opinion in its annual financial audit. The results of this audit also found no material weaknesses and no significant deficiencies. The auditor stated that the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles; that the Commission has effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations, along with no reportable noncompliance with laws and regulations with the items that were tested.

In FY 2016, the Commission received an unmodified opinion in its annual financial audit. The results of this audit also found no material weaknesses and no significant deficiencies. The auditor stated that the financial statements were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles; that the Commission had effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations, along with no reportable noncompliance with laws and regulations with the items that were tested.

Other Accompanying Information

Improper Payments Report

On July 22, 2010, the President signed into law the Improper Payments Elimination and Recovery Act (IPERA). IPERA amended the Improper Payments Information Act of 2002 (IPIA) and generally repealed the Recovery Auditing Act. OMB has supplied implementing direction on IPERA which requires:

- Review all programs and activities and identify those that are susceptible to significant improper payments.

  Because of its small size, Denali Commission has assessed all of its grant programs and acknowledges that all are susceptible to improper payments as defined by the IPERA. However, none of the Commission's program meet the threshold of 'significant improper payment' defined in Section 57 of OMB Circular A-11, which would be both 1.5 percent of program outlays and $10,000,000 of all program or activity payments during the fiscal year. And none of the agency's grant programs are funded at $100,000,000.

- Obtain a statistically valid estimate of the annual amount of improper payments in programs and activities for those programs that are identified as susceptible to significant improper payment.

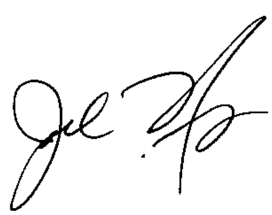
  Denali Commission has assessed all of its grant programs, and finds that none of the programs or activities reach the definition of 'significant improper payments.

- Implement a plan to reduce improper payments.

  This requirement does not apply to the Commission, as no programs or activities were identified with the conditions above.

- Report estimates of the annual amount of improper payments in programs and activities and progress in reducing them.

  The Commission is not required to report on this component.



Joel Neimeyer
Federal Co-Chair

Inspector General's Perspective on Management and Performance Challenges Facing the Denali Commission

UNITED STATES DEPARTMENT OF COMMERCE
Office of Inspector General
Washington, D.C. 20230

Denali Commission
Office of Inspector General
Anchorage, AK 99501

November 14, 2017

MEMORANDUM FOR: Denali Commission Commissioners

FROM: Mark H. Zabarsky
Principal Assistant Inspector General for Audit and Evaluation

SUBJECT: *Top Management and Performance Challenges Facing the Denali Commission in Fiscal Year 2018*

Enclosed is our report on the Denali Commission's *Top Management and Performance Challenges* for fiscal year (FY) 2018.[1] According to a study by the United States Government Accountability Office (GAO), the Commission faces several challenges in fulfilling its statutory purpose of providing, among other things, infrastructure and economic development services to rural Alaskan villages. The Commission's role, combined with continued budget reductions, poses a substantial challenge for the agency. In addition, the upcoming vacancy in the federal co-chair position presents a new challenge that has not been encountered since FY 2014.

We removed two challenges that were identified in our November 2016 *Top Management and Performance Challenges* report: (1) identifying a strategic vision and plan in a period of funding uncertainty and (2) engaging commissioners in light of ethics concerns and funding realities. The Commission's federal and state co-chairs signed the *Denali Commission Strategic Plan FY 2018–2022* into effect on October 4, 2017. In addition, the Water Infrastructure Improvements for the Nation Act,[2] was signed into law on December 16, 2016, and contained provisions regarding conflicts of interest that should generally ease ethical concerns related to the commissioners. We modified one challenge, addressing evolving role in the environmentally threatened communities initiative, to broadly address the Commission's role in light of significant funding decreases.

Challenge 1: Fulfilling Denali's Statutory Purpose with Significant Decreases in Funding

In 1998, the Denali Commission Act established the Denali Commission as a federal agency with the statutory purpose of providing to rural areas of Alaska

- job training and economic development services,
- rural power generation and transmission facilities,
- modern communication systems,

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[1] The Department of Commerce Office of Inspector General provides oversight services to the Denali Commission.

[2] Pub. L. No. 114-322.

Inspector General's Perspective on Management and Performance Challenges Facing the Denali Commission

- water and sewer systems, and
- other infrastructure needs.

However, the Commission faces challenges in its current approach as primarily a grant-making agency based on the current budget environment. Significant decreases in funding levels cannot support grant making on the scale and pace the Commission has done in the past while still fulfilling its statutory purpose.

Since 1998, the Commission has awarded more than $2 billion in federal grants to help develop remote communities, funding more than 1,400 projects across various programs, including energy, transportation, and health care. Between FYs 2004 and 2008, on average the Commission received nearly $130 million in total funding per fiscal year; however, funding has significantly decreased in recent fiscal years. Specifically, in FY 2006, the Commission received about $141 million, including more than $90 million contributed from six outside federal and state entities. In FY 2017, its total funding was $16.7 million—a decrease of nearly 90 percent—with only $1.7 million contributed from one outside entity.

In March 2015, GAO identified several strategies that the Commission could take on how to approach fulfilling its statutory purpose in the future while facing significantly-limited budgetary resources.[3] Among the recommended strategies include limiting grants, focusing on facilitation, and maintaining existing infrastructure. The Commission has recently begun to address these GAO recommendations by stating that it will pivot away from its traditional grant-making role to more of a maintenance and facilitator role. In light of the current budget environment, the Commission needs to continue developing new strategies in order to fulfill its statutory purpose with significantly decreased funding.

Challenge 2: Continuity of Operations Through a Possible Federal Co-chair Vacancy

The Denali Commission Act of 1998 establishes that the Commission will be composed of seven members appointed by the Secretary of Commerce, including the federal co-chair of the Denali Commission. The federal co-chair is the only member of the Commission that is authorized for several critical actions necessary for daily operations. The current federal co-chair's term ends April 20, 2018, and absent an appointed term or interim federal co-chair, the position will be vacant.

The federal co-chair is the only person authorized to approve new contracts, and grants and cooperative agreements to fulfill the mission of the Commission. In addition, the federal co-chair is the only person authorized to appoint permanent, temporary, and intermittent personnel, as well as establish personnel pay rates. In contrast to many other agencies, the co-chair is not authorized to delegate statutory responsibilities or to remain beyond a term's expiration. Additionally, this potential vacancy would occur during a critical time of the operating year—on average, more than 80 percent of the Commission's funds are obligated during the second half of the fiscal year. A vacancy during this time would have a significant and adverse impact on the Commission's daily operations.

[3] GAO-15-72, *Options Exist to Address Management Challenges* (Mar. 25, 2015).

Inspector General's Perspective on Management and Performance Challenges Facing the Denali Commission

> Such vacancies have occurred in the past. For example, in FY 2014, the federal co-chair position was vacant from January 4 to April 20, 2014, during which time there was no authority to approve new contract actions, award grants and cooperative agreements, or take personnel actions. Because only the co-chair is authorized to take critical actions—such as approving new grants—no one was authorized to sign $7 million in new grants in time to take advantage of Alaska's short construction season.
>
> To date, there have not been any nominations submitted or actions taken to appoint a new federal co-chair. Having a vacancy in the federal co-chair position would significantly impact the Denali Commission's ability to fulfill its mission.

We remain committed to keeping the Commission's decision-makers informed of problems identified through our audits, evaluations, and investigations so that timely corrective actions can be taken. This report will be included in the Commission's *Agency Financial Report*, as required by law.[4]

We appreciate the cooperation received from the Commission, and we look forward to working with you in the coming months. If you have any questions concerning this report, please contact me at (202) 482-3884.

cc: Corrine Eilo, Chief Financial Officer, Denali Commission
Jay Farmwald, Director of Programs, Denali Commission
John Whittington, General Counsel, Denali Commission
Peggy E. Gustafson, Inspector General, U.S. Department of Commerce

[4] 31 U.S.C. § 3516(d).

Federal Co-Chair Response to Inspector General's Perspectives on Management and Performance Challenges Facing the Denali Commission, November 2017

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Memorandum

To:	Mark H. Zabarsky, Principal Assistant Inspector General for Audit and Evaluation US Department of Commerce – Office of Inspector General (DOC-OIG)
From:	Joel Neimeyer, Federal Co-Chair
Subject:	Response to Top Management Challenges Facing the Denali Commission in FY2018
Date:	November 14, 2017

This is in response to your memo dated November 14, 2017 concerning the above referenced subject. I understand that it is not customary for the Department of Commerce to respond to the DOC-OIG for Top Management Challenges facing the Department. Consequently, a response from me on your memo is atypical for your office. I will note though that my Commissioners have come to accept a response from the Federal Co-Chair on prior Inspector General (IG) work products. I wish to continue this practice so that they may have my perspective – given that the Commissioners are statutorily identified to provide IG general supervision for the Commission.

The following is offered.

Challenge 1: Fulfilling Denali's Statutory Purpose with Significant Decreases in Funding:

I concur with this management challenge. While the agency's appropriations have increased, by approximately one-third over FY2015 funding levels, we continue to be challenged on this point. On a number of fronts the agency has been changing to respond to the current reduced appropriations. Two examples are noted below.

- Investments: the agency is focusing more on maintaining, sustaining and protecting existing infrastructure. This includes our relatively new Village Infrastructure Protection (VIP) program which has a focus on village relocation and protect in place solutions for communities facing threats to the built environment from flooding, erosion and permafrost degradation. Many of the VIP investments are pre-construction in nature with an intent to make the proposed improvements more competitive for cabinet level agency funding.

- Workforce: after reduction in force actions in 2016, new staff were hired who are more generalist in nature, and can operate in many fields including maintenance of existing infrastructure.

Challenge 2: Continuity of Operations Through a Possible Federal Co-Chair Vacancy:

I concur with this management challenge. Having served for two terms as the Federal Co-Chair, and in both instances with a vacancy between terms, I can attest to the challenges created with a break in service for the position. In my first term there was a three month gap (between my predecessor and me), and almost a four month gap between my first and second term. In both cases, the work of the agency effectively came to a stop. In addition, problems developed with the lack of agency leadership and oversight of staff in carrying out their duties. Early in my second term the agency was

Federal Co-Chair Response to Inspector General's Perspectives on Management and Performance Challenges Facing the Denali Commission, November 2017

Response to Top Management Challenges - FY2018 **Page 2**
November 14, 2017

required to return over $600K to the US Treasury of US Department of Labor (DOL) funding. The DOL funding had been provided to the Commission, and by statute had to be fully expended within five years. In this case the Commission's grantee had fully used the DOL funding within the five year window, but did not request the funding timely, and missed the five year deadline by two days. Consequently, the grantee could not drawdown the DOL funding. As the workforce development scope had been completed, the grantee was reimbursed with $600K of other Commission funding. Compounding the situation of a vacant Federal Co-Chair, the Commission program manager overseeing this grant was dealing with a significant family health matter. This serves as an extreme example of what can happen with lack of agency leadership.

Presently, my biggest fear on continuity of operations is the impending dissolution of the shared service agreement between our two agencies for Inspector General (IG) services. Finding a solution for IG services in the next six months will be a challenge. First, the Commission must find another IG office willing to take on a small agency located in Alaska. Second, we must negotiate the terms. Third, we must obtain approval by the six Commissioners for the Denali Commission, who are statutorily responsible for IG shared service agreements and general supervision. If the agency cannot complete these three tasks by April 20, 2018, I fear that the agency will be on a path for having no IG services in place when the DOC-OIG/Denali Commission shared service agreement ends on December 31, 2018.

The agency has come to rely upon IG services provided by a larger, more robust, IG office than the independent single-person IG used previously. We have greatly appreciated the support from your office and are saddened that the relationship will end. From our standpoint the timing of the end of the shared service agreement, along with my imminent departure as the Federal Co-Chair, is unfortunate.