In October 2014, the Department of Commerce Office of Inspector General (OIG) extended its May 2014 agreement with the Denali Commission through fiscal year 2015 to provide a full range of inspector general services, including investigating hotline complaints. Suspected fraud, waste, abuse, and mismanagement as well as whistleblower reprisal allegations should be reported to the Commerce OIG Hotline.

David Sheppard, Commerce OIG’s Regional Inspector General, Seattle, is serving as Acting Inspector General for the Denali Commission during this period.

**Acting Inspector General** .......................... 206.220.7970

**Website** ......................................... www.oig.denali.gov

**Commerce OIG Hotline**

- **Telephone** ................................. 800.424.5197
- **TDD** ................................. 855.860.6950
- **Fax** ................................. 855.569.9235
- **E-mail** ................................. hotline@oig.doc.gov

COVER: View of Denali, the highest peak in North America.
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From the Acting Inspector General

I am pleased to present the Denali Commission Office of Inspector General’s *Semiannual Report to Congress* for the 6 months ending September 30, 2014.

On October 11, 2014, the Denali Commission and the Department of Commerce Office of Inspector General (OIG) extended its agreement through fiscal year 2015 to have Commerce OIG serve as interim inspector general for the Commission during this period.

During this semiannual reporting period, we developed policies and procedures for conducting audits, evaluations, and inspections for the Denali OIG. We also met with Commissioners and Commission staff to identify the Commission’s top management challenges. We are in the process of opening our office in Anchorage and hiring a staff auditor who will be dedicated to the Denali Commission. We are also in the process of conducting a risk assessment and working with SB & Company, LLC, an independent public accounting firm, to complete the Commission’s 2014 financial statements audit. As identified in the Government Accountability Office’s report (GAO-14-320) on the previous Denali Commission OIG, there were numerous infrastructure, policy, and audit standard deficiencies noted that we needed to correct. Therefore, our office spent a considerable amount of time on these activities and did not begin any audit, evaluation, or investigative projects during the period May 28, 2014, through September 30, 2014.

The Reports Consolidation Act of 2000 requires inspectors general to identify the top management challenges facing their organizations. Usually, an inspector general will use past audit, evaluation, inspection, and investigative work, in addition to a wealth of knowledge accumulated over the years, as a basis for identifying an agency’s top challenges. We did not have the benefit of that information. Instead, we met with each Commissioner, held discussions with Commission staff, attended Commission public meetings, met with Congressional staff, read prior OIG reports and letters, and visited several Denali Commission-funded projects to gain a better understanding of the challenges it faces. The top management challenges we ultimately identified are (1) Identifying a Strategic Vision and Plan in a Period of Uncertainty, (2) Improving the Monitoring of Grant Recipients in the Face of Logistical Challenges, and (3) Engaging Commissioners in Light of Conflict-of-Interest Concerns and Funding Realities. The details of these challenges can be found in our report *Top Management Challenges Facing the Denali Commission in Fiscal Year 2015*, which will be issued in November 2015.

We will continue to work closely with the Commission and with Congress to identify and attempt to address the challenges facing the Commission, especially as it tackles its ambitious strategies and initiatives. We thank the Commissioners, Commission staff, and members of Congress and their staffs for their support of our work during this period.

David Sheppard
DENALI COMMISSION

The Denali Commission Act of 1998 established the Denali Commission to deliver a wide range of services to Alaska in the most cost-effective manner by reducing administrative and overhead costs. As part of the act, the Commission provides job training and other economic development services in rural communities, with a focus on promoting development in rural Alaska and on providing key infrastructure, such as power generation and transition facilities, modern communication systems, and water and sewer systems.

Since its enactment, the Denali Commission Act of 1998 has been updated several times, expanding its mission to include the planning and construction of health care facilities and the establishment of the Denali Access System Program to support surface transportation infrastructure and waterfront transportation projects.

The Commission oversees six program areas: **Energy**, **Health Facilities**, **Sustainable Priorities for Alaska Rural Communities**, **Training**, **Transportation**, and **Water and Sanitation Energy Efficiency**. The only program currently receiving direct appropriations is the Commission’s Energy Program.
**COMPLETED WORKS**

During the semiannual reporting period, no performance audits, inspections, or responses to Congressional requests were completed.

**WORK IN PROGRESS**

We are working on completing a top management challenges report. We are also in the process of completing a risk assessment for both Denali Commission programs and grant recipients. During this reporting period, no audit and evaluation projects were initiated or under way. We have several planned in fiscal year 2015.
OVERSIGHT AREAS

ENERGY

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

The Energy Program funds design and construction of replacement bulk-fuel storage facilities, upgrades to community power-generation and distribution systems, energy efficiency measures, and alternative energy projects. The Commission primarily works with the Alaska Energy Authority (AEA) and Alaska Village Electric Cooperative (AVEC) to meet rural communities’ fuel storage and power generation needs.

The Commission funds these project types: bulk-fuel storage, community power generation, transmission and distribution systems, energy efficiency projects, and alternative and renewable energy.

HEALTH FACILITIES

Congress amended the Denali Commission Act in 1999 to provide for the planning, design, construction, and equipping of health care facilities. The Health Facilities Program collaborates with numerous organizations, including the Alaska Native Regional Health Corporations, from which the program receives support. The Commission has invested in regional networks of primary care clinics across Alaska and, in response to Congressional direction in 2003, initiated efforts to fund additional program areas addressing other health and social service-related facility needs. Further, the Health Facilities Program incorporated behavioral health, dental care, and other components into its clinic design. Over the years, the program has expanded to include annual initiatives to support domestic violence facilities, elder housing, primary care in hospitals, emergency medical services equipment, and hospital designs.

During the past decade, the program used a universe-of-need model for primary care and an annual selection process via a Health Steering Committee for other program areas. In 1999, the program created a deficiency list for primary care clinics and found 288 communities statewide in need of clinic replacement, expansion, and/or renovation. That list was last updated in 2008. In the past, projects were recommended for funding if they demonstrated project readiness. However, the Health Facilities Program was last funded by Congress in fiscal year 2010. In general, no new construction project nominations are currently being accepted.

The Commission has historically funded facilities for primary care, behavioral health, domestic violence, elder support, and assisted living, as well as primary care in hospitals.
SUSTAINABLE PRIORITIES FOR ALASKA RURAL COMMUNITIES

As the geography and cultures of peoples vary widely across the state of Alaska, so do the needs and capacities of rural Alaskan villages, cities, and communities. After 13 years of awarding mostly transactional grants that resulted in the construction of numerous bulk fuel tanks, generators, interties, roads, docks, and clinics, the Commission has experienced a significant decline in federal budget authority for its historical programs. However, the Commission continues to receive requests from rural Alaskan communities for technical assistance in planning and executing their respective infrastructure improvement projects.

Community infrastructure needs run the gamut from basic sanitation systems to more cost-effective energy solutions. Layered on the bricks-and-mortar needs are the less visible needs reflecting gaps in local knowledge and leadership capacity for navigating project development, business planning, and fundraising. According to the Commission, such infrastructure and capacity issues are critical to community sustainability.

Rural Alaskan communities are challenged now by dwindling supplies of capital grant monies; aging, failing infrastructure; and high energy costs. Many village populations are declining as residents immigrate to locations with greater and more reliable resources for family health, education, and economic stability.

Sustainability of any particular village is not guaranteed, but experience points to multiple interdependent factors that must all be present for a community to survive. The required components include affordable, reliable energy; safe and affordable housing; a quality education system; an accessible and capable health system; a safe and sanitary environment; a functioning local government; community infrastructure management capabilities; and a healthy economy. The Sustainable Priorities for Alaska Rural Communities (SPARC) Program aspires to strengthen communities through technical assistance with infrastructure development and enhancement of the leadership capacity of local residents.

TRAINING

The Training Program was established by the Commission in 1999 as a stand-alone program to provide to rural residents training and employment opportunities that support the construction, maintenance, and operation of Denali Commission investments.

The Training Program prioritizes training projects that create employment opportunities, leverage funds from other state, local, and federal sources, and demonstrate regional planning and coordination. Training Program funds are dedicated to training activities that are directly related to student costs such as books, tools, tuition, lodging, and transportation.

The Denali Commission selects major program partners for training that have the capacity to provide training and education and to carry out the Commission’s goals and objectives. Via competitive opportunities facilitated through such partners, other organizations are engaged to conduct specific training projects.

Funding for the Training Program has traditionally come from two sources: the Commission’s energy and water base appropriation, and the U.S. Department of Labor. Fiscal year 2011 was the first year since the program’s inception that a direct budget was not allocated to the training program. Absent new funding, Training Program activities are limited to projects with program partners that have prior-year funds available on existing grants. However, work is ongoing with program partners to explore how state, federal, tribal, local, and regional stakeholders can improve the maintenance and operation of existing infrastructure through the Commission’s Rural Alaska Maintenance Partnership (RAMP) work.
The Transportation Program was created in 2005 as part of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) and accompanying amendments to the Denali Commission Act of 1998, as amended. The program focuses primarily on two areas: rural roads and waterfront development.

The roads portion focused on planning, design, and construction to address basic road improvement needs, including projects that connect rural communities to one another and to the state highway system, and opportunities to enhance rural economic development. Eligible project types include board roads (boardwalk-like systems) for all-terrain vehicles, local community road and street improvements, and roads and board roads to access subsistence use sites (specifically designated locations used by Alaska Natives and rural community members to gather food).

The waterfront portion addresses planning, design, and construction of port, harbor, and other rural waterfront needs. Eligible project types include regional ports, barge landings, and docking facilities.

SAFETEA-LU expired in 2009 and operated under a continuing resolution from June 2009 through June 2012. In June 2012, Congress passed a 2-year transportation bill, the Moving Ahead for Progress in the 21st Century Act (MAP-21), that did not include authorization or funding for the Commission’s Transportation Program.

Commission staff continues to administer the program in coordination with members of the Transportation Advisory Committee, which rates and ranks project submissions, recommends projects to the Denali Commission Federal Co-Chair, and advises the Commission on rural surface transportation needs in Alaska.

The Commission works with these recipients and program partners: U.S. Federal Highway Administration, Western Federal Lands Highway Division and Alaska Division; Alaska Department of Transportation and Public Facilities; U.S. Army Corps of Engineers, Alaska Division; regional, local, and tribal governments; and regional, tribal nonprofits.

Water and sanitation facilities in rural Alaska represent one of three core infrastructure types that use the majority of energy resources in a community (housing and schools are the other two). In the recent past, the Alaska Native Tribal Health Consortium, a Commission program partner, completed energy audits (grants issued by the Denali Commission to assess energy needs of local communities) of more than 40 water and sanitation systems throughout rural Alaska and identified potential energy efficiency improvements in each system. According to the Commission, as a result of this effort potential energy savings of approximately $700,000 per year were identified, with a one-time capital investment of approximately $1.3 million. The results of the energy audits completed to date indicate that for each $1 spent annually on energy retrofits, rural communities and the state of Alaska will realize savings of approximately 50 cents.

It is also estimated that there are upwards of 40 other water and sanitation systems throughout rural Alaska that could realize savings with similar investments and about 150 existing water systems that could benefit from energy efficiency improvements. Currently, there is no source of funding dedicated to providing for energy efficiency improvements for water and sanitation systems in rural Alaska. This includes planning, preconstruction, and construction activities.
Statistical Data

OFFICE OF INVESTIGATIONS STATISTICAL HIGHLIGHTS FOR THIS PERIOD

The Inspector General Act Amendments of 1988 require us to present in this report the statistical data contained below.

Investigative activities covers investigations opened and closed by OIG; arrests by OIG agents; indictments and other criminal charges filed against individuals or entities as a result of OIG investigations; convictions secured at trial or by guilty plea as a result of OIG investigations; and fines, restitution, and all other forms of financial recoveries achieved by OIG as a result of investigative action. No investigative activities occurred during this reporting period.

Allegations processed presents the number of complaints from employees, stakeholders, and the general public that we were able to identify from the limited records maintained by the previous inspector general. No allegations were processed during this reporting period.

AUDIT RESOLUTION AND FOLLOW-UP

The Inspector General Act Amendments of 1988 require us to present in this report audits issued before the beginning of the reporting period (April 1, 2014) for which no management decision had been made by the end of the period (September 30, 2014).

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

Management decision refers to the Denali Commission’s evaluation of the findings and recommendations included in the audit report and the issuance of a final decision by Commission management concerning its response.

After Commerce OIG entered into our agreement with the Denali Commission, we identified 17 recommendations that, according to the former inspector general, had not yet been implemented by the Commission. During this semiannual period, we worked with Commission staff to identify acceptable actions proposed by the Commission to address the intent of 16 of the 17 recommendations. The remaining recommendation is still unimplemented, but we expect it will be addressed once the Commission fills its vacant general counsel position. The following table summarizes the status of management decisions during the reporting period.
TABLE 1. MANAGEMENT DECISIONS

<table>
<thead>
<tr>
<th>Status</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actions pending (April 1, 2014)</td>
<td>17</td>
</tr>
<tr>
<td>Actions submitted</td>
<td>16</td>
</tr>
<tr>
<td>Actions accepted by OIG</td>
<td>16</td>
</tr>
<tr>
<td>Actions pending (September 30, 2014)</td>
<td>1</td>
</tr>
</tbody>
</table>

AUDIT, EVALUATION, AND INSPECTION STATISTICAL HIGHLIGHTS FOR THIS PERIOD

Audits of federal establishments, organizations, programs, activities, and functions must comply with standards established by the Comptroller General of the United States. Evaluations and inspections include reviews that do not constitute an audit or a criminal investigation. No audits, evaluations, or inspections were conducted during this reporting period. Therefore, there are neither questioned costs, nor funds to be put to better use.

**Questioned cost** is a cost questioned by OIG because of (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that an expenditure of funds for the intended purpose is unnecessary or unreasonable.

**Value of audit recommendations that funds be put to better use** results from an OIG recommendation that funds could be used more efficiently if Commission management took action to implement and complete the recommendation. Such actions may include (1) reductions in outlays; (2) deobligation of funds from programs or operations; (3) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (4) costs not incurred by implementing recommended improvements related to the Commission, a contractor, or a grantee; (5) avoidance of unnecessary expenditures identified in pre-award reviews of contracts or grant agreements; or (6) any other savings specifically identified.

REPORT TYPES FOR THIS PERIOD

No audits, evaluations, or inspections were conducted during this reporting period.
Reporting Requirements

The Inspector General Act of 1978, as amended, specifies reporting requirements for semiannual reports. The requirements are listed below and indexed to the applicable pages of this report.

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<thead>
<tr>
<th>Section</th>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
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<tr>
<td>4(a)(2)</td>
<td>Review of Legislation and Regulations</td>
<td>9</td>
</tr>
<tr>
<td>5(a)(1)</td>
<td>Significant Problems, Abuses, and Deficiencies</td>
<td>N/A*</td>
</tr>
<tr>
<td>5(a)(2)</td>
<td>Significant Recommendations for Corrective Action</td>
<td>N/A*</td>
</tr>
<tr>
<td>5(a)(3)</td>
<td>Prior Significant Recommendations Unimplemented</td>
<td>9</td>
</tr>
<tr>
<td>5(a)(4)</td>
<td>Matters Referred to Prosecutorial Authorities</td>
<td>7</td>
</tr>
<tr>
<td>5(a)(5)</td>
<td>Information or Assistance Refused</td>
<td>10</td>
</tr>
<tr>
<td>5(a)(6)</td>
<td>Listing of Audit Reports</td>
<td>N/A*</td>
</tr>
<tr>
<td>5(a)(7)</td>
<td>Summary of Significant Reports</td>
<td>N/A*</td>
</tr>
<tr>
<td>5(a)(8)</td>
<td>Audit Reports—Questioned Costs</td>
<td>8</td>
</tr>
<tr>
<td>5(a)(9)</td>
<td>Audit Reports—Funds to Be Put to Better Use</td>
<td>8</td>
</tr>
<tr>
<td>5(a)(10)</td>
<td>Prior Audit Reports Unresolved</td>
<td>10</td>
</tr>
<tr>
<td>5(a)(11)</td>
<td>Significant Revised Management Decisions</td>
<td>10</td>
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<tr>
<td>5(a)(12)</td>
<td>Significant Management Decisions with Which OIG Disagreed</td>
<td>10</td>
</tr>
<tr>
<td>5(a)(14)</td>
<td>Results of Peer Review</td>
<td>11</td>
</tr>
</tbody>
</table>

*No performance audit, inspection, or evaluation reports were issued during this semiannual period.

SECTION 4(A)(2): REVIEW OF LEGISLATION AND REGULATIONS

This section requires the inspector general of each agency to review existing and proposed legislation and regulations relating to that agency’s programs and operations. Based on this review, the inspector general is required to make recommendations in the semiannual report concerning the impact of such legislation or regulations on (1) the economy and efficiency of the management of programs and operations administered or financed by the agency or (2) the prevention and detection of fraud and abuse in those programs and operations. Comments concerning legislative and regulatory initiatives affecting Commission programs are discussed, as appropriate, in relevant sections of the report.

SECTION 5(A)(3): PRIOR SIGNIFICANT RECOMMENDATIONS UNIMPLEMENTED

This section requires identification of each significant recommendation described in previous semiannual reports for which corrective action has not been completed. Section 5(b) requires that the Commission transmit to Congress statistical tables showing the number and value of audit reports for which no final
action has been taken, as well as an explanation of why recommended action has not occurred, except when the management decision was made within the preceding year. Sixteen of the 17 recommendations noted in our March 2014 Semiannual Report to Congress, identified as unimplemented by the prior inspector general, were resolved or management decisions made during this reporting period. According to the Commission’s Federal Co-Chair, the remaining unimplemented recommendation will be assigned to the Commission’s new general counsel to address.

<table>
<thead>
<tr>
<th>Report</th>
<th>Date</th>
<th>Unimplemented Recommendations (According to Prior Inspector General)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inspection of Port Graham Police and Fire Station</td>
<td>September 2009</td>
<td>Denali should include a grant condition for publicly recording a Notice of Federal Interest in the land records for a funded facility. This notice should define the parameters of permissible use over time— and the solution for an unneeded, misused, or abandoned building.</td>
</tr>
</tbody>
</table>

SECTIONS 5(A)(5) AND 6(B)(2): INFORMATION OR ASSISTANCE REFUSED

These sections require a summary of each report to the Commissioners when access, information, or assistance has been unreasonably refused or not provided. There were no reports to the Commissioners during this semiannual period.

SECTION 5(A)(10): PRIOR AUDIT REPORTS UNRESOLVED

This section requires: (1) a summary of each audit report issued before the beginning of the reporting period for which no management decision has been made by the end of the reporting period; (2) an explanation of why a decision has not been made; and (3) a statement concerning the desired timetable for delivering a decision on each such report. There are no reports more than 6 months old, for which no management decision has been made.

SECTION 5(A)(11): SIGNIFICANT REVISED MANAGEMENT DECISIONS

This section requires an explanation of the reasons for any significant revision to a management decision made during the reporting period. There are no appeals pending at the end of this period.

SECTION 5(A)(12): SIGNIFICANT MANAGEMENT DECISIONS WITH WHICH OIG DISAGREED

This section requires information concerning any significant management decision with which the inspector general disagrees. During this period, no audit issues were referred.
SECTION 5(A)(14): RESULTS OF PEER REVIEW

The prior inspector general never underwent a peer review for the Denali Commission OIG, which is likely because the prior inspector general did not conduct any audits or investigations—only inspections.

The most recent peer reviews of Commerce OIG’s Office of Office of Audit and Evaluation and Office of Investigations are described in Commerce OIG’s September 2014 Semiannual Report to Congress.
The Department of Commerce
Office of Inspector General
is investigating hotline complaints related to the Denali Commission.