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November 7, 2016

Mr. David Sheppard, Inspector General  
Ms. Corrine Eilo, Chief Financial Officer  
Denali Commission  
510 L Street  
Anchorage, Alaska 99501

In planning and performing our audit of the financial statements of the Denali Commission (the Commission) as of and for the years ended September 30, 2016 and 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. Our comments, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. Our comments are summarized as follows:

1. Implementation of a strategic planning process – During the course of our audit, we noted that the President of the United States of America through climate initiatives specifically identified the Commission as a vehicle to study and take initiatives related to climate change. We also noted that through Congress with the adoption of MAP 21 language, the Commission's authority was greatly increased (collectively referred as "new authorities"). It appears that the Commission now has the ability to obtain funds from Federal agencies, state and local governments, private foundations, and other entities to carry forward the purpose of the Commission.

These items are potential opportunities for the Commission to expand its presence from a traditional appropriation grant making body to becoming a full service governmental agency that can assist other Federal agencies with initiatives in the Alaskan/Arctic region. Management must consider the opportunities and risks of these new authorities. We recommend management perform a opportunities analysis of each of the new authorities granted to the Commission and devise a strategic



business plan. This business plan should capture the sources of opportunities and threats to those opportunities. Additionally, consideration should be given to threats of the Commissions current status if success is not achieved with the new authorities. We recommend management perform a strategic planning process that identifies the current strengths and weaknesses of the Commission in relation to the new opportunities and current processes. Management should look at the processes in place, technologies available, and skills of personnel in both the current processes and to the processes to be implemented as part of the new authorities. Management should consider the threats of current processes in place in relation to the opportunities. For instance, the area of post award grant monitoring, if management is unable to monitor for performance post award (i.e., grant money is spent to build a care center and subsequently is used for an alternate purpose and is not identified/rectified by the Commission) this may weigh negatively on other Federal agencies and their willingness to entrust the Commission with management of fiscal resources. On the other hand, if management is able to show a “clean record” of monitoring (as an example), it may be a strength in obtaining fiscal resources from other Federal agencies as such agencies may not have the resources or track record of success of the Commission given the challenges of the geography of Alaska.

We recommend management consider the implementation of a strategic planning process that encompasses a business plan and analysis of the strengths, weaknesses, opportunities and threats of new authorities and the status quo. We further recommend that management solicit the guidance and experience of the Commission’s Commissioners in this endeavor.

2. Grants Monitoring - The Commission currently does not have a robust process to determine that the grants provided have been and continue to be used as intended. Through adoption of uniform grant guidance regulations, the Commission has begun to risk rate grantees and has internally reviewed certain projects through various means.

While this begins the process of answering whether or not the intended use of resources has been continually met (i.e., a care facility is continued to be used as a care facility), it currently does not track whether the performance of the grant outcome has been met.

The development of performance metrics to show how a project is performing against the original plan can assist management in the risk rating process of grantees and can be a tool to report to constituents of uses of tax payer resources. For instance, to be able to quantify the effect of the installation of a project that shows long term reduction in tax payer resources can be a powerful tool. As importantly, the quantification of a project that does not show long term reduction in tax payer resources will allow the



Commission to analyze what went wrong and not make the same decisions in a go-forward basis. As noted in point one above, the Commission has opportunities to expand its fiscal resources through the new authorities. The performance success of projects can assist with the discussion with Federal agencies and be representative of the skills and experience the Commission brings to bear of which other Federal agencies may not have such skills or experience or may not have the fiscal resources to acquire such items.

We recommend the Commission consider incorporating performance metrics into its grant monitoring process. If the Commission decides to include these metrics, the Commission should develop a policy that outlines the policies and procedures to develop such metrics and how such metrics should be reviewed and monitored.

3. Management with reduced staff/succession planning – While we applaud the work management is doing in being proactively managing financial issues, we must caution that during these budget reductions, management should continue to keep in mind the need for practical internal controls to ensure that proper accounting and safe guard of assets. Specifically, management should consider documentation of various duties to allow for faster transition and elimination of intellectual capital that leaves with terminated employees. As part of the documentation process, management should consider developing succession planning for each function within the organization. This documentation could help the transition process as new members are brought up to speed on core duties. Additionally, this documentation would reduce the amount of “institutional knowledge” that leaves the organization.

We note that there are only three members of the Finance group. If any of these three people were to leave the Commission, management would likely be overwhelmed and the limited staff would create internal controls deficiencies. Specifically, there would be a segregation of duties issues that could be created such that the Commission would be more susceptible to accounting errors or misappropriation of assets (both internal and external). These deficiencies would cause the Commission to not be in compliance with Office of Management and Budget and General Accountability Office requirements and could further hinder management efforts to obtain additional funding. Internal controls are typically a variable cost (as an organization grows the cost grows as well); however, there is a certain fixed portion of cost that needs to be incurred regardless of the size of the organization (based on Federal requirements) and continued reduction in staff may cause the Commission to be below the fixed portion of internal controls. While we are specifically addressing our concerns related to the finance function of the Commission, the diminishing staff and related internal control impact will affect all areas of the Commission (grant origination, grants monitoring, etc.).



With the uncertainty of future funding and the efforts to obtain reauthorization, management should be aware of the potential internal control issues that are present when focus is lost on internal controls. Specifically, management must balance the long term direction of the Commission while making short term decisions to manage diminishing appropriations. In making these decisions, management should consider the ramifications of reducing staff and controls and the potential short and long term overall impact it will have to the Commission.

Management should be aware that the documentation and development of succession planning can go hand in hand along with long term strategic planning. There are many Federal agencies and related organizations that can assist in the development of strategic and succession planning.

Lastly, with the additional authorities granted by Congress, the Commission may need to increase investment in personnel to capitalize on the opportunities presented.

4. Reassignment of duties – We noted during our audit procedures that one of the methods management has used to work through reductions in staff is reassignment of duties. Rather than hiring a replacement person, management spreads the terminated person’s workload to existing members of staff. While an effective approach to managing through a reduction in appropriations, we have two specific cautions. First, the reassignment of duties may cause position changes and increased responsibilities. These increased responsibilities may cause an employee to be entitled to increased compensation under Federal statutes. Management should be mindful of the Federal regulations of adding additional responsibilities to staff and the corresponding responsibility of adjusting compensation accordingly. Secondly, the reassignment of duties may cause negative reactions among current staff as to the plight of the Commission. Specifically, management should keep in mind that the reassignments may add burden to personnel who may feel that they are currently overworked and look for employment elsewhere which then could expand the issues noted in comment 3 above.
  
5. Information Technology General Controls - The Commission does not currently have a separate Chief Information Officer (CIO). Rather the duties of the CIO fall to the Chief Financial Officer. The Commission’s Chief Financial Officer has only partially received the training to develop the appropriate skill set to provide the amount of oversight that would be typically expected from a CIO. Currently, network issues and changes are emailed to her, but they do not require her approval. Decisions related to IT are made primarily by the Network Administrator. Additionally, there are no processes in place to ensure that regular network maintenance occurs completely and in a timely manner. The standard policy documents (System Security Plan, Information Security Program Handbook, Continuity of Operations Plan, and Privacy



Impact Assessment) have not been updated in the last year. Based on discussions with Denali management and changes in the Commission's workflow, the documents do not address the Commission's current work environment.

While controls and implementation thereof are a cost benefit analysis, management should be mindful of the ramifications of not investing in controls and improvement thereof. Unfortunately, the environment of information technology is such that websites and information is always under some form of attack. New technology continues to be developed to aid hackers in this process. Management should be aware of the need to continue to invest to ward off these cyber attacks.

Currently, vulnerability scanning is performed once annually with no re-scan performed until the next annual process. Therefore, automated validation and testing to verify that risk concerns have been properly remediated is not performed. As a result, if risk exposures have not been remediated a year will elapse before awareness can be provided to management.

Federal regulations have become more stringent around information technology due to the ever-evolving risks of breaches/hacking of data. As a result, additional certifications and requirements are required to be made for the Commission to be in full compliance with Federal Information Security Management Act (FISMA). Historically, the Commission was able to show compliance through the use of a small agency FISMA report, which required minimum items to show compliance. However, FISMA no longer allows for the use of a small agency filing and now the Commission is required to complete a larger and more stringent compliance filing. Management is working to implement all items required by FISMA and to perform such items periodically as opposed to annually. As part of its review of information technology, we recommend management incorporate the requirements of FISMA.

We recommend the Commission review its current information technology general controls and consider hiring additional IT personnel or provide training to current members of the Commission such that they would be able to fully execute their respective positions. The Commission should update the documentation of its workflow to reflect the current processes in place. The Commission should also send IT personnel and the CFO to information system security training and conferences. Management should consider re-scanning as part of vulnerability scanning process to ensure all risks exposures have been remediated and consider more frequent scanning/vulnerability testing (i.e., quarterly). Lastly, the Commission should implement processes in place to ensure regular network maintenance occurs.



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We believe that the implementation of these recommendations will provide Denali Commission with a stronger system of internal control while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation. This communication is intended solely for the information and use of management, the Commission's Inspector General, others within the organization, and relevant oversight bodies, is not intended to be, and should not be used by anyone other than these specified parties.

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