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INSPECTOR GENERAL

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To: George Cannelos, Federal Co-Chair

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

Subject: Inspection of Togiak family resource center
(grant 94-DC-2003-19, state sub-award 84-0846)

FINAL REPORT

FOR PUBLIC RELEASE

Togiak is a small town (pop. \approx 800) on the seacoast in remote "bush" Alaska. It has both a city government (City of Togiak) and a tribal government. Around 90% of residents are Yupik Eskimos, many of whom harvest local wildlife such as seals, sea lions, whales, and walrus.

Togiak is an isolated place. No roads, railroads, docks, or power grids connect it with the rest of the state. Year-round transportation is by small propeller airplanes that land on a gravel airstrip. Snow machines are used in the winter and private boats in the ice-free summer.

Of the 800 residents, slightly less than half are under 21 years old. The state funds a public school in Togiak (\approx 235 students and 19 teachers).

Over 20 years ago, the City of Togiak (City) acquired a fish plant from a private company that went into bankruptcy. One of the property's buildings was the fish plant's 6,700 square-foot "bunkhouse." In 2003, the Denali Commission (Denali) awarded a grant of \$851,700 for the City to convert this old bunkhouse into a "family resource center" for various social service providers.

More technically, Denali provided its funding to the State of Alaska which then administered the City's project as a state sub-award. The City matched Denali's grant with \$614,000 from three other sources.

Denali's Office of Inspector General (OIG) has reviewed the state's records concerning its monitoring of the City's sub-award. We also physically inspected the resulting facility in Togiak.¹

We found that the project was successfully completed and that the building was being actively used for the intended public purpose. Though Denali no longer issues grants for "multi-use" facilities, we noted some lessons worth considering in its continuing programs.

¹ Work in the field, including the site visit in Togiak, was conducted by OIG analyst Dawn Bishop-Kleweno.

WHY WE INSPECTED THIS PROJECT

There were a variety of factors that, taken together, suggested that OIG's review of this project would be beneficial.

The City has for some years obtained an annual audit of its financial statements from a CPA firm. Though these audited financial statements do not explicitly mention Denali, the statements for 2004 and 2005, respectively, report federal revenue of \$349,422 and \$444,879 for "multipurpose renovation." And the CPA offered this caution to the City in the "management letter" associated with the 2004 audit:

During our audit, we noted that all activity related to the multipurpose building renovation had not been recorded on the City's books. Payments made directly to vendors by the State on behalf of the City were not recorded. These expenses were incurred by the City for the renovation project and should be reflected in the financial records. It is important that all activity be recorded in order to ensure that grant funds are adequately tracked and properly spent.

OIG further noted that, as part of the CPA's audit of the City for 2007, the CPA issued an "internal control letter" advising the City to make some improvements in its accounting system.²

Another factor was an emailed complaint that the head of the Denali Commission received from an identified "tipster," who alleged that unspecified Denali funding had been misused by an unspecified recipient in Togiak. The agency head referred the matter to OIG.

OIG made contact with the complainant, but we were unable to get the complainant to identify the specific Denali-funded project of concern. However, Denali records indicated that the family resource center had been Denali's most significant construction project in Togiak.

There has also been a recent public context of controversy concerning the community's overall capacity to work together. Like the rest of rural America, Togiak has its share of divisive small-town politics. Around 250 residents voted in last year's city government election, which was publicly focused on policy differences between the city and tribal governments. The aggrieved have traded accusations of misconduct and requested intervention by a variety of outside agencies (including the state troopers and FBI). And the press has actively reported all of this, even in tiny Togiak.³

² All of these audit materials are publicly posted on the State of Alaska website at www.commerce.state.ak.us/dca/. While OIG considered these online materials, readers should realize that the City, not OIG, contracted for these audits and that OIG has not attempted to "re-audit" these materials in any way.

³ See Mary Lochner, "Monegan to mediate Togiak dispute," *Bristol Bay Times*, May 29, 2008; Mary Lochner, "Togiak mayor tries to oust Ramey from City Council," *Bristol Bay Times*, Oct. 9, 2008; Mary Lochner, "Leadership to change after vote in Togiak," *Bristol Bay Times*, Oct. 16, 2008 (all articles online at www.thebristolbaytimes.com).

Togiak's recent internal struggle demonstrates the interconnectedness of even an isolated hamlet with the rest of the nation. The tribal government issued a "banishment order" directing the city government's police chief to leave town. The state government's public safety commissioner then attempted to mediate the local dispute. In the meantime, the governor fired the public safety commissioner (though on unrelated issues). The state legislature then investigated the commissioner's firing, an inquiry which surfaced on the national level as the governor had her run last year to be the nation's vice-president.

In July 2009, Denali formally closed out grant no. 94-DC-2003-I9. Though we found Togiak's family resource center to have been successfully accomplished, Denali's overall experiment with "multi-purpose" (or "multi-use") buildings has been a controversial program in the agency's short history of only a decade.

In 2007, Denali's CFO notified OIG that she was suspending grant no. 94-DC-2003-I9 to the State of Alaska. The CFO's letter to the state government indicated the following reasons for this administrative action:

The reasons for the suspension of funds are due to lateness of financial reporting, inaccuracy of financial reporting, no submissions of quarterly estimates, expenses for grants being charged to other grants, inaccuracy on cash versus accrual on financial reports, and inconsistent information from financial versus program staff at [state's department].

The CFO further notified OIG that construction of the buildings for at least two of the 12 locations had been started but never completed.

In fact, this was only one of seven grants to the State of Alaska that Denali's CFO suspended. While she has the authority do this under the grant agreements, it seemed to OIG to be an atypical scenario in federal-state relations.

OIG recommended that Denali's CFO contract with a federal franchise fund's internal auditor to assist her staff in reviewing the state's accounting procedures for grant no. 94-DC-2003-I9. In March 2009, this internal auditor issued a brief report to the CFO. His sample included four of the funded multi-use facilities, including the one at Togiak. He did not attempt to physically inspect any of the facilities, but he noted aspects of the state's monitoring practices which OIG felt warranted further review.

Denali's management also contracted with a local 8(a) corporation for a program evaluation of multi-use facilities. The firm employed a well-respected university researcher, who looked in depth at four facilities that were successfully completed (but not the one at Togiak) and issued broad advice for the future.⁴ OIG's inspections have involved different facilities and a more focused look at some specific state monitoring issues.

CONCLUSIONS

The state's desk monitoring had strengths and weaknesses

Congress provided two appropriations to Denali for "multi-purpose community facilities." Denali passed this money on to Alaska's state government as grant #94-DC-2003-I9 for \$7.3 million. Togiak's family resource center was one of 12 projects across Alaska for which the state issued sub-awards under this Denali grant.

⁴ NANA Pacific, *Multi-Use Facility Program Evaluation*, April 30, 2008.

Congress attached no specific monitoring conditions to its appropriations for this purpose. Denali's grant to the state incorporated OMB's standard grant circulars by reference, since Denali has never issued grant regulations of its own in the Code of Federal Regulations.

OIG found that the state's grant administrator had an adequate system for documenting the internal policies and procedures that she applied in monitoring this grant. This included the state's own grant conditions that were far more detailed than those specified by Denali. The state's internal guidance for Denali's multi-use program was physically a two-inch binder of memos documenting institutional knowledge, rather than a formal codification. However, OIG found this to be an adequate and efficient solution for a specialized federal program of such limited size and duration. A cosmetic codification seems unnecessary.

In the grant agreement, Denali required that the state submit quarterly progress reports for each project plus periodic photos taken by the sub-awardees. In the case of Togiak, the state electronically submitted brief progress reports to Denali for five successive quarters (including 12 photos). However, four of those five electronic reports did not clearly indicate the current budget status of the City's project. This minimal reporting was a required element of Denali's grant agreement with the state.

The state monitored this grant from its office in Fairbanks. OIG reviewed the file maintained there for the Togiak sub-award. The state's records adequately documented its grant to the City, including the City's monthly reporting of costs with supporting proof. This was especially important since the state's grant manager directly paid outside vendors instead of reimbursing the City.

OIG recommended that Denali's CFO contract with a federal franchise fund's internal auditor to assist her staff in reviewing the state's accounting procedures for grant no. 94-DC-2003-I9. Management's contract auditor tested a sample of 27 state payments for the Togiak sub-award. He found all 27 to be supported by adequate documentation, consistent with the grant agreement, properly recorded in the state's accounting system, and paid in compliance with the federal OMB's grant rules on permissible costs (Circular A-87).

Management's contract auditor, of course, was working for management rather than OIG. Nevertheless, OIG reviewed his workpapers in the interest of avoiding duplicative reviews.⁵ And we see no reason to duplicate his fieldwork in Juneau concerning the state's bookkeeping procedures for recording Denali funding in the state's accounting system. Rather, OIG has focused on the state's project monitoring records in Fairbanks and visited the facility itself in Togiak.

While the state charged Denali \$16,700 for administering this grant, the state's monitoring did not include any site visits to directly confirm implementation of the grant. And Denali's grant conditions did not require it.

⁵ The ECIE *Quality Standards for Inspections* advise inspector generals that "[a]ny internal reviews performed by the entity to be inspected or by outside professional organizations should be considered and reviewed to determine applicability to the inspection."

OIG's visit appears to be the first time that any Denali official has inspected the new facility. OIG observed that the construction and current use of the family resource center was consistent with the City's grant application, the architect's floor plan, and the monitoring photos submitted to the state.

While Togiak's project was successfully accomplished, site visits are a key safeguard for detecting any problems at an early stage. We appreciate that the state's grant manager was stationed in Fairbanks which, measured directly, is almost 600 miles away along the north side of the Alaska Range (and would necessitate indirect routing through Anchorage as a practical matter). But her state department has a "local government specialist" stationed in Dillingham, which has daily scheduled air service to Togiak from only 70 miles away. Several site visits from this latter official would have been reasonable for the \$16,700 that the state charged Denali for administering Togiak's sub-award.

Recommendation: Denali should include a grant condition that requires site visits at specified intervals from some representative of the involved state department.

This sub-award reflects an efficient use of federal funding

Our past OIG reports have cautioned Denali's management about the need to leverage federal funding with local effort. For instance, our May 2007 *Semiannual Report to the Congress* stated:

The extent to which the Commission's projects should be a shared effort — versus just provided — is a sensitive policy decision that currently varies with the type of facility. Nevertheless, long-run national support may be encouraged to the extent that projects are perceived more as innovative partnerships and community "barn raisings" — and less as seasonal cash injections and entitlements.

Though we've been critical of this aspect elsewhere in the region,⁶ conversion of the old fish plant bunkhouse reflected a "barn raising" of funding collaboration from public and private sources. The conversion cost about \$1.45 million, with Denali's federal funding of \$835,000 representing 58% of the total. In other words, a match of 42% represents a significant effort in this context.

Instead of requesting a new stand-alone building, the City gave its existing facility a new life and reduced its fuel bills. While Congress left the boundaries of "multi-purpose" and "multi-use" to Denali's discretion, the consolidation of nine social service providers, a child care center, and itinerant lodging⁷ unquestionably offers efficiencies of scale in this remote setting. And our physical inspection enabled us to verify that — over three years after the renovation — the facility was being used for the asserted public functions that were the basis for approving the grant application.

⁶ See OIG's inspection report for a Denali project at Manokotak, Alaska at www.denali-oig.org.

⁷ The availability of overnight housing is significant to the ability of isolated bush settlements to leverage their local capacity with flown-in services. When the family resource center opened, it was Togiak's only lodging for itinerant workers. There is now also a two-room bed & breakfast in this town of 800.

Though Togiak (pop. \approx 800) is a very small city by Lower 48 norms, it serves as the hub for a historical constellation of even smaller settlements. Schools are the primary publicly-funded institution in the latter, and their populations move as the schools disappear with their associated support services. The state stops funding a local school when it serves less than 10 students, and the domino effect of vanishing subsidies for utilities and mail planes is part of the lore of migrating bush Alaska.

For instance, nearby Twin Hills (pop. 75) now has only 14 students in its school. Clark's Point (pop. 54) has only 11 students. Ekwok (pop. \approx 120) has only 22. Aleknagik (pop. \approx 240) has 33. And Portage Creek (pop. now 7) had a school that closed in 2005. In contrast, much-larger Togiak (pop. \approx 800) has the largest school (\approx 235 students) in the state-supported school district that includes all of these small settlements.

Federal investment in hubs like Togiak offers an efficient alternative to migrations from tiny settlements into the urban centers at Anchorage (pop. 285,000) and Fairbanks (pop. 98,000). Public preservation of Alaska's rural hubs is a more reasonable expectation for the long term than the continuation of government services in 200+ isolated settlements.

Ironically, this success story at Togiak would not have occurred had Congress not left Denali some flexibility in the selection of project locations. Denali's staff interpreted the appropriations and associated congressional records as encouraging the construction of multi-purpose facilities in some specific named communities that did not include Togiak.

HOW WE REVIEWED THIS PROJECT

A project "inspection," such as this one, is narrower in scope and procedures than the classic financial "audit." One prominent originator of this type of inspector general review described it as follows:

*The idea is to prevent problems before they occur and to avoid vulnerabilities from becoming permanent features of programs. We usually initiate these reviews ourselves, but sometimes senior program managers request that we find out what is happening as grantees or government agencies struggle with the complex tasks of starting a new program — what seems to be working, what is not, what barriers grantees are facing, what, if anything, any of them have been able to do about problems which arise, what innovative practices grantees are experimenting with, and whether and how they are measuring progress, etc. . . .*⁸

Our review was conducted in accordance with section 2 of Denali's standard grant assurances, sections 4(a) and 6(a) of the Inspector General Act, and the *Quality Standards for Inspections* issued by the federal Executive Council on Integrity and Efficiency.

⁸ George F. Grob, "Inspections and Evaluations: Looking Back, and Forward Too," *Journal of Public Inquiry* (spring/summer 2004), page 11.

The agency head was provided a draft of this report. He informally provided us with his thoughtful feedback by email, and we carefully considered his comments before publication.

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