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December 13, 2013

Mr. Michael Marsh, 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, 2013 and 2012, 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. As a result of a change in the contract with the Inspector General, we were not required to and we did not express an opinion on the 2013 financial statements.

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. Unintended consequences of implementation of Dodd-Frank Legislation - We observed during our audit procedures that management has implemented Dodd-Frank Legislation that placed the reporting and monitoring of the Inspector General of the Denali Commission under the Commissioners of the Denali Commission (the Board). The Board is made up of personnel representing organizations to whom the Commission makes grants. In the COSO model of internal controls, monitoring is one of the five interrelated components. With the Inspector General being a portion of the monitoring component. We noted in various interviews of Commission staff personnel a reluctance to discuss concerns about potential fraudulent transactions out of a fear of retribution from the Board. Specifically, we were asked if our workpapers could be reviewed by the Board. Since the Inspector General reports to the Board, the working papers would be otherwise available. Staff then declined to answer the question, stating they feared retribution. This creates a poor control environment. Staff do what they feel that will not result in retribution rather than do what is correct and report issues. This causes a



deficiency in information and communication flow (another component of the five interrelated components of internal control as set forth by COSO). Lastly, lower level staff may observe the actions of the higher level staff and then may assimilate the same behavior such that additional errors are not reported. Along with the assimilation of behavior risk, we were informed that the Federal Co-Chair stated in various staff meetings that he is working to be re-appointed by serving the Commissioners. This further weakens the control environment as staff may feel that the Federal Co-Chair will not support a concern or issue they raise about a grantee. This causes a deficiency in the control environment (another component of the five interest components of internal control as set forth by COSO). As a byproduct of implementation of Dodd-Frank, management has potentially compromised 3 out of 5 components of the internal control structure. With the 3 out of 5 components of internal control structure compromised, the Commission may have material errors, with some errors being intentional errors, that will go undetected or may be detected errors but not reported. With the reduction in staff (see point 3 below), the Commission does not have the segregation of duties in place to otherwise offset the potential deficiencies noted in this paragraph. We recommend that management review for implementation of safeguards including having certain personnel in finance and grants management be employed by and report to other Federal agencies (i.e., agencies that have engaged the Commission) such that errors and irregularities would be reported to non-Commission personnel who could then act accordingly on such information.

2. Management through uncertain times – We observed during our audit procedures that Congress through legislation has granted additional potential revenue streams for the Commission. The Commission has been historically been faced with a number of budgetary reductions. It appears that the Commission now has the ability to obtain funds from state and local governments, private foundations, and other entities to carry forward the purpose of the Commission. We encourage management to develop and implement a strategic plan to capitalize on the additional authority granted by Congress. Failure to capitalize on this additional authority may have negative ramifications in other congressional legislative items (i.e., reauthorization) as the implication may be that Congress has given additional authority to the Commission, which the Commission did not capitalize, why would Congress continue to give additional items to the Commission?



While this provides potential additional revenue streams, it may also lead to decreased existing funding sources. We noted that management continues to take a proactive approach to manage through these potential reductions. Specifically, management is currently working with various Federal human resource agencies to develop human capital transition plans. We noted during the year ended September 30, 2013, management has obtained approximately \$2.1 million of advanced funding for these new revenue streams from other Federal agencies. We encourage management to continue in these endeavors to proactively work in developing a plan that will enable the Commission to fulfill its congressionally enacted purpose.

3. Management with reduced staff – 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. Additionally, 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.

Additionally, 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 note 2 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.

During the audit, we noted that the website for the Commission was compromised. The website being compromised appears only to have caused communication issues for the Commission and it appears no financial or sensitive data was compromised. While management took swift action to resolve the issue, it appears the issue may have been avoided by implementation of historical recommendations of other third party vendors through their respective periodic IT testing. 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.

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.

6. Grants Monitoring - The Commission currently does not have a process to determine that the grants provided have been and continue to be used as intended. A sample of grants are reviewed each year while the projects are in progress, but after the project has been completed, there is no follow-up. There may be cases where the Commission funded projects have become facilities that are not aligned with the original purpose of the grant.

We recommend the Commission consider incorporating reviewing grantee A-133 reports and other post grant monitoring, including on-site reviews, confirmations of physical evidence (pictures) to determine if the original intended use is still in place. Additionally, we recommend that prior to the approval of new grants, the Commission should review past performance and current status of previous projects to determine prior to new funding if the grantee has historically kept the original intent of the grant dollars. Additionally, the Commission should consider if there are any potential recapture of grant amounts from grantees from a substantial change in the use of a project.

7. Information Sharing - The Commission is a small organization; communication should be easily facilitated in this type of environment. Particularly in the arena of information technology, controls and processes affect many different areas of the organization. It is important that management share information and technology needs with one another and the IT administrator. As an example, the Finance departments are dependent upon IT to ensure the reliability of its data; IT concerns about the data security should be shared with the Finance leadership to ensure that corrective plans are created and implemented.



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Given the reduction of Denali staff, as noted in the current year comment 3 above, many roles within Denali Commission have been consolidated and are now the responsibility of the Chief Financial Officer. We recommend management continue to share information and keep in mind that this is inherent to being able to perform multiple roles.

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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