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November 7, 2014

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, 2014 and 2013, 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 2014 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. Implementation of a risk based grantee application and monitoring system – It is expected that in December 2014, Uniform Grant Guidance will be enacted. This guidance will have a profound effect on the Federal agency grantors, grantees, and subrecipients. One of the main provisions of Uniform Grant Guidance is the requirement that Federal agencies risk rate grantees and enact grant agreements that align with those risk ratings. Given the challenges of grant monitoring (see point 6 below), we believe that the Commission will have to take a proactive approach to comply with these new standards. We recommend management develop a risk rating system that is based on qualitative and quantitative factors (past history, skills of management of the grantee, financial size of the grantee, etc) and consider modifying the grants application and review process to reflect the consideration of these risk ratings in the development of an overall risk rating for the grantee. We further recommend management develop specific required grant agreement covenants that are consistent with the risk rating assigned to the



grantee (i.e., the higher the risk = more covenants (both standard and specific to the grantee).

2. Lines of business – 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?

With these new potential streams of income, the Commission may be able to diversify its funding streams. This potential diversification would eliminate the current concentration revenue (funding) risk the Commission currently faces (as all funding comes from Congress) and would allow the Commission to segregate its program costs into subcategories that each could be discussed and demonstrate the value that the Commission provides to its constituents.

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 capitol transition plans. We noted during the year ended September 30, 2014, 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.

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



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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.

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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