



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

November 13, 2015

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, 2015 and 2014, 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 year-end closing checklist and training – During the year ended September 30, 2015 audit, an incorrect amount was recorded for grants payable and the related program costs. During the year ended September 30, 2015, there was transition among many positions within Denali. Thus, when recording the grants payable entry from the confirmations received, the accrual for all grants was understated by approximately \$1.36 million (with the amount recorded on the financial statements understated by approximately \$630,000 due to parent child financial reporting procedures). We recommend management develop a closing procedures checklist, inclusive of assigned review responsibilities. With this checklist, it will help to ensure that the proper steps are followed and review procedures are performed to detect potential errors prior to completion of close procedures. Corresponding with the checklist, training on duties and related updates is a necessity. While management has invested in the training of personnel, we recommend management develop long term training plans for key personnel which can be updated as changes in the Commission occur. With a long term training plan in place, management can better develop personnel and hold personnel accountable.



2. Implementation of a risk based grantee application and monitoring system – In December 2014, Uniform Grant Guidance was 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. Management should have the documentation to support the risk ratings of each grantee. Given the challenges of grant monitoring (see point 3 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)).
3. 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. The Commission has historically primarily relied on Inspector General reviews as opposed to having a distinct internal review process.

During the project process, the Commission reviews activity performed to line up with the corresponding reimbursement requests. However, 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.

4. 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 continue 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.

These new revenue streams will open new possibilities for the Commission to expand its effect on Alaska. As a result, strategic plans should be developed and should include all stake holders (major Federal agency funders, Commissioners, non-Federal funding partners) to ensure that a holistic plan is developed and stakeholders do not have an opportunity for influence.

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, 2015, management continues to obtain additional new revenue streams from other Federal agencies. The President's recent visit to Alaska and the discussion of Denali leading the climate change initiative will provide additional financial resources. 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.

5. 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.



6. 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 5 above.

7. 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.



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

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.

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.

SB & Company, LLC

SB & Company, LLC
Hunt Valley, MD