Denali Commission Agency Financial Report (AFR) Fiscal Year 2019

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Aerial View of Mertarvik (September 2019)
The New Site for the Threatened Village of Newtok

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To order copies of the report or to submit comments on how to improve the report, contact:

Denali Commission
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Management Discussion and Analysis

Overview of the Denali Commission

In 1998, national attention was focused on the immense infrastructure and economic challenges faced by rural Alaskan communities by the passing of the Denali Commission Act (the full text of which is available on the Denali Commission's website at https://www.denali.gov/wp-content/uploads/2018/02/Denali-Commission-Act-of-1998-updated-2017.pdf). The Act became law on October 21, 1998 (Title III of Public Law 105-277, 42 USC 3121) establishing the Denali Commission an independent federal agency that acts as a regional commission focusing on the basic infrastructure needs of rural Alaska. Working as a federal-state-tribal-local partnership, the Commission provides critical utilities, infrastructure and promotes economic growth in the rural areas of the state. The agency also coordinates and streamlines federal program efforts in rural Alaska, and better leverages federal investments. By creating the Commission, Congress intended for those involved in addressing the unique infrastructure and economic challenges faced by America's most remote communities to work together in new ways to make a lasting difference.

Management Discussion and Analysis

Mission, Purpose Statement, Organizing Principles and Priority Initiatives

Mission

The mission of the Denali Commission is to provide infrastructure, job training and to support economic development. The Commission was established with a specific focus on promoting rural development in the following areas: bulk fuel storage, power generation, health care facilities, surface transportation and waterfront facilities, communication systems and specialty housing (e.g. domestic violence shelters). In executing the mission, the Commission strives to deliver services in the most cost-effective manner possible.

Purpose Statement

Promote Rural Development by Unlocking More Powerful Solutions

Organizing Principles

- Lead transformational change to meet the infrastructure needs of rural communities in a sustainable manner
- Deliver federal services in the most cost-effective and transparent manner, utilizing public input every step of the way
- Focus on community infrastructure
- Use existing statutory authority, maximize Federal agencies in Alaska to effectively leverage infrastructure funds and maximize federal-state-municipal-tribal coordination
- Actively promote good governance, accountability and innovation

Priority Initiatives

1. Work with Federal and non-Federal stakeholders to define the future of the Denali Commission and ensure alignment of all partners.
2. Protect existing infrastructure investments.
3. Continue to develop and implement the new Village Infrastructure Protection program.
4. Maintain relevance and impact in rural Alaska.

Management Discussion and Analysis

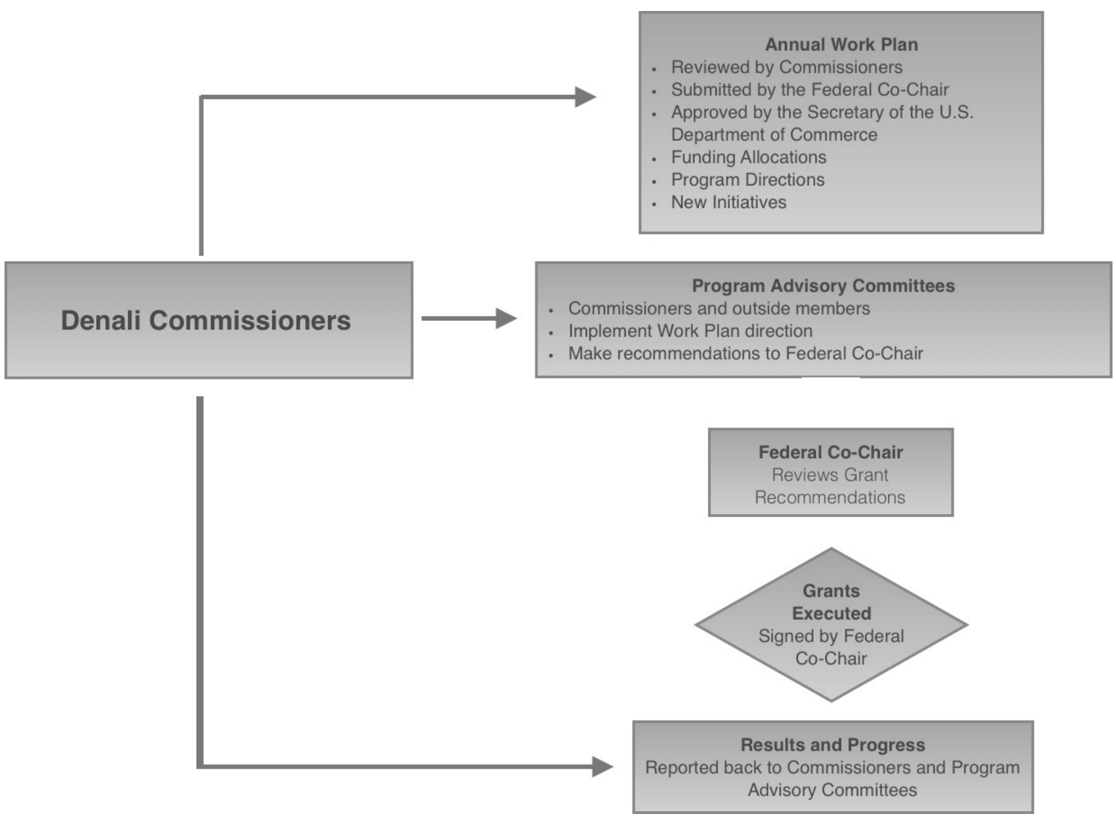
Denali Commissioners

The Denali Commission Act designates seven leading Alaskan policy makers by position to form a team as the Denali Commissioners:

- Federal Co-Chair, appointed by the U.S. Secretary of Commerce
- The Governor of Alaska, who serves as the State Co-Chair*
- President of the University of Alaska
- President of the Alaska Municipal League
- President of the Alaska Federation of Natives
- Executive President of the Alaska AFL-CIO
- President of the Associated General Contractors of Alaska

Commissioners meet at least twice a year to develop and monitor annual work plans that guide the agency's activities. Commissioners draw upon community-based comprehensive plans as well as comments from individuals, organizations and partners to guide funding recommendations. This approach helps provide basic services in the most cost-effective manner by moving the problem-solving resources closer to the people best able to implement solutions.

* The Governor has delegated this authority to the Lieutenant Governor.



Management Discussion and Analysis

Work Plan

Commissioners identified general program funding levels for the FY2019 Work Plan during a meeting on January 29, 2018. Funding levels were based on anticipated “Base” appropriations and an estimate of the 2019 allocations from the Trans-Alaska Pipeline Liability Fund (TAPL). On March 5, 2018, the Agency held a public hearing to receive verbal comments on the draft Work Plan. Written comments were accepted up to March 15th. In total, four comments were received. Commissioners approved the draft Work Plan on April 5, 2018. They made no changes to the draft Work Plan based on public comments. The draft FY2019 work plan was then published in the Federal Register on April 25, 2018. The comment period was through May 31st. Two comments were received. On June 29th, the draft FY2019 Work Plan was submitted to the Department of Commerce. The Department formally approved the Work Plan on July 18, 2018.

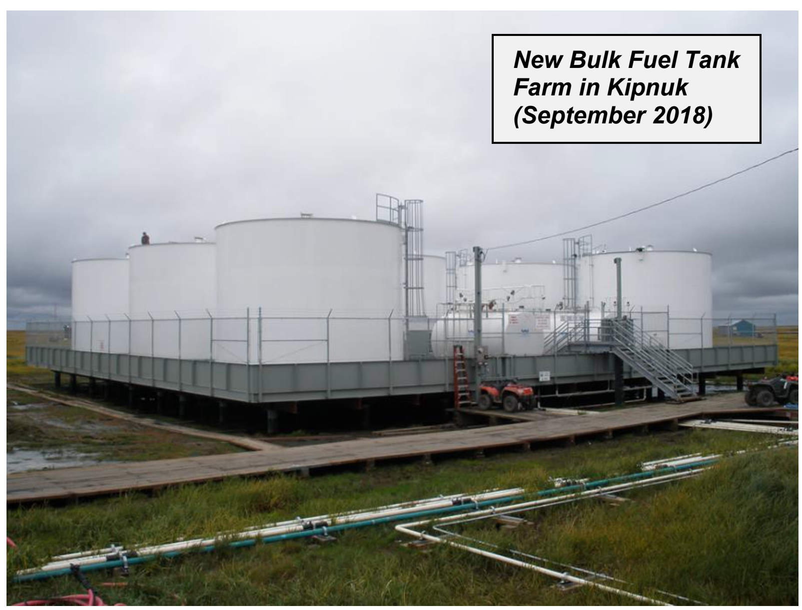
The approved FY2019 Work Plan included $6.8M for the Energy Program, $1.9M for the Bulk Fuel Program, and $5.0M for the Village Infrastructure Protection Program. The full FY2019 Work Plan can be found in the Other Accompanying Information section of this document.

Program Resources

In FY2019, no project specific funds were provided in any appropriations to the Commission. The final FY2019 Energy and Water Appropriations Bill included $15M of “Base” funding for the Commission. $11M of this amount was made available for program related activities/projects. This amount was consistent with the assumed Base funding in the Work Plan. During FY2019 approximately $2.4M of additional prior year Base funding was made available for program activities/projects via transfers from administrative reserves.

In FY2019 a total of $2,993,070 of TAPL funding was transferred to the Commission. $2,843,417 of this amount was made available for bulk fuel program related activities/projects. This amount was approximately $1.1M higher than the assumed TAPL allocation in the Work Plan.

During FY2019, the Commission also received approximately $3.4M from other agencies for program activities/projects. Note that all of these funds were received in the last two months of the fiscal year.



New Bulk Fuel Tank Farm in Kipnuk (September 2018)

Base, TAPL and other funds transferred to the Commission remain available for use until expended.

Management Discussion and Analysis

Functional Uses of FY2019 Budgetary Resources

The FY2019 Commission budgetary authority funded Commission operating costs and the following program activities/projects.

Energy Program

- Power System Upgrades
- Bulk Fuel Storage Facility Upgrades
- Power System and Bulk Fuel Facility Maintenance and Improvement Projects
- Power System and Bulk Fuel Facility Operator Training
- Community Energy Efficiency Projects

Village Infrastructure Protection Program

- Projects and Activities for the Communities of Newtok, Kivalina, Shishmaref, and Shaktoolik
- Other Projects and Activities for Communities Identified in GAO Report 09-551
- General Program Development and Support Activities

As is customary, when additional Base, TAPL or other program funds become available during the year once actual project budgets are finalized and/or when active projects are completed under budget, those excess funds are applied to the programs approved in the current year Work Plan.

Program Obligations

Commission staff implement the annual Work Plan via grants, cooperative agreements, and contracts. It is difficult to link funding directly or exclusively in a particular year, with an individual award or specific performance/outcomes in the same year because of certain timing issues. For example, in some years the Work Plan approval process has not been completed until the third or fourth quarter of the fiscal year. And in some years, the Base funds have been delayed due to the congressional appropriation process not being complete by 30 September, and/or direct transfers from other agencies were delayed. In addition, because the construction season is very short in most of rural Alaska, unless funds can be obligated very early in the fiscal year, physical construction cannot start until the following year. Finally, larger projects typically involve winter shut down periods and take several construction seasons to complete. For these reasons, it is more informative to summarize the funding available over several consecutive years, followed by a summary of the actual grants, agreements and contracts issued during a similar period. Invariably, the obligating documents involve a mixture of funds from several fiscal years and/or sources, and the projects supported with these funds take longer than a year to complete.

A summary of the program funds available in FY2016, FY2017, FY2018 and FY2019 appears below, followed by a summary of all the program investments/obligations actually made during the same period.

Management Discussion and Analysis

A summary of the program funds available in FY2016, FY2017, FY2018 and FY2019 appears below, followed by a summary of all the program investments/obligations actually made during the same period.

Program Resource Summary[a]

Year	Base	TAPL	Other[c]
FY2016[b] + FY2017 + 2018	$56,453,122	$24,587,582	$12,900,376
FY2019	$14,615,080	$2,851,194	$4,434,156
Subtotals	**$71,068,202**	**$27,438,776**	**$17,334,532**
Total	**$115,841,510**		

a. All allocations for Program activities and projects, including deobligations from completed projects
b. Includes prior year unobligated funds
c. DOA/RUS, DOT, State, DHHS/CDC, EPA, DOE

Program Obligations April 2016 thru September 2019

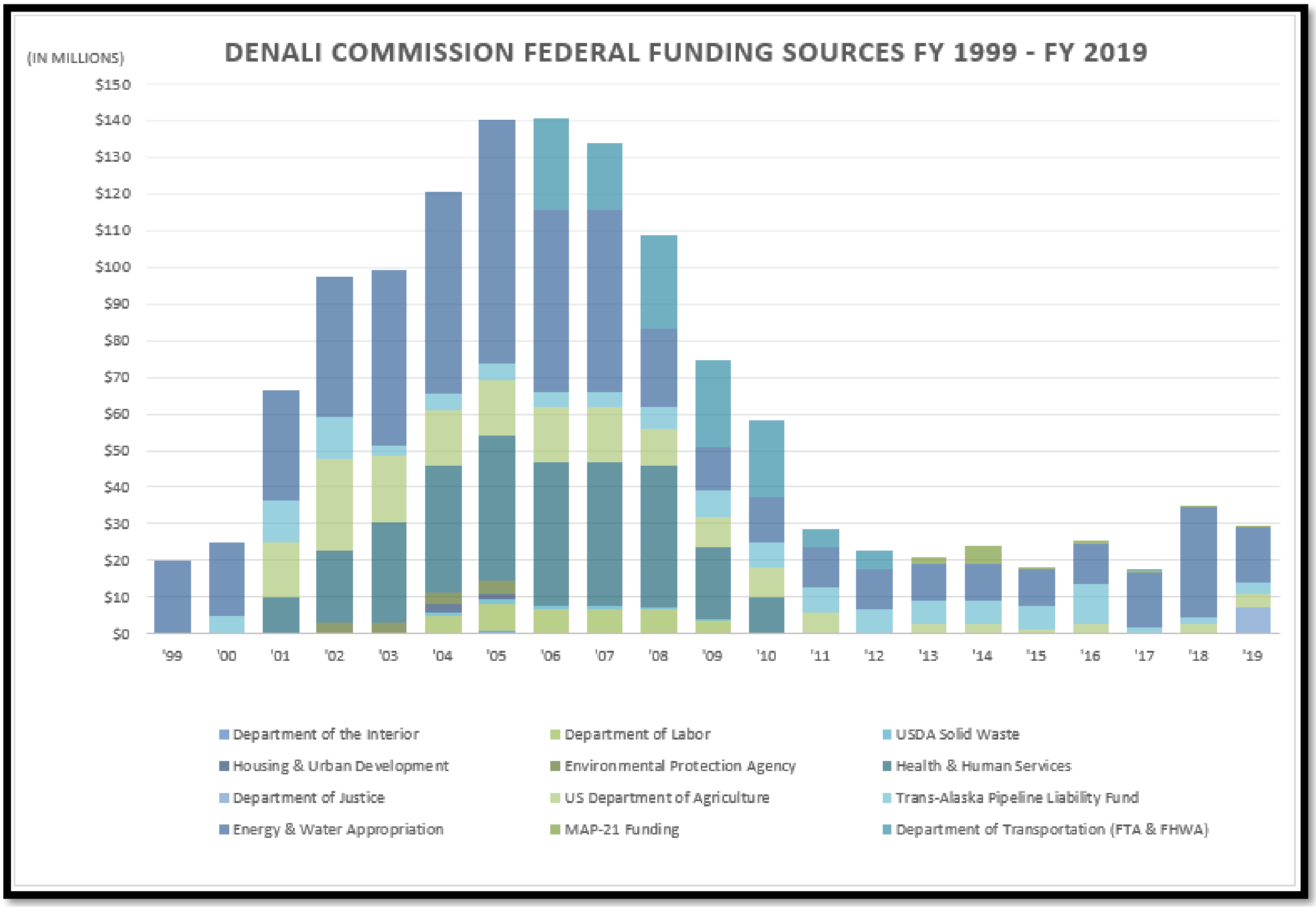
Program	Amount
Energy / Bulk Fuel[d]	**$59,749,118**
Transportation	**$11,455,628**
Village Infrastructure Protection	**$41,263,715**
Special Projects[e,f]	**$2,740,526**
Total	**$115,208,987**
% of Available Resources	**99.5%**

d. *Including $4,080,000 committed for the Roadbelt Intertie and Chitna Hydro projects on 25 September 2019*
e. *Including $466,860 committed for the EPA Backhaul Alaska project on 18 September 2018 and 25 September 2019*
f. *Including $250,094 committed for DOE/OIE Technical Assistance on 25 September 2019*

Management Discussion and Analysis

Financial Performance Overview

As of September 30, 2019, the financial condition of the Denali Commission was sound with respect to having sufficient funds to meet program needs and adequate control of these funds in place to ensure obligations did not exceed budget authority. Agency audits were conducted in accordance with auditing standards generally accepted in the United States of America, OMB Bulletin 07-04 (Audit Requirements for Federal Financial Statements) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.



Management Discussion and Analysis

Financial Performance Overview

Sources of Funds

The Denali Commission is funded through the Energy and Water Appropriation, which is direct budget authority; funds remain available until expended.

MAP-21 granted authority to accept funding from both federal and non-federal sources to carry out the purposes of the Denali Commission Act.

The Commission is the recipient of a portion of the interest earned on the trust fund for the Trans-Alaska Pipeline Liability (TAPL) fund. In FY 2019, $2.99 million was transferred to the Commission to assist in efforts to make bulk fuel tanks in Alaska code-compliant.

Budget Authority	FY 2019
Appropriations Received	$15,000,000
Appropriations Transferred In	7,000,000
Nonexpenditure Transfers	2,993,069
Offsetting Collections	9,669,312
Donations and Forfeitures of Cash and Cash Equivalents	101,181
Total Budget Authority	**$34,763,562**

In FY 2019, Denali Commission's total budgetary resources were $40.74 million, which includes $0.96 million in unobligated balances brought forward.

Uses of Funds by Function

The Denali Commission incurred obligations of $33.05 million in FY 2019 for program and administration operations. Unobligated funds in the amount of $0.59 million were carried forward, for obligation in FY 2020.

Management Discussion and Analysis

Financial Statement Highlights

The Denali Commission's financial statements summarize the financial activity and financial position of the agency. The financial statements, footnotes and the balance of the required supplementary information appear in the Financial Section of this document.

Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 USC 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with Generally Accepted Accounting Principles (GAAP) for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the US Government, a sovereign entity.

Balance Sheet

Assets

The Commission's assets were $86.34 million as of September 30, 2019. This is an increase of $3.48 million from the end of FY 2018. The Commission's largest asset, Fund Balance with Treasury, increased due to a decrease in grant disbursements to recipients. The assets reported on the Commission's balance sheet are summarized in the accompanying table.

Assets Summary	FY 2019	FY 2018
Fund Balance with Treasury	$86,340,452	$82,855,642
Other Intragovernmental Assets	-	-
Accounts Receivable, Public	74	-
Other Accounts Receivable, Public	-	-
Total Assets	**$86,340,526**	**$82,855,642**

Management Discussion and Analysis

Financial Statement Highlights

Liabilities

The Denali Commission's liabilities were $13.71 million as of September 30, 2019, an increase of $10.11 million from the end of FY 2018. The liabilities reported on the Commission's balance sheet are summarized in the accompanying table.

Liabilities Summary	FY 2019	FY 2018
Accounts Payable, Intragovernmental	$103,754	$50,000
Other Intragovernmental Liabilities	266,019	263,835
Accounts Payable, Public	29,582	6,369
Other Liabilities, Public	13,308,176	3,272,517
Total Liabilities	**$13,707,531**	**$3,592,721**

Net Position

The difference between total assets and total liabilities, net position, was $72.63 million as of September 30, 2019. This is a decrease of $6.63 million from the FY 2018 year-end balance. The net position reported on the Denali Commission's balance sheet is summarized in the accompanying table.

Net Position Summary	FY 2019	FY 2018
Unexpended Appropriations	$18,193,788	$22,631,959
Cumulative Results of Operations	54,439,207	56,630,962
Total Net Position	**$72,632,995**	**$79,262,921**

Management Discussion and Analysis

Financial Statement Highlights

Statement of Net Cost

The Statement of Net Cost reports the cost of conducting the Denali Commission programs during the reporting period. The accompanying table displays the net cost for FY 2019 and FY 2018.

Net Cost	FY 2019	FY 2018
Program Costs	$41,505,397	$32,476,008
Less: Earned Revenue	-	-
Total Net Costs of Operations	**$41,505,397**	**$32,476,008**

Statement of Changes in Net Position

The net position for the year ended September 30, 2019 was $72.63 million, a decrease of $6.63 million from FY 2018. This decrease is primarily due to a change in spending patterns in FY 2019.

Statement of Budgetary Resources

The Statement of Budgetary Resources reflects the budget authority that the Denali Commission possesses and compares the status of that budget authority. The Commission had $40.74 million in total budgetary resources for FY 2019 – comprised of direct appropriations, no expenditure transfers from other federal agencies, and an unobligated balance available from FY 2018. During the fiscal year, $33.05 million was obligated for program and administrative functions; $0.59 million in funds were carried forward and will be available for obligation in FY 2020. Net outlays in FY 2019 amounted to $21.39 million.

Analysis of Systems, Controls and Legal Compliance

Federal Managers' Financial Integrity Act (FMFIA)

The Federal Managers' Financial Integrity Act (FMFIA or the Integrity Act) provides the statutory basis for management's responsibility for, and assessment of, accounting and administrative internal controls. Such controls include program, operational, and administrative areas, as well as accounting and financial management. The FMFIA requires executive agencies to establish internal and administrative controls in accordance with standards prescribed by the Comptroller General that provide reasonable assurance that obligations and costs are in compliance with applicable laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to maintain accountability over the assets. The FMFIA also requires the agency head to annually assess and report on the effectiveness of internal controls that protect the integrity of federal programs and whether financial management systems conform to related requirements.

FMFIA Statement of Assurance

The Denali Commission management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). I am able to provide an unqualified statement of assurance of the agency's compliance with the FMFIA. The Commission's internal controls provide for effective and efficient programmatic operations, reliable financial reporting, and compliance with applicable laws and regulations. Assessments have been conducted in regard to the internal controls over financial reporting. The Commission attests the reasonable assurance that the internal controls over financial reporting comply with the requirements of the FMFIA.

Further, evaluations tested the effectiveness of the internal control over operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. Based on the results of these evaluations, the Denali Commission can provide reasonable assurance that
its internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2019, was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

Finally, the US Treasury, Bureau of Fiscal Service (BFS) (Denali Commission's Financial Management Line of Business partner) engages a contractor to independently review its financial management systems in accordance with OMB Circular A-127, Financial Management Systems. Based on the results of this review, BFS and therefore the Denali Commission can provide reasonable assurance that its financial management systems are in compliance with the applicable provisions of the FMFIA as of September 30, 2019.

Analysis of Systems, Controls and Legal Compliance

Federal Financial Management Improvement Act (FFMIA)

Federal Financial Management Improvement Act (FFMIA)

The Federal Financial Management Improvement Act (FFMIA) is designed to advance Federal financial management by ensuring that Federal financial management systems provide accurate, reliable, and timely financial management information to the government's managers. Compliance with the FFMIA provides the basis for the continuing use of reliable financial management information by program managers, and by the President, Congress and the public.

FFMIA Compliance Determination

The Commission utilizes the services of US Treasury BFS and its financial management system. Annual audits of their system indicate that the system complies with federal financial management systems requirements, standards promulgated by the Federal Accounting Standards Advisory Board (FASAB), and U.S. Standard General Ledger (USSGL) at the transaction level. The annual financial audit confirms this finding.

Goals and the supporting financial systems strategies

As a small agency, the Commission has arrived at the conclusion that human and financial resources internal to the agency are not sufficient to meet the increasing federal standards for financial systems and the costs involved. Therefore, in 2009, the Commission outsourced our financial management system and transactional level activities to the U.S. Treasury BFS. This strategy has proven effective and efficient and allows this small agency to assure the President, Congress and the public that federal budget authority entrusted to the Commission is executed responsibly and with full accountability.

John Torgerson
Interim Federal Co-Chair

Financial Section

Inspector General Transmittal Letter

INSPECTOR GENERAL

MEMORANDUM

DATE: July 2, 2020

TO: John Torgerson
Interim Federal Co-Chair, Denali Commission

Dr. Tamika L. Ledbetter
State Co-Chair, Commissioner Alaska Department of Labor and Workforce Development

Alicia Siira
Executive Director, Associated General Contractors of Alaska

Julie E. Kitka
President, Alaska Federation of Natives

Nils Andreassen
Executive Director, Alaska Municipal League

Dr. Jim Johnsen
President, University of Alaska

Vince Beltrami
Executive President, Alaska State AFL-CIO

FROM: Roderick H. Fillinger
Inspector General

SUBJECT: *FY 2019 Financial Statements Audit*
Final Report No. 2020-02

I am pleased to provide you with the attached audit report in which SB & Company, LLC (SBC), an independent public accounting firm, presented an unmodified opinion on the Denali Commission's fiscal year 2019 financial statements. SBC performed the audit in accordance with U.S. generally accepted government auditing standards.

Financial Section

Inspector General Transmittal Letter

In its audit of the Denali Commission, SBC

- Identified material weaknesses in internal control over financial reporting and grant origination;
- Identified no instances of noncompliance with provisions of applicable law, regulations, contracts, and grant agreements; and
- Determined that the financial statements were fairly presented in all material respects and in conformity with U.S. generally accepted accounting principles.

My office oversaw the audit performance, including the review of SBC's report and related documentation and inquiries of its representatives.[i] This review disclosed no instances where SBC did not comply, in all material respects, with U.S. generally accepted government auditing standards. As differentiated from an audit in accordance with these standards, my review was not intended to enable me to express any opinion on the Denali Commission's financial statements. Therefore, I do not express any opinion on the Denali Commission's financial statements, conclusions about the effectiveness of internal controls, or conclusions on compliance with laws, regulations, contracts, and grant agreements. SBC is solely responsible for the attached report, dated June 29, 2020, and the conclusions expressed in it.

We appreciate the cooperation and courtesies the Denali Commission extended to both SBC and my office during the audit. If you wish to discuss the contents of this report, please call me at (907) 271-3500.

Attachment

cc: John Whittington, General Counsel

[i] A portion of the work performed by SBC was overseen by an interim inspector general who ended her oversight role as of September 30, 2019. Although SBC timely provided the deliverable, there was no inspector general to review the work and issue the report in November 2019. Upon my appointment commencing January 19, 2020, work resumed to complete the report.

Financial Section

Report of Independent Public Accountants

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Office of the Inspector General and the Denali Commission

In our audits of the fiscal years 2019 and 2018 financial statements of the Denali Commission (the Commission, we found

- The Commission's financial statements as of and for the fiscal years ended September 30, 2019 and 2018, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles.
- The Commission's internal control over financial reporting was not effective for the fiscal year ended September 30, 2019; and
- no reportable noncompliance for fiscal year 2019 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements, which includes the description of the material weakness in internal controls over financial reporting and required supplementary information (RSI) and other information included with the financial statements; (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, and grant agreements; and (4) agency comments.

Report on the Financial Statements

We have audited the Commission's financial statements. The Commission's financial statements comprise the balance sheets as of September 30, 2019 and 2018; the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements.

We conducted our audits in accordance with U.S. generally accepted government auditing standards. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

<u>Management's Responsibility</u>

The Commission's management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits.

U.S. generally accepted government auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audits also included performing such other procedures as we considered necessary in the circumstances.

Opinion on Financial Statements

In our opinion, the Commission's financial statements present fairly, in all material respects, the Commission's financial position as of September 30, 2019 and 2018, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

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Other Information

The Commission's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on the Commission's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Other Matter

During the year ended September 30, 2019, the former interim inspector general began an investigation into certain members of senior management of the Commission. See note 14 to the financial statements for more information. Our opinion is not modified with respect to this matter.

Report on Internal Control over Financial Reporting

In connection with our audits of the Commission's financial statements, we considered the Commission's internal control over financial reporting, consistent with our auditor's responsibility discussed below. We performed our procedures related to the Commission's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

The Commission's management is responsible for maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

In planning and performing our audit of the Commission's financial statements as of and for the year ended September 30, 2019, in accordance with U.S. generally accepted government auditing standards, we considered the Commission's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances 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 over financial reporting.

Accordingly, we do not express an opinion on the Commission's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

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Financial Section

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Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, as described below, that we considered to be a material weakness.

Material Weakness in Internal Control Over Financial Reporting

During our 2019 audit, we noted that during the year-end close process, management did not perform a review of the journal entries and underlying support used to record grant payables and thus actual amounts recorded did not reconcile to grantee confirmations of activity. We also noted certain other payable activity that was not recorded for the financial statements. As a result, an audit entry of approximately $4.4 million was required to properly state the financial statements.

During our 2019 audit, we also noted that a grant was awarded subsequent to September 30, 2019 to an entity in which the now former Federal Co-Chair of the Commission is the current executive director of the entity. These actions by the former Federal Co-Chair may be violations of 18 U.S.C. § 207. We noted no documentation or other considerations in the grant file related to the grant being awarded to an entity that is led by the former Federal Co-Chair of the Commission within two months of the former Federal Co-Chair's departure from the Commission even though the issue was raised with senior leadership.

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Intended Purpose of Report on Internal Control over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of the Commission's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of the Commission's internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of the Commission financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

The Commission's management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the Commission.

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to the Commission that have a direct effect on the determination of material amounts and disclosures in the Commission's financial statements and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Commission.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2018 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to the Commission. Accordingly, we do not express such an opinion.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government

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Financial Section

Report of Independent Public Accountants

SB & COMPANY, LLC
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auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Agency Comments

In commenting on a draft of this report, the Commission commented on the results discussed within this opinion. The complete text of the Commission's response is reprinted in appendix II. We have not performed any audit procedures on the Commission's response and take no responsibility for the response. The findings stated within this opinion remain as stated.

SB & Company, LLC

Owings Mills, Maryland
June 29, 2020

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Financial Section

Financial Statements

DENALI COMMISSION

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
SEPTEMBER 30, 2019 AND 2018

Financial Section

Financial Statements

DENALI COMMISSION
FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

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DENALI COMMISSION
BALANCE SHEET
AS OF SEPTEMBER 30, 2019 AND 2018
(In Dollars)

	2019	2018
Assets:		
Intragovernmental		
Fund Balance With Treasury (Note 3)	$ 86,340,452	$ 82,855,642
Total Intragovernmental	86,340,452	82,855,642
Accounts Receivable, Net (Note 4)	74	-
Total Assets	$ 86,340,526	$ 82,855,642
Liabilities:		
Intragovernmental		
Accounts Payable	$ 218,153	$ 50,000
Other (Note 6)	266,019	263,835
Total Intragovernmental	484,172	313,835
Accounts Payable	29,582	6,369
Other (Note 6)	13,800,064	3,272,517
Total Liabilities	$ 14,313,818	$ 3,592,721
Net Position:		
Unexpended Appropriations - Other Funds	$ 17,587,502	$ 22,631,959
Cumulative Results of Operations - Funds from Dedicated Collections (Note 8)	13,176,894	14,484,022
Cumulative Results of Operations - Other Funds	41,262,312	42,146,940
Total Net Position	$ 72,026,708	$ 79,262,921
Total Liabilities and Net Position	$ 86,340,526	$ 82,855,642

The accompanying notes are an integral part of these financial statements

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Financial Section

Financial Statements

DENALI COMMISSION
STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018
(In Dollars)

	2019	2018
Program Costs:		
Gross Costs	$ 42,111,684	$ 32,476,008
Less: Earned Revenue	-	-
Net Program Costs	$ 42,111,684	$ 32,476,008
Net Cost of Operations	$ 42,111,684	$ 32,476,008

The accompanying notes are an integral part of these financial statements.

Financial Section

Financial Statements

DENALI COMMISSION
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018
(In Dollars)

	2019 Funds from Dedicated Collections	2019 All Other Funds	2019 Consolidated Total	2018 Funds from Dedicated Collections	2018 All Other Funds	2018 Consolidated Total
Unexpended Appropriations:						
Beginning Balances	$ -	$ 22,631,959	$ 22,631,959	$ -	$ 2,588,086	$ 2,588,086
Budgetary Financing Sources:						
Appropriations Received	-	15,000,000	15,000,000	-	30,000,000	30,000,000
Appropriations Transferred In/Out	-	7,000,000	7,000,000	-	-	-
Appropriations Used	-	(27,044,457)	(27,044,457)	-	(9,956,127)	(9,956,127)
Total Budgetary Financing Sources	-	(5,044,457)	(5,044,457)	-	20,043,873	20,043,873
Total Unexpended Appropriations	$ -	$ 17,587,502	$ 17,587,502	$ -	$ 22,631,959	$ 22,631,959
Cumulative Results of Operations:						
Beginning Balances	$ 14,484,022	$ 42,146,940	$ 56,630,962	$ 14,926,268	$ 48,937,815	$ 63,864,083
Budgetary Financing Sources:						
Appropriations Used	-	27,044,457	27,044,457	-	9,956,127	9,956,127
Donations and Forfeitures of Cash and Cash Equivalents	-	101,181	101,181	-	-	-
Transfers In/Out Without Reimbursement	2,993,069	9,669,312	12,662,381	2,193,172	12,988,801	15,181,973
Other Financing Sources (Non-Exchange):						
Imputed Financing Sources (Note 13)	-	111,909	111,909	-	104,787	104,787
Total Financing Sources	2,993,069	36,926,859	39,919,928	2,193,172	23,049,715	25,242,887
Net Cost of Operations	(4,300,197)	(37,811,487)	(42,111,684)	(2,635,418)	(29,840,590)	(32,476,008)
Net Change	(1,307,128)	(884,628)	(2,191,756)	(442,246)	(6,790,875)	(7,233,121)
Cumulative Results of Operations	$ 13,176,894	$ 41,262,312	$ 54,439,206	$ 14,484,022	$ 42,146,940	$ 56,630,962
Net Position	$ 13,176,894	$ 58,849,814	$ 72,026,708	$ 14,484,022	$ 64,778,899	$ 79,262,921

The accompanying notes are an integral part of these financial statements.

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Financial Statements

DENALI COMMISSION
STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018
(In Dollars)

	2019	2018
Budgetary Resources:		
Unobligated balance from prior year budget authority, net	$ 5,972,062	$ 6,813,918
Appropriations	24,993,070	32,193,172
Spending authority from offsetting collections	9,770,492	12,988,800
Total Budgetary Resources	$ 40,735,624	$ 51,995,890
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	$ 33,046,000	$ 51,039,131
Unobligated balance, end of year:		
Apportioned, unexpired account	588,443	956,759
Unapportioned, unexpired accounts	7,101,181	-
Unobligated balance, end of year (total)	7,689,624	956,759
Total Budgetary Resources	$ 40,735,624	$ 51,995,890
Outlays, net:		
Agency outlays, net	$ 21,385,493	$ 17,278,001

The accompanying notes are an integral part of these financial statements.

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Financial Statements

DENALI COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Denali Commission was established under the Denali Commission Act of 1998 (P.L. 105-277, Division C, Title III), as amended and 42 U.S.C. Chapter 38, Sec. 3121. The Commission, a "designated" federal entity as published by the Office of Management and Budget under the Inspector General Act of 1978, functions as a unique federal-state-local partnership to address crucial needs of rural Alaskan communities, particularly isolated Native villages and other communities lacking access to the national highway system, affordable power, adequate health facilities and other impediments to economic self-sufficiency. The Denali Commission reporting entity is comprised of Trust Funds, General Funds, Special Funds and General Miscellaneous Receipts.

The Denali Commission is a party to allocation transfers with other federal agencies as a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived. The Denali Commission receives allocation transfers, as the child, from the Federal Highway Administration under the Department of Transportation.

Trust Funds are credited with receipts that are generated by terms of a trust agreement or statute. At the point of collection, our receipts are unavailable until appropriated by the U.S. Congress. The Trust Fund in our financial statements includes the Trans-Alaska Pipeline Liability Fund (TAPL), which is managed by the U.S. Treasury Bureau of Fiscal Service, and assists the efforts to make bulk fuel tanks in Alaska EPA code-compliant.

General Funds are accounts used to record financial transactions arising under congressional appropriations or other authorizations to spend general revenues. Denali Commission manages two General Fund accounts.

Special Funds are receipt accounts credited with collections earmarked by law but included in the Federal funds group rather than classified as trust fund collections.

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General Fund Miscellaneous Receipts are accounts established for receipts of non-recurring activity, such as fines, penalties, fees and other miscellaneous receipts for services and benefits.

B. Basis of Presentation

The financial statements have been prepared to report the financial position and results of operations of the Denali Commission. The Balance Sheet presents the financial position of the agency. The Statement of Net Cost presents the agency's operating results; the Statement of Changes in Net Position displays the changes in the agency's equity accounts. The Statement of Budgetary Resources presents the sources, status, and uses of the agency's resources and follows the rules for the Budget of the United States Government.

The statements are a requirement of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. They have been prepared from, and are fully supported by, the books and records of the Denali Commission in accordance with the hierarchy of accounting principles generally accepted in the United States of America, standards issued by the Federal Accounting Standards Advisory Board (FASAB), Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements,* as amended, and the Denali Commission accounting policies which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control the Denali Commission's use of budgetary resources. The financial statements and associated notes are presented on a comparative basis. Unless specified otherwise, all amounts are presented in dollars.

C. Basis of Accounting

Transactions are recorded on both an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements on the use of federal funds.

D. Fund Balance with Treasury

Fund Balance with Treasury is the aggregate amount of the Denali Commission's funds with Treasury in expenditure, receipt, and deposit fund accounts. Appropriated funds recorded in expenditure accounts are available to pay current liabilities and finance authorized purchases.

The Denali Commission does not maintain bank accounts of its own, has no disbursing authority, and does not maintain cash held outside of Treasury. Treasury disburses funds for the agency on demand.

E. Accounts Receivable

Accounts receivable consists of amounts owed to the Denali Commission by other federal agencies and the general public. Amounts due from federal agencies are considered fully collectible. Accounts receivable from the public include reimbursements from employees. An allowance for uncollectible accounts receivable from the public is established when, based upon a review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur considering the debtor's ability to pay.

F. Advances and Prepaid Charges

Advance payments are generally prohibited by law. There are some exceptions, such as reimbursable agreements, subscriptions and payments to contractors and employees. Payments made in advance of the receipt of goods and services are recorded as advances or prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

G. Liabilities

Liabilities represent the amount of funds likely to be paid by the Denali Commission as a result of transactions or events that have already occurred.

The Denali Commission reports its liabilities under two categories, Intragovernmental and With the Public. Intragovernmental liabilities represent funds owed to another government agency. Liabilities with the Public represent funds owed to any entity or person that is not a federal agency, including private sector firms and federal employees. Each of these categories may include liabilities that are covered by budgetary resources and liabilities not covered by budgetary resources.

Liabilities covered by budgetary resources are liabilities funded by a current appropriation or other funding source. These consist of accounts payable and accrued payroll and benefits. Accounts payable represent amounts owed to another entity for goods ordered and received and for services rendered except for employees. Accrued payroll and benefits represent payroll costs earned by employees during the fiscal year which are not paid until the next fiscal year.

Liabilities not covered by budgetary resources are liabilities that are not funded by any current appropriation or other funding source. These liabilities consist of accrued annual leave, actuarial FECA, and the amounts due to Treasury for collection and accounts receivable of civil penalties and FOIA request fees.

H. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. The balance in the accrued leave account is adjusted to reflect current pay rates. Liabilities associated with other types of vested leave, including compensatory, restored leave, and sick leave in certain circumstances, are accrued at year-end, based on latest pay rates and unused hours of leave. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Nonvested leave is expensed when used. Any liability for sick leave that is accrued but not taken by a Civil Service Retirement System (CSRS)-covered employee is transferred to the Office of Personnel Management (OPM) upon the retirement of that individual. Credit is given for sick leave balances in the computation of annuities upon the retirement of Federal Employees Retirement System (FERS)-covered employees.

I. Accrued and Actuarial Workers' Compensation

The Federal Employees' Compensation Act (FECA) administered by the U.S. Department of Labor (DOL) addresses all claims brought by the Denali Commission employees for on-the-job injuries. The DOL bills each agency annually as its claims are paid, but payment of these bills is deferred for two years to allow for funding through the budget process. Similarly, employees that the Denali Commission terminates without cause may receive unemployment compensation benefits under the unemployment insurance program also administered by the DOL, which bills each agency quarterly for paid claims. Future appropriations will be used for the reimbursement to DOL. The liability consists of (1) the net present value of estimated future payments calculated by the DOL, and (2) the unreimbursed cost paid by DOL for compensation to recipients under the FECA.

J. Other Post-Employment Benefits

The Denali Commission employees eligible to participate in the Federal Employees' Health Benefits Plan (FEHBP) and the Federal Employees' Group Life Insurance Program (FEGLIP) may continue to participate in these programs after their retirement. The OPM has provided the Denali Commission with certain cost factors that estimate the true cost of providing the post-retirement benefit to current employees. The Denali Commission recognizes a current cost for these and Other Retirement Benefits (ORB) at the time the employee's services are rendered. The ORB expense is financed by OPM, and offset by the Denali Commission through the recognition of an imputed financing source.

K. Use of Estimates

The preparation of the accompanying financial statements in accordance with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

L. Reclassification

Certain fiscal year 2018 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with the current year presentation.

NOTE 2. NON-ENTITY ASSETS

The Denali Commission Act of 1998 states that one of the purposes of the Commission is to deliver the services of the federal government in the most cost-effective manner practicable by reducing administrative and overhead costs. In the spirit of this legislation, the Commission has offered a service to other federal agencies whereby a federal agency may utilize the Commission to make payments to non-federal organizations in Alaska on the agency's behalf. No fee is collected for this service. Amounts received from the State of Alaska, but not disbursed, are recorded on the Balance Sheet in the Fund Balance with Treasury line and are offset by a liability on the Other Liabilities line. This balance is $446,104 and $568,871 as of September 30, 2019 and September 30, 2018, respectively.

NOTE 3. FUND BALANCE WITH TREASURY

Fund balance with Treasury account balances as of September 30, 2019 and 2018, were as follows:

	2019	2018
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	$ 588,443	$ 956,759
Unavailable	7,101,181	-
Obligated Balance Not Yet Disbursed	77,867,221	80,992,509
Temporary Sequestration-TAPL	337,503	337,503
Non-Budgetary FBWT	446,104	568,871
Total	$ 86,340,452	$ 82,855,642

No discrepancies exist between the Fund Balance reflected on the Balance Sheet and the balances in the Treasury accounts.

The available unobligated fund balances represent the current-period amount available for obligation or commitment. At the start of the next fiscal year, this amount will become part of the unavailable balance as described in the following paragraph.

The unavailable unobligated fund balances represent the amount of appropriations for which the period of availability for obligation has expired. These balances are available for upward adjustments of obligations incurred only during the period for which the appropriation was available for obligation or for paying claims attributable to the appropriations.

The obligated balance not yet disbursed includes accounts payable, accrued expenses, and undelivered orders that have reduced unexpended appropriations but have not yet decreased the fund balance on hand.

Financial Statements

NOTE 4. ACCOUNTS RECEIVABLE

Accounts receivable balances as of September 30, 2019 and 2018, were as follows:

		2019		2018
With the Public				
Accounts Receivable	$	74	$	-
Total Public Accounts Receivable	$	74	$	-
Total Accounts Receivable	$	74	$	-

Historical experience has indicated that the majority of the receivables are collectible. There are no material uncollectible accounts as of September 30, 2019 and 2018.

NOTE 5. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities for the Denali Commission as of September 30, 2019 and 2018, include liabilities not covered by budgetary resources. Congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities.

		2019		2018
Intragovernmental – FECA	$	1,355	$	1,355
Unfunded Leave		111,781		99,704
Total Liabilities Not Covered by Budgetary Resources	$	113,136	$	101,059
Total Liabilities Covered by Budgetary Resources		14,200,682		6,601,605
Total Liabilities	$	14,313,818	$	6,702,664

Unfunded leave represents a liability for earned leave and is reduced when leave is taken. The balance in the accrued annual leave account is reviewed quarterly and adjusted as needed to accurately reflect the liability at current pay rates and leave balances. Accrued annual leave is paid from future funding sources and, accordingly, is reflected as a liability not covered by budgetary resources. Sick and other leave is expensed as taken.

NOTE 6. OTHER LIABILITIES

Other liabilities account balances as of September 30, 2019 were as follows:

	Current		Non Current		Total	
Intragovernmental						
FECA Liability	$	1,355	$	-	$	1,355
Payroll Taxes Payable		18,148		-		18,148
Other Accrued Liabilities		246,516		-		246,516
Total Intragovernmental Other Liabilities	$	266,019	$	-	$	266,019
With the Public						
Payroll Taxes Payable	$	2,941	$	-	$	2,941
Accrued Funded Payroll and Leave		278,140		-		278,140
Unfunded Leave		111,781		-		111,781
Other Accrued Liabilities - Grants		12,615,477		345,621		12,961,098
Deposit Fund Liability (State of Alaska)		446,104		-		446,104
Total Public Other Liabilities	$	13,454,443	$	345,621	$	13,800,064

Other liabilities account balances as of September 30, 2018 were as follows:

	Current		Non Current		Total	
Intragovernmental						
FECA Liability	$	1,355	$	-	$	1,355
Payroll Taxes Payable		15,964		-		15,964
Other Accrued Liabilities		246,516		-		246,516
Total Intragovernmental Other Liabilities	$	263,835	$	-	$	263,835
With the Public						
Payroll Taxes Payable	$	2,582	$	-	$	2,582
Accrued Funded Payroll and Leave		60,289		-		60,289
Unfunded Leave		99,704		-		99,704
Other Accrued Liabilities - Grants		2,083,880		457,191		2,541,071
Deposit Fund Liability (State of Alaska)		568,871		-		568,871
Total Public Other Liabilities	$	2,815,326	$	457,191	$	3,272,517

NOTE 7. LEASES

Operating Leases

Denali Commission occupies office space under a lease agreement that is accounted for as an operating lease. The lease term began on June 1, 2013 and expires on October 1, 2021. Lease payments are increased annually based on the adjustments for operating cost and real estate tax escalations. The total operating lease expense for fiscal years 2019 and 2018 were $427,541 and $399,910, respectively. Below is a schedule of future payments for the term of the lease.

Fiscal Year		Office Space
2020	$	431,804
2021		436,196
Total Future Payments	$	868,000

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NOTE 8. FUNDS FROM DEDICATED COLLECTIONS

The Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1999 established the annual transfer of interest from the Oil Spill Liability Trust Fund to the Denali Commission. The Coast Guard and the Environmental Protection Agency enlist the assistance of the Commission to help in bringing bulk fuel tanks in Alaska up to environmental and safety standards as set by the two agencies. The Commission accounts for and reports on the use of these funds separately through its annual budget execution reporting.

Schedule of Funds from Dedicated Collections as of September 30, 2019 and 2018.

		2019		2018
Balance Sheet				
ASSETS				
Fund Balance with Treasury	$	13,444,582	$	15,105,581
Total Assets	$	13,444,582	$	15,105,581
LIABILITIES AND NET POSITION				
Accounts Payable	$	52,752	$	-
Other		214,936		621,559
Cumulative Results of Operations		13,176,894		14,484,022
Total Liabilities and Net Position	$	13,444,582	$	15,105,581
Statement of Net Cost				
Program Costs	$	4,300,197	$	2,635,418
Less: Earned Revenues		-		-
Net Cost of Operations	$	4,300,197	$	2,635,418
Statement of Changes in Net Position				
Net Position Beginning of Period	$	14,484,022	$	14,926,268
Net Cost of Operations		(4,300,197)		(2,635,418)
Other Revenue		2,993,069		2,193,172
Change in Net Position		(1,307,128)		(442,246)
Net Position End of Period	$	13,176,894	$	14,484,022

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NOTE 9. BUDGETARY RESOURCE COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT

The President's Budget that will include fiscal year 2019 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2020 and can be found at the OMB Web site: http://www.whitehouse.gov/omb/. The 2020 Budget of the United States Government, with the "Actual" column completed for 2018, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

For the Fiscal Year ended September 30, 2018

Note Presentation, rounded to millions

FY2018	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	$ 52	$ 51	$ (13)	$ 17
Budget of the U.S. Government	$ 52	$ 51	$ (13)	$ 17

NOTE 10. UNDELIVERED ORDERS AT THE END OF THE PERIOD

As of September 30, 2019, budgetary resources obligated for undelivered orders were as follows:

	Federal	Non-Federal	Total
Paid Undelivered Orders	$ -	$ -	$ -
Unpaid Undelivered Orders	8,443,886	55,915,271	64,359,157
Total Undelivered Orders	$ 8,443,886	$ 55,915,271	$ 64,359,157

As of September 30, 2018, budgetary resources obligated for undelivered orders were as follows:

	Federal	Non-Federal	Total
Paid Undelivered Orders	$ -	$ -	$ -
Unpaid Undelivered Orders	15,018,197	63,298,035	78,316,232
Total Undelivered Orders	$ 15,018,197	$ 63,298,035	$ 78,316,232

NOTE 11. CUSTODIAL ACTIVITY

The Commission custodial collection primarily consists of grant monies returned from cancelled funds. While these collections are considered custodial, they are neither primary to the mission of the Commission nor material to the overall financial statements. The Commission's total custodial collections are $0 and $24,207 for the years ended September 30, 2019, and 2018, respectively.

NOTE 12. RECONCILIATION OF NET COST TO NET OUTLAYS

BUDGET AND ACCRUAL RECONCILIATION
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(In Dollars)

	Intragovernmental	With the Public	Total
Net Operating Cost (SNC)	$ 7,607,000	$ 34,504,684	$ 42,111,684
(Increase)/Decrease in assets not affecting Budget Outlays:			
Accounts receivable	-	74	74
(Increase)/Decrease in liabilities not affecting Budget Outlays:			
Accounts payable	(168,153)	(23,213)	(191,366)
Salaries and benefits	(2,184)	(218,209)	(220,393)
Other liabilities	-	(10,432,104)	(10,432,104)
Other financing sources:			
Imputed federal employee retirement benefit costs	(111,909)	-	(111,909)
Transfers out (in) without reimbursement	(9,669,312)	(101,181)	(9,770,493)
Total Components of Net Operating Cost Not Part of the Budget Outlays	$ (9,951,558)	$ (10,774,633)	$ (20,726,191)
Net Outlays (Calculated Total)	$ (2,344,558)	$ 23,730,051	$ 21,385,493
Related Amounts on the Statement of Budgetary Resources			
Outlays, net, (total) (SBR 4190)			21,385,493
Distributed offsetting receipts (SBR 4200)			-
Outlays, Net (SBR 4210)			$ 21,385,493

The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information.

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Financial Statements

NOTE 13. INTER-ENTITY COSTS

Denali Commission recognizes certain inter-entity costs for goods and services that are received from other federal entities at no cost or at a cost less than the full cost. Certain costs of the providing entity that are not fully reimbursed are recognized as imputed cost and are offset by imputed revenue. Such imputed costs relate to employee benefits and claims to be settled by the Treasury Judgement Fund. Denali Commission recognizes as inter-entity costs the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, OPM. For the periods ended September 30, 2019 and 2018, respectively, inter-entity costs were as follows:

	2019	2018
Office of Personnel Management	$ 111,909	$ 104,787
Total Imputed Financing Sources	$ 111,909	$ 104,787

NOTE 14. CONTINGENCIES

Denali Commission is currently under an on-going investigation related to the former chief financial officer and current management of the Commission has not been made aware of any findings or other reportable items to date. However, upon completion of the investigation there may be findings or reportable items related to this investigation.

Other Accompanying Information

Denali Commission FY 2019 Work Plan

DENALI COMMISSION

Improving Lives Through Cost Effective, Sustainable Infrastructure Development

FY 2019 Work Plan

Approved by Department of Commerce on 18 July 2018

line	PROGRAM and TYPE of INVESTMENT	FY2019 FUNDING SOURCES		
		Base[a]	TAPL[b]	Total
1		*$12,000,000*	*$1,700,000*	*$13,700,000*
2	**ENERGY RELIABILITY and SECURITY**			
3	Diesel Power Plants	$3,800,000		$3,800,000
4	Interties			
5	Wind / Microgrids			
6	Hydro, Biomass, Geothermal & Other Renewables			
7	Hydrokinetic & Other Emerging Technologies			
8	Audits, TA, & Community Energy Efficiency Improvements	$500,000		$500,000
9	RPSU Maintenance & Improvement Projects [c]	$2,200,000		$2,200,000
10	Improve Administrative and Operation & Maintenance Practices	$300,000		$300,000
11	**Subtotal**	**$6,800,000**		**$6,800,000**
12	**BULK FUEL SAFETY and SECURITY**			
13	New/Refurbished Facilities [d]		$1,200,000	$1,200,000
14	Maintenance & Improvement Projects		$300,000	$300,000
15	Improve Administrative and Operation & Maintenance Practices	$200,000	$200,000	$400,000
16	**Subtotal**	**$200,000**	**$1,700,000**	**$1,900,000**
17	**VILLAGE INFRASTRUCTURE PROTECTION**			
18	Mertarvik [e]	$3,000,000		$3,000,000
19	Shishmaref [f]	$500,000		$500,000
20	Shaktoolik [g]	$500,000		$500,000
21	Kivalina [h]	$500,000		$500,000
22	Program Development and Support for Other Vulnerable Communities [i]	$500,000		$500,000
23	**Subtotal**	**$5,000,000**		**$5,000,000**
24	**TOTALS**	**$12,000,000**	**$1,700,000**	**$13,700,000**

Notes:

a. Program funds available from the overall FY2019 Energy & Water appropriation + prior year unobligated funds + anticipated recoveries

b. Estimated FY2019 allocation + anticipated recoveries

c. Complement/leverage EPA DERA and VW Settlement fund, general facility and transmission line upgrades

d. Some priority given to projects on existing priority lists that are in environmentally threatened communities

e. Local coordinator, Project Management services, infrastructure development

f. Local coordinator, new town-site planning and design, professional project management services

g. Local coordinator, administrative support, match/gap funding

h. Local coordinator, administrative support, match/gap funding

i. Grant Center of Excellence, mitigation/emergency fund, Hazard Mitigation Plan related initiatives, data analysis, partner support, government coordination, public outreach/public involvement

j. All investment amounts shown for funds directly managed by the Commission are Not To Exceed amounts, i.e., "Up To" amounts

k. Any current year or prior year Base, TAPL or other amounts that are not fully expended may be reassigned to other programs identified in the current year Workplan, above and beyond the Up To amounts

l. The Federal Co-Chair may assign up to $250,000 of prior year Base funds that may become available to Health Care, Housing an/or Workforce Development projects recommended by the Director of Programs

www.denali.gov
907-271-1414

Other Accompanying Information

Financial Management Trends

As a micro agency, the Commission continues to expand use of the services of the Administrative Resource Center (ARC) under the US Treasury, Fiscal Service. These services, which include Travel, Finance, Human Resources and Procurement, allow for our independent agency to continue to meet all federal mandates despite our reduced staff level. ARC has served, and continues to serve, as a cost-effective solution to operational budget challenges during times of decreased appropriations. In a professional manner, ARC ensures that our agency still maintains high quality and exceptional performance in all of our management systems. We look forward to many more years of partnership with this federal Center of Excellence.

Summary of Material Weaknesses, Non-Conformances, and Corrective Action Plans

For FY 2019, the Commission received an unmodified opinion in its annual financial audit. The results of this audit found that the Commission’s financial statements as of and for the fiscal years ended September 30, 2019 and 2018, were presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles, the Commission’s internal control over financial reporting was not effective for the fiscal year ended September 30, 2019; and no reportable noncompliance for fiscal year 2019 with provisions of applicable laws, regulations, contracts, and grant agreements that were tested.

For FY 2018, the Commission received an unmodified opinion in its annual financial audit. The results of this audit also found no material weaknesses and no significant deficiencies. The auditor stated that the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles; that the Commission has effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations, along with no reportable noncompliance with laws and regulations with the items that were tested.

Other Accompanying Information

Improper Payments Report

On July 22, 2010, the President signed into law the Improper Payments Elimination and Recovery Act (IPERA). IPERA amended the Improper Payments Information Act of 2002 (IPIA) and generally repealed the Recovery Auditing Act. OMB has supplied implementing direction on IPERA which requires:

- Review all programs and activities and identify those that are susceptible to significant improper payments.

  Because of its small size, Denali Commission has assessed all of its grant programs and acknowledges that all are susceptible to improper payments as defined by the IPERA. However, none of the Commission's program meet the threshold of 'significant improper payment' defined in Section 57 of OMB Circular A-11, which would be both 1.5 percent of program outlays and $10,000,000 of all program or activity payments during the fiscal year. And none of the agency's grant programs are funded at $100,000,000.

- Obtain a statistically valid estimate of the annual amount of improper payments in programs and activities for those programs that are identified as susceptible to significant improper payment.

  Denali Commission has assessed all of its grant programs and finds that none of the programs or activities reach the definition of 'significant improper payments.

- Implement a plan to reduce improper payments.

  This requirement does not apply to the Commission, as no programs or activities were identified with the conditions above.

- Report estimates of the annual amount of improper payments in programs and activities and progress in reducing them.

  The Commission is not required to report on this component.

John Torgerson
Interim Federal Co-Chair

Other Accompanying Information

Inspector General's Perspective on Management and Performance Challenges Facing the Denali Commission

DENALI COMMISSION
OFFICE OF INSPECTOR GENERAL
ANCHORAGE, ALASKA 99501

INSPECTOR GENERAL

MEMORANDUM

DATE: June 29, 2020

TO: John Torgerson
Interim Federal Co-Chair, Denali Commission

Dr. Tamika L. Ledbetter
State Co-Chair, Alaska Department of Labor and Workforce Development Commissioner

Alicia Siira
Executive Director Associated General Contractors of Alaska

Julie E. Kitka
President, Alaska Federation of Natives

Nils Andreassen
Executive Director, Alaska Municipal League

Dr. Jim Johnsen
President, University of Alaska

Vince Beltrami
Executive President, Alaska State AFL-CIO

Roderick H. Fillinger

FROM: Roderick H. Fillinger
Inspector General

SUBJECT: *Top Management and Performance Challenges Facing the Denali Commission in Fiscal Year 2020*

I am pleased to provide you with the attached Denali Commission Office of the Inspector General's (OIG) report on the Denali Commission's Top Management and Performance Challenges for fiscal year (FY) 2020. The OIG has updated one challenge from its FY 2019 Top

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Inspector General's Perspective on Management and Performance Challenges Facing the Denali Commission

Management and Performance Challenges, *Continue Implementing Strategic Plan to Fulfill the Commission's Statutory Purpose with Significant Decreases in Funding.* The OIG also added three challenges for FY 2020: *Rebuilding trust among Denali Commission employees through significant changes in management; and* Appointment *of a new Federal Co-Chair; and Management through COVID-19.*

Challenge 1: Continue Implementing Strategic Plan to Fulfill the Commission's Statutory Purpose with Significant Decreases in Funding

In 1998, the Denali Commission Act established the Commission as a federal agency with the statutory purpose of providing to rural areas of Alaska job training and economic development services, rural power generation and transmission facilities, modern communications systems, water and sewer systems, and other infrastructure needs. The Commission has awarded more than $2 billion in federal grants to help develop remote communities, funding more than 1,400 projects across various programs, including energy, transportation, and health care. Between FYs 2004 and 2008, on average the Commission received nearly $130 million in total funding per fiscal year. Since then, the Commission has experienced a significant decrease in funding in recent fiscal years, from receiving about $141 million in FY 2006 to about $25 million in FY 2019, a decrease of approximately 82 percent. This reduced level of funding is expected to continue for the near future. The 2016 Water Infrastructure Improvements for the Nation Act (WIIN Act) reauthorized the Commission for an appropriation of $15 million for each fiscal year through 2021.

In the November 2018 Top Management and Performance Challenges report, OIG identified that the Commission faced significant decreases in funding levels which could not support grant making on the scale and pace done in the past while still fulfilling its statutory purpose. Although the Commission has taken steps to address this challenge, it continues to face difficulties in its current role as primarily a grant-making agency in the current budget environment. In March 2015, GAO identified several strategies that the Commission could utilize in its approach to fulfilling its statutory purpose in the future while facing significantly limited budgetary resources. Among the recommended strategies were limiting grants, focusing on facilitation, and maintaining existing infrastructure. In late FY 2017, the Commission developed a strategic plan for FY 2018–2022 to address this GAO recommendation by stating that it will pivot away from its traditional grant-making role to more of a maintenance and facilitator role. However, during FY 2019, the Commission moved away from this strategy and returned to its core grant funding model. We believe that the Commission should consider returning to its strategic plan. In either model, this remains a significant challenge for the Commission until the original strategic plan is fully implemented and the impact of these changes can be determined, or a new plan is created.

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Challenge 2: Rebuilding trust among Denali Commission employees through significant changes in management

During fiscal year 2018, the Secretary of Commerce appointed an interim Federal co-chair, John Torgerson. In April of 2019, a new full-time Federal co-chair, Jason Hoke, was appointed. Mr. Hoke subsequently resigned in April of 2020. During the first 90 days of Mr. Hoke's tenure as Federal co-chair, there were a couple of events that caused disruption to employees of the Denali Commission. In June of 2019, because of an investigation initiated, all Apple computers for staff were taken confiscated as potential evidence in that investigation during what was described by some of the staff as a "raid" for evidence. The Denali Commission subsequently had to purchase new computers for staff to complete their normal work duties but were in the process of moving to a single operating system platform already. Further, as part of this investigation, two personnel were placed on administrative leave. One such person was on administrative leave for 30 days, only to return and be told that the reason the employee was on placed on administrative leave was because of inaccurate information that had been provided by a third-party service provider. a "misunderstanding." As of June 10, 2020, the investigation has not been completed.

Additionally, there were significant changes in senior management of the Denali Commission. Both the CFO, whose tenure dated back to the start of the Denali Commission, and the Director of Programs retired in the fall of 2019. The former interim inspector general (provided through an agreement with the Department of Commerce Office of Inspector General) resigned effective December 31, 2018. A new interim inspector general was appointed in April 2019 and then subsequently resigned September 30, 2019. The current inspector general was appointed January 19, 2020, leaving an oversight gap of more than three months. Lastly, as reported by the Anchorage Daily News (April 2, 2020 edition), there were four complaints of Mr. Hoke harassing and discriminating against female employees.

After Mr. Hoke's resignation from the Denali Commission, Mr. Torgerson was reappointed as interim Federal Co-Chair, leaving a small gap in time between Mr. Hoke's resignation and Mr. Torgerson's reappointment.

The Denali Commission now faces the challenge of repairing employee trust and morale from the turbulent year. Low employee morale can be destructive in a business setting and can lead to dissatisfaction, poor productivity, absenteeism and turnover. The Denali Commission currently has 14 employees and the effects of low employee morale may be more apparent given the low number of employees. With the loss of personnel during FY2019, the Denali Commission has had to hire new personnel and familiarize them with

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Inspector General's Perspective on Management and Performance Challenges Facing the Denali Commission

processes and procedures to fulfill the roles and knowledge of the former employees. As more employees potentially leave the Denali Commission, this knowledge transfer will become more difficult. Lastly, low employee morale may impact the Denali Commission's ability to attract a new Federal Co- Chair.

Challenge 3: Appointment of a new Federal Co-Chair

The Denali Commission Act of 1998 establishes that the Commission will be composed of seven members appointed by the Secretary of Commerce, including the Federal co-chair of the Denali Commission. The Federal Co-Chair is the only member of the Commission that is authorized to perform several critical actions necessary for daily operations. The Federal Co-Chair is the only person authorized to approve new contracts, and grants and cooperative agreements to fulfill the mission of the Denali Commission. In addition, the Federal Co-Chair is the only person authorized to appoint permanent, temporary, and intermittent personnel, as well as establish personnel pay rates. In contrast to many other agencies, the Federal Co-Chair is not authorized to delegate statutory responsibilities or to remain beyond a term's expiration.

Given the political turmoil in the United States, a delay in appointing a new Federal Co-Chair may affect the ability of the Commission to have clarity in the direction of the mission provided through strategic leadership. Leadership vision and policy decisions to implement that vision are more difficult for an interim to effectuate, even when that leadership is provided by a respected and proven interim. While the Denali Commission does not control the process or timing of the appointment of a new Federal Co-Chair, this nevertheless presents a management challenge for it.

Challenge 4: Management through COVID-19

COVID-19 has caused unprecedented global social and economic disruption including one of the largest global recessions since the Great Depression. Further, COVID-19 has caused many businesses to close and lay off employees. As a result, the Federal government has taken significant action to provide economic stimulus to both businesses and citizens. The management of these stimulus programs may provide the Denali Commission opportunities to expand its grant base and provide Alaskans the stimulus funds needed. The challenge for the Denali Commission is the execution of these grant agreements while the Federal government continues to reevaluate the rules and regulations related to the grants. There may be significant appropriations available through these stimulus programs and the Denali Commission will have to review the current staffing and workloads of employees to be successful.

The Denali Commission also is challenged by reopening its operations in a safe manner to protect both employees and guests of the Denali Commission.

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The Denali Commission Office of Inspector General remains committed to keeping the Commission's decision-makers informed of problems identified through our audits, evaluations, and investigations so that timely corrective actions can be taken. A copy of the final report will be included in the Commission's Agency Financial Report, as required by law.

The Denali Commission Office of Inspector General appreciates the cooperation received from the Commission and looks forward to working with the Commission in the coming months. If the Commission has any questions concerning this report, please contact the Denali Commission Office of Inspector General at (907) 271-3500.