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November 10, 2010

Mr. Michael Marsh, Inspector General
Ms. Corrine Eilo, Director of Administration
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, 2010 and 2009, 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. This letter does not affect our report dated November 10, 2010 on the financial statements of the Commission. 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. Denali Commission's Diminishing Staff - We observed during our audit procedures that staff are leaving the Commission, leaving fewer employees to handle key tasks. As a result of decreased appropriations, management has not replaced departed personnel. Rather, management has spread the work load of these individuals to remaining staff. As an example, Tessa DeLong is stepping down from her position as Director of Programs. She is responsible for grants management; the position's responsibilities will be rotated to a different person each quarter. In addition, Corrine Eilo, is increasingly taking on more duties as employees leave. Her responsibilities include those of a Chief Administrative Officer, Chief Financial Officer, Chief Information Officer (CIO) and also include some of the political duties of the Agency Head. While she does manage a heavy workload, there are only three members of the Finance group, including Corrine. If either of the other two people left the Denali Commission, Corrine would likely be overwhelmed and the limited staff would create internal controls deficiencies. Specifically, there would be a segregation of duties issues that would be created such that the Commission would be more susceptible to fraud (both internal and external) and errors in reporting. 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.

We recommend that management continue to monitor this situation and proactively work with current personnel to help reduce future departures of personnel. Additionally, management should consider having all work flows clearly documented to allow for succession of personnel with limited disruption to the Commission's operations.

2. 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 Director of Administration. The Commission's Director of Administration has not 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.

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. Lastly, the Commission should implement processes in place to ensure regular network maintenance occurs.

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. A sample of grants are reviewed each year while the projects are in progress, but after the project has been completed, there is no follow-up. There may be cases where the Commission funded projects have become facilities that are not aligned with the original purpose of the grant.

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

We also considered the management letter comments that we provided for the fiscal year 2009 audit. The status of those comments is as follows:

1. Differences between a Chief Information Officer and a Network Administrator - The Commission has a Network Administrator, but not a Chief Information Officer. This necessitates the Commission taking extra steps at the management level to ensure that a general IT direction and specific IT objectives and procedures have been identified and implemented. As a result, contractors with specialized skill sets may be needed to advise and implement more complicated or technical controls. Denali may want to consider creating control objectives for various security and general IT objectives to ensure that these are met and performed frequently.

FY2010 Status – This area continues to be a source of concern for the Denali Commission as noted in item 2 above. Denali has improved its awareness of the information technology standards, but can still improve its general computer controls by improving governance.

2. Continuous Review of Information Technology Controls - The Commission's management obtained a network vulnerability review during FY2009. The report notes certain general upkeep and vulnerabilities that could be corrected with clear procedures and regular controls monitoring. Given the ever-changing needs of an IT security environment, staying up-to-date is vital.

FY2010 Status - This area continues to be a source of concern for the Denali Commission as noted in item 2 above. Denali has implemented some monitoring processes, but they



are informal. Additionally, Denali has undergone its annual vulnerability assessment to identify weaknesses in the network; the assessment report showed that specific vulnerabilities identified in FY2009 had been addressed. Again, improvements in governance and a formal monitoring and review processes will help Denali improve its information technology controls.

3. Location of Financial Data - During FY2009, the Commission planned to move its financial processes to the Bureau of Public Debt (BPD). This move occurred as of the beginning of FY2010. It is our understanding that Denali employees will not have access to input data but rather only to receive data and reports from BPD. However, it is not uncommon for employees to download data from a system to their local machines for analysis. Appropriate security considerations should be made to protect the data that will undoubtedly continue to reside at the Commission's headquarters.

FY2010 Status - Denali has completed its transition to the BPD Administrative Resource Center. The transition appears to have been successful, as information was readily available to us during the audit from BPD and from Denali Commission via online reporting tools. Denali has made considerations for locally held data by viewing reports online and recreating reports when necessary. Sensitive data is maintained in locked cabinets. Reports are accessible by a limited number of employees and few reports are downloaded to desktops.

4. Information Sharing - The Commission is a small organization; communication should be easily facilitated in this type of environment. Particularly in the arena of information technology, controls and processes affect many different areas of the organization. It is important that management share information and technology needs with one another and the IT administrator. As an example, the Finance departments are dependent upon IT to ensure the reliability of its data; IT concerns about the data security should be shared with the Finance leadership to ensure that corrective plans are created and implemented. To provide another example, the Federal Co-chair who is responsible for giving financial systems "Authority to Operate", should have significant involvement in the review of the system(s). If he or she has doubts about the system(s) or insufficient information; they must be willing to reduce the authority to an "Interim Authority to Operate" and note corrective steps or decline to authorize the system's operation.

FY2010 Status - Given the reduction of Denali staff, as noted in the current year comment 3 above, many roles within Denali Commission have been consolidated and are now the responsibility of the Director of Administration. As a result, information sharing is inherent to being able to perform multiple roles.



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We believe that the implementation of these recommendations will provide Denali Commission with a stronger system of internal control while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation. This communication is intended solely for the information and use of management, the Commission's Inspector General, others within the organization, and relevant oversight bodies, is not intended to be, and should not be used by anyone other than these specified parties.

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