November 6, 2015

INFORMATION MEMORANDUM FOR THE DENALI COMMISSIONERS

FROM: David Sheppard
Inspector General

SUBJECT: Top Management Challenges Facing the Denali Commission in Fiscal Year 2016

Enclosed is our report on the Denali Commission’s Top Management Challenges for fiscal year (FY) 2016. The Commission has been substantially affected by continued budget reductions and a decision by the Justice Department in 2006 regarding the application of federal conflict-of-interest rules to the Commissioners. I expect that it will also be substantially affected by the President’s announcement that the Commission will play a lead coordination role in addressing the impacts of climate change in Alaska. While inherent logistical challenges continue to impact the Commission staff’s ability to visit funded projects, a recent OIG audit report on the Commission’s grant monitoring efforts should improve the agency’s efforts.

We remain committed to keeping the Commission’s decision-makers informed of issues identified through our audits, evaluations, and investigations so that timely corrective actions can be taken. The Commission’s response to our October 13, 2015, draft Top Management Challenge’s report is included as an appendix. This report will be included in the Commission's Agency Financial Report, as required by law.¹

We appreciate the cooperation received from the Commission, and we look forward to working with you in the coming months. If you have any questions concerning this report, please contact me at (206) 220-7970.

cc: Corrine Eilo, Chief Financial Officer, Denali Commission
Jay Farmwald, Director of Programs, Denali Commission
John Whittington, General Counsel, Denali Commission
David Smith, Acting Inspector General, U.S. Department of Commerce

¹ 31 U.S.C. § 3516(d).
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Challenge 1: Identifying a Strategic Vision and Plan in a Period of Funding Uncertainty and an Evolving Role in Alaska’s Village Relocation Efforts

The Denali Commission has had diminishing funding since fiscal year (FY) 2006; it no longer receives Congressional earmarks and receives few transfers from other federal or state agencies. In FY 2006, the Commission’s budget was $140.6 million, with funding coming from six federal sources. Its FY 2015 budget was $14 million, with funding coming from only two federal sources: the Energy and Water Development and Related Agencies Appropriations Act, 2014, and the Trans-Alaska Pipeline Liability Fund. Despite drastic reductions in funding, the Commission continues to explore ways to improve rural Alaska. On September 2, 2015, the President of the United States announced an initiative on climate change and village relocation efforts, stating that “the Denali Commission will play a lead coordination role for Federal, State and Tribal resources to assist communities in developing and implementing both short- and long-term solutions to address the impacts of climate change, including coastal erosion, flooding, and permafrost degradation.”

In fiscal year 2014, the Commission entered into an agreement with Enlighteneering, Inc, to help begin the critical effort of creating a strategic plan. The commissioners met on March 27, 2015 to begin their strategic planning process. While their plan has not yet been finalized, the process could help bring together Commissioners with different perspectives and varied perceptions of the Commission’s priorities. It will require Commission staff, the federal co-chair, and the Commissioners themselves to agree on core values and a common vision for the Commission’s future. Considering the President’s announcement of the Commission’s new role in a time of limited and uncertain funding, this will be a challenge.

These complexities are the very reasons that the completion of a strategic vision and planning effort is so critically important. Strategic planning will help the Commission fulfill its mandate from Congress by (a) clearly identifying its priorities and whom it should be serving, (b) developing a process to help it deliver those priorities to its beneficiaries, which are primarily rural Alaska communities, and (c) helping to identify the best approach to delivering on the President’s new initiative. The planning process will also help the Commission to make the best use of its limited funding and unite the Commission staff, the Commissioners, and its stakeholders—which include its beneficiaries, the Alaskan Congressional delegation, and others—around a common vision and approach. The planning process should also provide the Commission with a method of assessing whether its activities are successfully meeting measurable program goals.

In order to have an effective strategic planning process, the Commission must have the full support of each staff member and each Commissioner, working toward a common goal and pulling in the same direction.
Challenge 2: Improving the Monitoring of Grant Recipients in the Face of Logistical Challenges

Alaska’s large size, sparse population, and lack of roads present a challenge to the Commission in monitoring the activity of its grant recipients. The state’s land mass comprises more than 570,000 square miles, by far the largest of the 50 states (see figure 1), but it is among the most sparsely populated—ranking 47th, with just over 735,000 residents. Alaska’s terrain of vast wilderness creates natural barriers to transportation. As a result, Alaska has very few roads, and those that exist cover only a small area of the state (see figure 2). Most cities and villages in Alaska, including the capital city of Juneau, are accessible only by sea or air.

Figure 1. Size of Alaska Compared to the Lower 48 States

Source: U.S. Department of Agriculture, Natural Resources Conservation Service.

Much of the Denali Commission’s funds support projects located in rural areas of Alaska. These projects can be difficult and expensive to visit. For example, in 2008 the Commission provided nearly $1.53 million to the Alaska Native Tribal Health Consortium for the construction of a clinic in Kobuk, Alaska, a city in the Northwest Arctic Borough. The only way of reaching Kobuk is by air, and its airport is a general aviation facility that does not have regularly scheduled commercial passenger service. A flight from Anchorage to Kobuk can take between 9 and 11 hours with two stops, and costs nearly $900; there are no hotels in or around Kobuk.
As a result of the remote location of many of the public works projects funded by the Denali Commission, it is both time consuming and costly to monitor their progress. While financial monitoring is not as difficult because grants are typically awarded to larger entities located near larger cities, without visiting the site it is difficult to determine whether certain items purchased for projects are actually used on them.

The challenge of ensuring that federal funds are being spent in accordance with the terms and conditions of the grant, and are satisfying the objectives of the award, can only be met by using creative monitoring and assessment techniques. For the Commission to meet this challenge, its staff must develop cost-effective alternatives.

We conducted a review of the Commission’s project monitoring and assessment process in FY 2015. Based on results of the audit, the Commission plans to implement processes and procedures to better monitor and assess grant performance within the inherent logistical constraints.

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Challenge 3: Engaging Commissioners in Light of Ethics Concerns and Funding Realities

The Denali Commission Act of 1998 establishes that the Commission will be composed of seven members appointed by the Secretary of Commerce, including the presidents of the University of Alaska, the Alaska Municipal League, the Alaska Federation of Natives, the American Federation of Labor and Congress of Industrial Organizations (AFL–CIO) Alaska, the Associated General Contractors of Alaska, the governor of Alaska (state co-chair), and the federal co-chair of the Denali Commission. The commissioners represent a variety of perspectives throughout Alaska and are responsible for creating an annual work plan for the Commission. While the Act establishes the Governor of Alaska as the state co-chair, the Governor asked the Secretary of Commerce to appoint the Lieutenant Governor of Alaska to serve in that capacity.

Given the positions held by the Commissioners within their respective organizations, the Commission requested an opinion from various federal entities—including the Office of Government Ethics and the Department of Justice—on whether federal conflict-of-interest laws apply to Commissioners. The decisions provided by the Department of Justice in 2006 and 2007 were that, absent an exemption, the federal conflict-of-interest laws apply to all Commissioners, in part because they are considered “special government employees.”3 In light of this determination, Commissioners became concerned about their level of engagement, considering that they could be held criminally liable for breaking conflict-of-interest laws. However, exceptions from conflicts of interest can be established by Congressional action or the granting of a waiver or exception.

As noted previously, the Commission’s funding has been declining since 2006 and is currently only $13.8 million. While funding is not the only incentive for Commissioners to be engaged in the work of the Commission, encouraging all Commissioners to be sufficiently engaged with the Commission’s work remains a challenge.

The current cadre of Commissioners embodies a wealth of knowledge and experience within the state and represents an important cross-section of tribes, municipalities, state government, academia, business, and labor. Obtaining their input and advice is considered by many to be an important component of the Denali Commission Act. Therefore, increasing Commissioner engagement is a challenge the Denali Commission’s staff will need to overcome not only to ensure it is meeting the intent of the act, but also taking full advantage of everything the Commissioners have to offer.

3 A special government employee is defined by law (18 U.S.C. §202) as an “officer or employee ... who is retained, designated, appointed, or employed to perform, with or without compensation, for not to exceed one hundred and thirty days during any period of three hundred and sixty-five consecutive days, temporary duties either on a full-time or intermittent basis, a part-time United States commissioner, a part-time United States magistrate judge, or, regardless of the number of days of appointment, an independent counsel.”
Memorandum

To: David Sheppard, Acting Inspector General
From: Joel Neimeyer, Federal Co-Chair
Subject: Response to Top Management Challenges Facing the Denali Commission in FY2016
Date: November 6, 2015

This is in response to your memo dated October 13, 2015 concerning the above referenced subject. The following is offered.

**Challenge 1: Identifying a Strategic Vision and Plan in a Period of Uncertainty and an Evolving Role in Alaska’s Village Relocation Efforts:**

I concur with this management challenge. Commissioners started the 5-Year Strategic Planning process at the March 27, 2015 meeting. This work was then further refined by agency staff and our contract associates with Enlighteneering, Inc. Agency senior management concluded that the staff work requires more input from Commissioners. Accordingly, the draft plan will be provided to Commissioners for further review. To the topic of Village Relocation Efforts it is vital that the Commission establish a working relationship with the Arctic Executive Steering Committee (AESC) which the President established via Executive Order 13689. The AESC will have some level of oversight over the work of the agency on village relocation and other adaptation strategies. I am hopeful that both Commissioners and the AESC will soon develop a good working relationship.

**Challenge 2: Improving the Monitoring of Grant Recipients in the Face of Logistical Challenges:**

I concur with this management challenge. The composition and role of agency staff is in a period of transformation. We are working towards developing a team of “generalists” who understand how the Federal government functions. These generalists can then support subject matter experts who provide specific technical support on areas of agency interest. We have yet to make this transition in agency personnel, but the question of improving grant monitoring is one aspect of how we may in the field review completed projects with subject matter experts.

**Challenge 3: Engaging Commissioners in Light of Conflict-of-Interest Concerns and Funding Realities:**

I concur with this management challenge. Senior agency staff has developed new approaches we hope the Commissioners will adopt so that they can be more meaningfully engaged in agency matters. These approaches will be considered, in stages, by Commissioners in FY2016.

I thank you for the opportunity to comment on the Top Management Challenges for 2016.