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November 11, 2011

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, 2011 and 2010, 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 11, 2011, 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. Management through uncertain times – We observed during our audit procedures that the Commission is faced with a number of budgetary reductions. Specifically, we noted that Congress enacted an approximate \$15 million rescission during the year among other cut backs in available appropriations. We noted that management is undertaking a proactive approach to manage through these reductions. Specifically, management is currently working with various Federal human resource agencies to develop human capital transition plans. We encourage management to continue in these endeavors to proactively work in developing a plan that will enable the Commission to fulfill its congressionally enacted purpose.



2. Management with reduced staff – While we applaud the work management is doing in being proactively managing financial issues, we must caution that during these budget reductions, management should continue to keep in mind the need for practical internal controls to ensure that proper accounting and safe guard of assets. Specifically, management should consider documentation of various duties to allow for faster transition and elimination of intellectual capital that leaves with terminated employees. Additionally, we note that there are only three members of the Finance group. If any of these three people were to leave the Commission, management would likely be overwhelmed and the limited staff would create internal controls deficiencies. Specifically, there would be a segregation of duties issues that could be created such that the Commission would be more susceptible to accounting errors or misappropriation of assets (both internal and external). These deficiencies would cause the Commission to not be in compliance with Office of Management and Budget and General Accountability Office requirements and could further hinder management efforts to obtain additional funding. Internal controls are typically a variable cost (as an organization grows the cost grows as well); however, there is a certain fixed portion of cost that needs to be incurred regardless of the size of the organization (based on Federal requirements) and continued reduction in staff may cause the Commission to be below the fixed portion of internal controls. While we are specifically addressing our concerns related to the finance function of the Commission, the diminishing staff and related internal control impact will affect all areas of the Commission (grant origination, grants monitoring, etc.).

With the uncertainty of future funding and the efforts to obtain reauthorization, management should be aware of the potential internal control issues that are present when focus is lost on internal controls. Specifically, management must balance the long term direction of the Commission while making short term decisions to manage diminishing appropriations. In making these decisions, management should consider the ramifications of reducing staff and controls and the potential short and long term overall impact it will have to the Commission.

3. Reassignment of duties – We noted during our audit procedures that one of the methods management has used to work through reductions in staff is reassignment of duties. Rather than hiring a replacement person, management spreads the terminated person’s workload to existing members of staff. While an effective approach to managing through a reduction in appropriations, we have two specific cautions. First, the reassignment of duties may cause position changes and increased responsibilities. These increased responsibilities may cause an employee to be entitled to increased compensation under Federal statutes. Management should be mindful of the Federal regulations of adding additional responsibilities to staff and the corresponding responsibility of adjusting compensation accordingly. Secondly, the reassignment of duties may cause negative reactions among current staff as to the plight of the Commission. Specifically, management should keep in mind that the reassignments may add burden to personnel



who may feel that they are currently overworked and look for employment elsewhere which then could expand the issues noted in note 2 above.

4. 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.

5. 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.



6. Information Sharing - The Commission is a small organization; communication should be easily facilitated in this type of environment. Particularly in the arena of information technology, controls and processes affect many different areas of the organization. It is important that management share information and technology needs with one another and the IT administrator. As an example, the Finance departments are dependent upon IT to ensure the reliability of its data; IT concerns about the data security should be shared with the Finance leadership to ensure that corrective plans are created and implemented.

Given the reduction of Denali staff, as noted in the current year comment 2 above, many roles within Denali Commission have been consolidated and are now the responsibility of the Director of Administration. We recommend management continue to share information and keep in mind that this is inherent to being able to perform multiple roles.

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

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