



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



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

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.

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

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.

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.