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June 29, 2020

Roderick Fillinger Inspector General, Denali Commission
Mr. John Torgerson, Interim Federal Co-Chair
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, 2019 and 2018, 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. 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. Grant liability recording – During the course of our audit, we noted over \$4 million in adjusting entries related to grants activity. We believe the root cause of these entries lies in vacancies of personnel during the close period and lack of communication with program personnel as to status of grant projects. We would recommend that the Commission update its grant liability procedure to include a documented discussion of project status with the applicable grants personnel. This will help the estimation process by tying reported numbers for liability to observed work performed. Secondly, we would recommend the Commission update its policies to include documentation of the review of the grants entry by a separate person from the person assigned the calculation of such entries.
2. Grants made to former officials of the Commission – During the course of our audit, we noted a \$75,000 grant that was made to an entity where the now former Federal Co-Chair is the executive director. There are a number of potential issues with providing a grant to an entity that is now managed by a former senior member of the Commission. We noted there was no specific documentation of how the Commission satisfied themselves with the risks associated with this grant. We recommend the Commission update its policies and procedures to include required documentation, approvals, and considerations when faced



with these types of transactions to satisfy Federal regulations related to transactions with former senior members of management.

3. Implementation of a course of action to show value of the Commission – During the course of our audit, we noted that the President of the United States of America listed the Commission as an agency that should be discontinued. This threat to the existence of the Commission could be potentially offset with implementation of a vision and plan that can show the value the Commission can provide with tax payer dollars. Effectively, what the Commission needs to be able to demonstrate is that through the Commission’s experience with a wide variety of solutions to economic and environmental issues throughout Alaska and the Arctic Circle, the American taxpayer can get the most value through the continuance of the Commission. This may be as simple as a cost benefit analysis that shows that it will be more expensive for other Federal agencies to complete work in Alaska without the Commission.

Through MAP 21 language the Commission has begun to spend budgetary authority on the behalf of other Federal agencies. While this is a good first step, management should continue to actively pursue these opportunities. Management should also consider the development of performance metrics to show the value the Commission can provide. For instance, developing what would be the additional costs another Federal agency would have had to incur to be able to implement programs that the Commission could implement on their behalf. Further metrics could include how the Commission was better able to leverage knowledge and experience to make the budgetary dollars go further. In other words, the Commission was able to do more because of presence and knowledge. This in turn could be described to other agencies on the value of being able to do more with less by employing the Commission.

Further, the Commission should leverage its current Grants Monitoring process to provide statistics on the positive impact of previous grants. The Commission should consider performance of bench-marking analysis of other grant making agencies within the Federal government. Through consideration of this bench-marking process, the Commission can highlight what it does best and develop improvement plans for areas that the Commission is falling behind. We recommend the development of the bench-marking attributes to mirror the items included in its considered course of actions.

4. Succession planning – We have noted a number of changes in personnel over the last couple of years, inclusive of multiple changes in the Federal Co-Chair position. Additionally, the Chief Financial Officer and the Director of Grants both retired during the fiscal year. Management should consider documentation of various duties as others fill in the position and learn how the previous personnel completed their respective duties. This will allow for faster transition and elimination of intellectual capital that leaves with terminated employees in the future. As part of the documentation process, management



should consider developing succession planning for each function within the organization. This documentation could help the transition process as new members are brought up to speed on core duties. Additionally, this documentation would reduce the amount of “institutional knowledge” that leaves the organization.

We note that there are only two members of the Finance group. If any of these two people were to leave the Commission, management would likely be overwhelmed and the limited staff would create internal controls deficiencies. Specifically, there would be 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 not to be in compliance with Office of Management and Budget and General Accountability Office requirements and could further hinder management efforts to obtain additional funding. We believe some of the errors detected as part of the 2019 audit were a result of change in personnel without replacement of a similar skillset. 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.).

Management should be aware that the documentation and development of succession planning can go hand in hand along with long term strategic planning. There are many Federal agencies and related organizations that can assist in the development of strategic and succession planning.

5. Management with reduced funding- We noted that reauthorization was enacted in December 2016, however, the uncertainty of future funding as a result of the initiatives of the current administration, 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.
6. Information Technology General Controls - The Commission does not currently have a separate Chief Information Officer (CIO). Rather the duties of the CIO used to belong to the Chief Financial Officer. After the Chief Financial Officer’s retirement, the IT duties were spread to multiple personnel. It is unclear what training, if any, has been provided to personnel to allow development of the appropriate skill set to provide the amount of



oversight that would be typically expected from a CIO. It is unclear how network issues and changes are approved and administered. 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 couple of years. Based on discussions with Denali management and changes in the Commission's workflow, the documents do not address the Commission's current work environment.

While controls and implementation thereof are a cost benefit analysis, management should be mindful of the ramifications of not investing in controls and improvement thereof. Unfortunately, the environment of information technology is such that websites and information is always under some form of attack. New technology continues to be developed to aid hackers in this process. Management should be aware of the need to continue to invest to ward off these cyber attacks.

Currently, vulnerability scanning is performed once annually with no re-scan performed until the next annual process. Therefore, automated validation and testing to verify that risk concerns have been properly remediated is not performed. As a result, if risk exposures have not been remediated a year will elapse before awareness can be provided to management.

Federal regulations have become more stringent around information technology due to the ever evolving risks of breaches/hacking of data. As a result, additional certifications and requirements are required to be made for the Commission to be in full compliance with Federal Information Security Management Act (FISMA). Historically, the Commission was able to show compliance through the use of a small agency FISMA report, which required minimum items to show compliance. However, FISMA no longer allows for the use of a small agency filing and now the Commission is required to complete a larger and more stringent compliance filing. Management is working to implement all items required by FISMA and to perform such items periodically as opposed to annually. As part of its review of information technology, we recommend management incorporate the requirements of FISMA.

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. The Commission should also send IT personnel to information system security training and conferences or ensure that contracts require and contractor personnel receive current IT security training. Management should consider re-scanning as part of vulnerability scanning process to ensure all risks exposures have been remediated and



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consider more frequent scanning/vulnerability testing (i.e., quarterly). Lastly, the Commission should implement processes in place to ensure regular network maintenance occurs.

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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