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INSPECTOR GENERAL

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To: Joel Neimeyer, Federal Co-Chair  
From: Mike Marsh, CPA, MPA, CFE, Esq., Inspector General  
Subject: Inspection of Knudson Cove dock at Ketchikan, Alaska  
(Denali grant 302-07)

FINAL REPORT

FOR PUBLIC RELEASE

On June 23-24, 2010, the Denali Commission's Office of Inspector General (OIG) conducted a routine inspection of the dock project funded by Denali grant 302-07 (as amended by 302-01) at Ketchikan, Alaska. Our inspection<sup>1</sup> was limited to (1) confirming the project's successful completion, (2) confirming the project's continuing use for the intended public purpose, and (3) a routine spot-check of CPA firm workpapers in support of the "single audit" that grantees are required to obtain as a condition of federal funding.

#### PROJECT'S CONTEXT

Under grant 302-07 (as amended), the City of Ketchikan was reimbursed for \$413,000 of its construction costs to remodel a deteriorating, storm-damaged dock at Knudson Cove that the State of Alaska had recently transferred to the city's ownership.

The wooden dock has slips for around 40 small boats. Residents pay rent for these spaces. On June 24, OIG walked the dock<sup>2</sup> with the city's port and harbors director (harbormaster) — an engineer and retired Coast Guard officer whose observations on the project's context we appreciated.

Ketchikan is a small town ( $\approx$  13,000 pop.<sup>3</sup>) on an island of rain forest in the southern panhandle of Alaska. No roads connect Ketchikan to the rest of America (including the rest of Alaska). The hour-and-a-half flight to Seattle requires an initial ferry trip to the city's airstrip on another island.

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<sup>1</sup> OIG's inspection was conducted in accordance with section 2 of Denali's standard grant assurances (SF-424D), sections 4(a) and 6(a) of the Inspector General Act, and the CIGIE *Quality Standards for Inspections*. A project "inspection," such as this one, is narrower in scope and procedures than the classic financial "audit." In addition to the steps described in the body of this report, we reviewed Denali's online and paper records for the project. Before publication of this final report, Denali's program and finance staff was invited to comment on a draft. OIG noted no disagreement with the contents of our report.

<sup>2</sup> At OIG's invitation, Denali's CFO sent a finance specialist who joined us on this visit to the dock.

<sup>3</sup> Population for both the city and its surrounding borough.

The City of Ketchikan provides small-boat harbors with wooden docks at several points along its shoreline. While small boats may be a recreational luxury in the Lower 48, they simply serve as the “family car” in water-dependent Alaskan communities like Ketchikan. And a place to safely “park” these small boats is analogous to local transportation expectations that are taken for granted in other states. The demand exceeds availability for dock slips at Ketchikan, with a waiting list of unserved users at this point.

The city recently acquired the Knudson Cove dock from the state government, and the inspected project supports Denali’s long-time theme of local responsibility for the local facilities in rural Alaska.

### INSPECTION OBSERVATIONS

OIG observed the dock to have been successfully remodeled, actively in use by boaters, and — with a few minor modifications — consistent with the work described in the grant agreement and the city’s application for funding. We also found the result consistent with the 17 completion photos that the city submitted to Denali’s staff.

The central dock is around 300 feet long (the length of a football field), with 17 fingers that range in length from 20 to 112 feet. Fittings on rustproof steel pilings and “piano hinge” joints allow these components the flexibility to rise and fall with the tides and Pacific storms. A ramp (gangway) connects the dock to the shore. The dock is lighted for night use.

Overall, the structure represents 944 feet of dock. Since both sides are useable by boats, this presents 1,888 feet (about a third of a mile) of available access.

A canopy for the ramp was deleted from the original design due to cost increases experienced over the period in which the city assembled the bulk of its funding (78%) from four other sources and while it waited for the dock’s legal transfer from the state. And one 20-foot finger was deleted when it appeared that users could in practice face a tight squeeze with boats at a private dock next door. This latter change represented only a 2% reduction in the originally-planned horizontal footage.

These minor changes were reasonable ones that were properly accommodated by Denali’s program manager during negotiations for an amendment<sup>4</sup> that increased the original funding by \$63,000. In fact, deletion of the one 20-foot finger seems proactive in view of judicial guidance on government liability for dock accidents under Alaska state law.<sup>5</sup>

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<sup>4</sup> Amendment no. 302-01 states that “[t]he increased funding is the result of escalation in construction costs and delays in the transfer of the Knudson Cove Harbor from the Department of Transportation & Public Facilities (DOT&PF) to the City of Ketchikan.”

<sup>5</sup> See *Plancich v. State of Alaska, City of Yakutat, et al.*, 693 P.2d 855 (Alaska 1985) (potential liability for congestion at small boat harbor that included seaplane dock).

CITY'S "SINGLE AUDIT"

The City of Ketchikan correctly included this grant on its Schedule of Expenditures of Federal Awards for the city's fiscal year ending December 31, 2009. The city retained a CPA firm to conduct the required federal "single audit" of the funding on this schedule. The CPA firm issued an unqualified opinion on this schedule and the city's other financial statements for FY 2009. The CPA firm treated Denali's grant as a "major program" for the purposes of its audit procedures. There were no audit findings or questioned costs concerning Denali's grant.

OMB rules<sup>6</sup> and GAO reports<sup>7</sup> encourage inspector generals to promote public confidence in the quality of "single audits" through spot-checks of the audit workpapers produced by grantees' CPAs. While in Ketchikan on June 23, OIG visited the city's CPA firm and conducted such a "quality control review."<sup>8</sup> OIG appreciated the firm's courtesy during this routine process, and we noted no concerns with the quality of the firm's audit work concerning Denali's grant. And we noted that the workpapers reflect a conscientious effort on the firm's part to ascertain Denali's expectations for audits of its grants.

However, readers should realize that OIG's limited routine inspection of the CPA firm's workpapers for this grant did not constitute a "re-audit" of the firm's work or a licensing "peer review."

To avoid duplication of oversight resources, OIG coordinated its quality control review of the CPA firm's workpapers with the routine "desk review" of cities' audit reports conducted by a state official known as the "statewide single audit coordinator."<sup>9</sup> The latter had no concerns regarding the quality of the audit report issued for the City of Ketchikan's FY 2009 single audit.

Finally, OIG notes that the results of the CPA firm's single audit of this Denali grant are correctly shown in the firm's public filing on the Federal Audit Clearinghouse website.<sup>10</sup>

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INSPECTOR GENERAL

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<sup>6</sup> See OMB Circular A-133, sec. 400(a)(3).

<sup>7</sup> See, e.g., GAO, *Single Audit Quality: Actions Needed to Address Persistent Audit Quality Problems*, GAO-08-213T (Oct. 25, 2007).

<sup>8</sup> At OIG's invitation, Denali's CFO sent a finance specialist who was present during part of this workpaper review. We appreciated her assistance in confirming that the grant had been correctly reported on the Schedule of Expenditures of Federal Awards.

<sup>9</sup> See <http://fin.admin.state.ak.us/dof/ssa/index.jsp>.

<sup>10</sup> See Federal Audit Clearinghouse at <http://harvester.census.gov/fac>.