



October 17, 2018

**MEMORANDUM FOR:** Denali Commission Commissioners

**FROM:** Mark H. Zabarsky  
Principal Assistant Inspector General for Audit and Evaluation  
U.S. Department of Commerce Office of Inspector General

**SUBJECT:** *Top Management and Performance Challenge Facing  
the Denali Commission in Fiscal Year 2019*

Enclosed is the Department of Commerce Office of the Inspector General's (OIG's) report on the Denali Commission's *Top Management and Performance Challenge* for fiscal year (FY) 2019.<sup>1</sup> According to a study by the U.S. Government Accountability Office (GAO),<sup>2</sup> the Denali Commission (Commission) faces several challenges in fulfilling its statutory purpose of providing, among other things, infrastructure and economic development services to rural Alaskan villages. The Commission's role, combined with continued budget reductions, poses a substantial challenge for the agency.

OIG updated one challenge identified in the November 2017 *Top Management and Performance Challenges* report: fulfilling the Commission's statutory purpose with significant decreases in funding. The Commission has made progress toward developing strategies to fulfill its statutory purpose by implementing a strategic plan for FYs 2018–2022 and awarding more grants that focus on maintenance and facilitation. However, due to the current budget environment, the Commission needs to continue implementing the strategies identified in its strategic plan of focusing on facilitation and maintenance of existing infrastructure in order to fulfill its statutory purpose with significantly decreased funding. In addition, OIG removed one challenge identified in the November 2017 *Top Management and Performance Challenges* report: continuity of operations through a possible federal co-chair vacancy. On April 25, 2018, the Secretary of Commerce appointed an interim federal co-chair, who began work at the Commission on June 12, 2018. With the placement of the interim federal co-chair, daily operations of the Commission should continue without significant impact.

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<sup>1</sup> The Department of Commerce Office of Inspector General provides oversight services to the Denali Commission through a Memorandum of Understanding between the two parties.

<sup>2</sup> U.S. Government Accountability Office, March 25, 2015. *Denali Commission: Options Exist to Address Management Challenges*, GAO-15-72. Washington, DC: GAO.

***Challenge: 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 \$34.7 million in FY 2018—a decrease of approximately 75 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<sup>3</sup> for each fiscal year through 2021.<sup>4</sup> In the November 2017 *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 take on how to approach fulfilling its statutory purpose in the future while facing significantly limited budgetary resources.<sup>5</sup> 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.<sup>6</sup>

The Commission has made progress toward implementing the strategies identified in its strategic plan. For example, in FY 2018 the Commission awarded approximately \$9.7

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<sup>3</sup> In FY 2018, Congress also appropriated a one-time additional amount of \$15 million to the Commission for a total of \$30 million. Consolidated Appropriations Act, 2018, Pub. L. No. 115-141, Div. D, Title IV (March 23, 2018). The Commission awarded the additional funding to its Village Infrastructure Protection Program grant to develop the new village site of Mertarvik.

<sup>4</sup> Water Infrastructure Improvements for the Nation Act, Pub. L. No. 114-322 (Dec. 16, 2016).

<sup>5</sup> GAO-15-72.

<sup>6</sup> Denali Commission, October 4, 2017. *Denali Commission Strategic Plan FY 2018–2022*. Anchorage, AK: Denali.

million through 40 grants for maintenance and improvements, facilitation, and planning and assessments. While we commend their efforts to refocus their core mission, this remains a significant challenge for the Commission until the strategic plan is fully implemented and the impact of these changes can be determined. Therefore, the Commission should continue implementing the strategies identified in its strategic plan and continue focusing on facilitation and maintenance of existing infrastructure in order to fulfill its statutory purpose.

OIG 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.<sup>7</sup>

OIG 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 OIG at (202) 482-3884.

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

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<sup>7</sup> 31 U.S.C. § 3516(d).