



November 14, 2017

**MEMORANDUM FOR:** Denali Commission Commissioners

**FROM:**

Mark H. Zabarsky  
Principal Assistant Inspector General for Audit and Evaluation

**SUBJECT:**

*Top Management and Performance Challenges Facing  
the Denali Commission in Fiscal Year 2018*

Enclosed is our report on the Denali Commission's *Top Management and Performance Challenges* for fiscal year (FY) 2018.<sup>1</sup> According to a study by the United States Government Accountability Office (GAO), the 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. In addition, the upcoming vacancy in the federal co-chair position presents a new challenge that has not been encountered since FY 2014.

We removed two challenges that were identified in our November 2016 *Top Management and Performance Challenges* report: (1) identifying a strategic vision and plan in a period of funding uncertainty and (2) engaging commissioners in light of ethics concerns and funding realities. The Commission's federal and state co-chairs signed the *Denali Commission Strategic Plan FY 2018–2022* into effect on October 4, 2017. In addition, the Water Infrastructure Improvements for the Nation Act,<sup>2</sup> was signed into law on December 16, 2016, and contained provisions regarding conflicts of interest that should generally ease ethical concerns related to the commissioners. We modified one challenge, addressing evolving role in the environmentally threatened communities initiative, to broadly address the Commission's role in light of significant funding decreases.

***Challenge 1: Fulfilling Denali's Statutory Purpose with Significant Decreases in Funding***

In 1998, the Denali Commission Act established the Denali 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 communication systems,

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<sup>1</sup> The Department of Commerce Office of Inspector General provides oversight services to the Denali Commission.

<sup>2</sup> Pub. L. No. 114-322.

- water and sewer systems, and
- other infrastructure needs.

However, the Commission faces challenges in its current approach as primarily a grant-making agency based on the current budget environment. Significant decreases in funding levels cannot support grant making on the scale and pace the Commission has done in the past while still fulfilling its statutory purpose.

Since 1998, 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; however, funding has significantly decreased in recent fiscal years. Specifically, in FY 2006, the Commission received about \$141 million, including more than \$90 million contributed from six outside federal and state entities. In FY 2017, its total funding was \$16.7 million—a decrease of nearly 90 percent—with only \$1.7 million contributed from one outside entity.

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>3</sup> Among the recommended strategies include limiting grants, focusing on facilitation, and maintaining existing infrastructure. The Commission has recently begun to address these GAO recommendations by stating that it will pivot away from its traditional grant-making role to more of a maintenance and facilitator role. In light of the current budget environment, the Commission needs to continue developing new strategies in order to fulfill its statutory purpose with significantly decreased funding.

### ***Challenge 2: Continuity of Operations Through a Possible Federal Co-chair Vacancy***

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 for several critical actions necessary for daily operations. The current federal co-chair's term ends April 20, 2018, and absent an appointed term or interim federal co-chair, the position will be vacant.

The federal co-chair is the only person authorized to approve new contracts, and grants and cooperative agreements to fulfill the mission of the 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 co-chair is not authorized to delegate statutory responsibilities or to remain beyond a term's expiration. Additionally, this potential vacancy would occur during a critical time of the operating year—on average, more than 80 percent of the Commission's funds are obligated during the second half of the fiscal year. A vacancy during this time would have a significant and adverse impact on the Commission's daily operations.

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<sup>3</sup> GAO-15-72, *Options Exist to Address Management Challenges* (Mar. 25, 2015).

Such vacancies have occurred in the past. For example, in FY 2014, the federal co-chair position was vacant from January 4 to April 20, 2014, during which time there was no authority to approve new contract actions, award grants and cooperative agreements, or take personnel actions. Because only the co-chair is authorized to take critical actions—such as approving new grants—no one was authorized to sign \$7 million in new grants in time to take advantage of Alaska’s short construction season.

To date, there have not been any nominations submitted or actions taken to appoint a new federal co-chair. Having a vacancy in the federal co-chair position would significantly impact the Denali Commission’s ability to fulfill its mission.

We remain 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. This report will be included in the Commission's *Agency Financial Report*, as required by law.<sup>4</sup>

We appreciate the cooperation received from the Commission, and we look forward to working with you in the coming months. If you have any questions concerning this report, please contact me 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>4</sup> 31 U.S.C. § 3516(d).