

Agency Financial Report (AFR)

Inspector General's Perspective on Management & Performance Challenges Facing the Denali Commission



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Denali Commission
510 L Street, Suite 410
Anchorage, AK 99501

907.271.1414 *tel*
907.271.1415 *fax*
888.480.4321 *toll free*
www.denali.gov

INSPECTOR GENERAL

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The OMB-required *Performance and Accountability Report* (the "PAR") is largely a book authored by the agency's management. However, OMB reserves one of the final sections for the inspector general's perspective:

The PAR shall include a statement prepared by the agency's Inspector General (IG) summarizing what the IG considers to be the most serious management and performance challenges facing the agency and briefly assess the agency's progress in addressing those challenges.

The PAR itself — rituals versus readers

The PAR is one of those federal mandates that seemed like a good idea at the time. However, particularly at larger agencies, annual production of the voluminous document has over the years taken on a life of its own — where the ritual of requirements can overshadow the reassurance of readers. Cynics stereotype it as yet another expensive government study in which seldom has so much, meant so little, to so few.

OMB itself publicly acknowledges the need to re-examine the hopes for the PAR. And each year the national trade association for federal accountants¹ offers agencies the antidote of its CEAR² review process, in which a blue-ribbon panel of CPAs will critique an agency's PAR as a meaningful public product. Though the Denali Commission may be smallest agency to volunteer for such a review, Denali's Office of Inspector General (OIG) pays for it in hopes of enhancing public confidence in the agency's audit (a key component of each PAR).

But one must, of course, always be careful what one asks for. When the judges have their scores on the CEAR review panel, their pages of critique pull no punches — as Denali saw last year in this frustrated observation:

We also want to point out that the CEAR program provides many useful recommendations for improving Performance and Accountability Reports and Agency Financial Reports. Many of these recommendations have not been reflected in the reports that Denali submits for review each year. Denali might

¹ The Association of Government Accountants (AGA) in Alexandria, Virginia.

² The Certificate of Excellence in Accountability Reporting (see www.agacgm.org/performance/cear/).



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want to examine why, absent addressing the matters identified in the recommendations, it is continuing to participate in the program.

And since Denali's OIG requested (and paid for) the panel's review, the following comment seems well taken:

[W]e assume that the OIG also wants to improve Denali's accountability and transparency. Hence, by providing the recommendations to the Inspector General (and the auditor), and that Denali's response to the comments submitted with its FY 2011 report will reflect his actions in regard to those comments [sic].

With this in mind, Denali OIG arranged for staff from the CEAR review program to directly confer with the agency head, the CFO, and OIG's contract auditor that conducts the annual financial audit. Based on these meetings and the panel's critiques over several years, three recurring themes emerge that OIG will attempt to paraphrase: (1) management needs to publicly disclose program-by-program spending in the financial statements; (2) management needs to demonstrate its results through meaningful performance metrics; (3) management's PAR narratives need to tell an inspiring story of maximized public benefit from diminished congressional funding.

And these three criticisms offer a useful framework for the following discussion by OIG of the most significant challenges facing Denali's management.

*The need for a meaningful public story:
Disclosing the costs of Denali programs that have come and gone*

As noted by the CEAR review panel, Denali's management has traditionally lumped together the costs of all programs as a single "gross costs" total in the PAR's financial statement for the year's "cost of operations."³ While this technically meets the legal and accounting minimums, it tells public readers only whether the agency's *overall* spending has changed since prior years.

That overall total fails to show public readers how the specific programs entrusted to Denali have varied over the agency's life span with changing congressional priorities and support. Denali started in the late 1990s with only around \$20 million and a mission to replace leaking fuel tanks. In the agency's heyday, it had annual congressional support of well over \$100 million for clinics, training, housing, community centers, transportation, and rural electrification. Congressional support today has dwindled down close to the startup funding, and now only the latter two programs receive new money.

Regardless of a reader's policy priorities and preferences, the audited financial statements in the PAR should clearly reveal how the agency's work has changed over time. Nevertheless, the format of an agency's financial statements is a matter that lies within the discretion of its management. Each year, OIG's independent auditor opines on the financial statements presented by management. Neither OIG nor the auditor tell management what to write.

³ The Statement of Net Cost.



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*The need for a meaningful public story:
Disclosing what progress has been made with what’s been given*

OIG agrees with the CEAR reviewers that meaningful performance metrics tell the reader about progress in addressing social conditions, not just the number of new buildings opened at government expense. But there’s no simple answer to the question as to why management can’t measure like they mean it.

Congress has given Denali around \$1 billion over the past 13 years, but the PAR has yet to quantitatively show that all this construction has improved the access to health care, the affordability of fuel and electricity, or the placement in long-term employment.

But this is not new material. For years, OIG’s reports to the agency head and Congress have cited this shortcoming. For instance, OIG’s *Semiannual Report to Congress* (November 2007) stated:

Compounding the issue is the lack of an Alaskan consensus as to the role of evaluation among planners, social scientists, and the commission’s own staff. The following are some of the justifications offered by various parties around the state for the lack of outcome measurements for programs like the Denali Commission: (1) outcomes are not measurable; (2) criteria (benchmarks) are not available; (3) assistance is a right (or reparation) given the policy area or the history; (4) data is not available; (5) data collection should be specified up front; (6) grantees should do their own evaluations; (7) Congress funds physical uses rather than results; (8) evaluations are the inspector general’s problem.

EXHIBIT 1 KEY QUESTIONS FROM DENALI’S DECADE AND A BILLION
Are better clinic buildings resulting in better health care?
Are Denali-provided power plants resulting in cheaper “bush” electricity?
Are Denali-provided tank farms resulting in cheaper “bush” fuel?
Is training for construction projects resulting in long-term careers?
Are Denali-provided facilities reducing — versus extending — the dependence on future federal funding?
Has Denali pioneered “silver bullet” solutions applicable to other states?
Do projects function as capacity-building “barn raisings” (versus mere short-term cash infusions)?
Has Denali leveraged rural schools as the major local facility?
Has Denali effectively partnered with the military as the state’s largest employer?
Has Denali effectively leveraged federal single audits as a grants monitoring tool?
Has Denali strengthened regional hubs as an alternative to urban migration?
Has Denali pioneered interventions for troubled projects (versus just adding money)?
Is Denali helping coastal communities benefit from the opening of new arctic shipping routes?
Have Denali projects preserved “priceless” qualities of Alaska that are valued by the rest of the nation?

And a sidebar in OIG’s *Semiannual Report to Congress* (May 2010) detailed the continuing uncertainty over outcomes as “key questions from Denali’s decade and a billion.” That chart is



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repeated here verbatim as Exhibit 1.

In fairness to Denali's management, it has from time to time attempted to retain contractors for evaluations of its programs. Despite the effort, the studies too often reflect beneficiaries' preference for further funding (inputs) more than the metrics of a better life (outcomes). For instance, OIG's *Semiannual Report to Congress* (Nov. 2007) noted:

During FY 2007, the commission contracted with a research firm for a \$200,000+ review of the agency's accomplishments. That review detailed the agency's structure, the buildings built, the populations trained, and the interviewees that were pleased to get the commission's funding. The review did not measure the degree to which the commission's projects are making "bush" Alaska a better (e.g., healthier) place to live.

Management also realistically recognizes the tenuous linkage between rigorous studies of good works and the funding that is ultimately awarded through the competitive national politics of the congressional process. Academics and auditors have also long bemoaned the reality that the raw politics of bringing home the bacon can easily trump the most artfully crafted accountability reports.

Management has also arguably faced mixed signals from Congress as to what should be measured to demonstrate obedience to congressional intent. On one hand, Denali has inherited the longstanding federal goal of promoting universal basic "infrastructure" throughout the states — the assumption that all Americans are entitled to certain basics of life regardless of where they live. For instance, the FCC tax on consumers for the Universal Service Fund spreads the cost of a basic household phone around the country (the assumption that every American should be able to dial 911).

In fact, Denali's original strategic plan idealistically aspired that "[a]ll Alaska, no matter how isolated, will have the physical infrastructure necessary to protect health and safety and to support self sustaining economic development." And counts of buildings erected could arguably be an appropriate metric to assess the progress in extending infrastructure to the far reaches of the nation.

On the other hand, past OIG reports have noted management's reluctance to employ metrics that would candidly disclose the small size of the communities that are often served by its grants. But the truth is out there: projects throughout Denali's subject areas have often been awarded to tiny settlements with less than 200 people.

For instance, OIG's *Semiannual Report to Congress* (May 2010) found that 43 of the 139 projects in Denali's transportation program had been for improvements in locations with a population of less than 200 (examples were Elfin Cove and False Pass, pop. 30 and 39). The same report listed 13 power plants and tank farms that Denali had installed in hamlets with a population of 100 or less (examples were Lime Village and Nikolski, est. pop. of 28 and 31). OIG further listed eight clinics built in places with a population of 100 or less (examples were Alatna and Beaver, pop. of 41 and 64).



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In the same report to Congress, OIG further noted that Denali's program for rural electrification (power plants and tank farms) sent most of its funding to a state agency and a utility cooperative that served only a fraction of the state's population. For instance, the cooperative served around 50 of the most challenging locations that together represented less than 4% of Alaska's population.

In short, one of Denali's most difficult and uncomfortable issues has always been the size of community that warrants public support (versus self-support). While national lore may abstractly decry construction to "nowhere," the choices are very real — and very serious — for rural families that must go without what most of America takes for granted.

However, Congress has sent mixed messages over the years as to what it expects Denali to accomplish. To the extent that the goal has been universalization of the nation's "infrastructure," Denali's counts of construction in colorful bar charts may be a fair performance measure.

In contrast, proof that life is good remains elusive if Congress intends the "Other Alaska" to vanish from the ranks of the "Other America" (which inspired creation of regional commissions in the first place). Those mixed messages continue to frustrate Denali's development of meaningful measures, with complexities that the passing snapshot of a CEAR review shouldn't be expected to recognize.

*The need for a meaningful public story:
One last look — or a retooled mission?*

Denali's management has consistently, and persistently, written about (1) the great need in bush Alaska, (2) the tough logistics of building out there, and (3) the tougher challenge of continuing to do it when Congress no longer sends the money. The CEAR reviewers seem to nevertheless expect an inspiring story of management's ingenuity in doing the most with what little it gets.

Management has in fact published its public report on *Sustainable Rural Communities*,⁴ with its excellent discussion of the complications of extending America's basic facilities into rural Alaska. That publication shows Denali's maturing role in Alaska "government coordination" — the diplomatic magic of applying Denali's lessons-learned to help better-funded agencies do their best in the bush. Nevertheless, while Denali's management has now quite effectively told its story, Congress has still decided to send its money elsewhere.

Congress sent Denali an FY 2011 base appropriation of just under \$11 million — which Congress then neutralized with a \$15 million rescission. The uncertain mechanics of paying back Denali's "debt" ultimately required the safe harbor of a Comptroller General's interpretation as to how the rescission legislation should be legally implemented in practice.⁵ (In effect, Denali claimed that it had already spent the money.) Suffice it to say, meaningful planning was frustrated for much of FY 2011 — including public confidence in the annual "work plan" that the enabling act envisions as a blueprint for the best use of available funding.

⁴ Denali Commission, *Sustainable Rural Communities* (July 2010) at www.denali.gov (use the website's *programs* link to *government coordination — documents*).

⁵ See GAO, *Denali Commission—Fiscal Year 2011 Rescission*, # B-322162 at www.gao.gov.



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Another anticipated source of significant Denali funding has been Congress' continuing resolutions for the transportation funding that originated in SAFETEA-LU (where Congress created Denali's transportation program). Unfortunately, disputes have also arisen over this funding — disputes that have also required Comptroller General interpretations to resolve.⁶

Since Denali's new funding has effectively declined to approximately its startup level, Congress may simply be signaling that the experiment has run its life cycle and shouldn't expect perpetual appropriations. If that be the case, Congress should at least leave Denali with the unmistakable statutory authority to diversify its funding from nonfederal sources and from reimbursement for services to other agencies.⁷ In short, if Congress decides from a policy perspective not to fund the Denali Commission, Congress should at least give the agency the legal ability to fend for itself.

It's now been almost a decade since Congress first required small agencies to produce audited financial statements⁸ (which triggers the OMB requirement that these agencies produce an annual PAR report). But when an agency's annual "budget authority available" falls below \$25 million, the statute allows OMB to grant exemptions.⁹ In other words, the agency is deemed so insignificant on the federal scene that the costs of an annual audit (and a PAR report) simply outweigh any public benefit.

To the extent that the Denali Commission is now fading into the federal sunset of agencies that lie below the horizon of \$25 million, this could conceivably be its last audit, its last PAR report, and its last CEAR review.

MIKE MARSH, CPA, ESQ.
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⁶ See GAO, *Denali Commission—Transfer of Funds Made Available through the Federal Transit Administration's Appropriations*, # B-319189 at www.gao.gov; GAO, *Denali Commission—SAFETEA-LU Funding*, # B-322481 (pending for decision).

⁷ See discussions at Denali OIG, *Semiannual Report to Congress* (May 2010), pages 6-9 at www.denali-oig.org and GAO, *Denali Commission—Authority to Receive State Grants*, # B-319246 at www.gao.gov.

⁸ See the Accountability of Tax Dollars Act of 2002, P.L. 107-289.

⁹ See 31 USC 3515(e)(1).

