



U.S. Department of Education
Office of Inspector General

501 I Street, Suite 9-200
Sacramento, California 95814
Phone (916) 930-2388 • Fax (916) 930-2390



September 30, 2003

ED-OIG/A09-C0026

Cheryl Crazy Bull
President
Northwest Indian College
2522 Kwina Road
Bellingham, Washington 98226

Dear Ms. Crazy Bull:

This Final Audit Report presents the results of our audit entitled *Northwest Indian College Administration of the U.S. Department of Education, Office of Vocational and Adult Education Grant No. V101A990026*. The grant provided Federal funds for Northwest Indian College's (NWIC's) administration of two projects: the Document Imaging Specialist Certificate (DISC) Program¹ and the Promising Practices Dissemination Activity (Promising Practices). The purpose of the audit was to determine whether NWIC (1) delivered the services and products specified in the grant proposals, and (2) claimed costs under the grant that were allowable and supported in its financial records. Our review covered the two-year grant period from July 1, 1999 through June 30, 2001 for the DISC Program. For Promising Practices, we covered the period from October 1, 1999 through November 26, 2001.

We provided NWIC with a draft of this report. NWIC agreed that it did not meet the goals of the DISC Program or complete the deliverables for Promising Practices, but disagreed with our recommendations regarding its performance. NWIC partially agreed with our findings concerning its financial management system and generally agreed with the related recommendations. NWIC's comments are summarized in the AUDIT RESULTS section of the report and included as Attachment 3.

BACKGROUND

NWIC is a tribally controlled postsecondary education institution located on the Lummi Indian Reservation, near Bellingham, Washington. The institution is accredited by the Northwest Association of Schools and Colleges. NWIC received Federal funds from U.S. Department of Education and other Federal agencies, including the U.S. Department of Agriculture,

¹ NWIC's grant proposal called the project the Electronic Document Conversion Specialist Training Program. Subsequent grant related documents referred to the project as the DISC Program.

U.S. Department of Energy, National Science Foundation, U.S. Environmental Protection Agency, U.S. Department of Health and Human Services, and U.S. Department of Defense.

The U.S. Department of Education's Office of Vocational and Adult Education (OVAE) initially awarded Grant No. V101A990026 to NWIC to administer the DISC Program. In September 1999, the grant was supplemented to include funds for the Promising Practices activities.

		Performance Period
DISC Program	\$366,166	July 1, 1999 through June 30, 2001
Promising Practices	\$266,075	October 1, 1999 through September 28, 2001 ² (Includes one-year extension granted by OVAE)
Total Grant Award	\$632,241	

AUDIT RESULTS

We found that NWIC did not meet the terms and conditions specified in the grant proposals for delivery of services and products for the DISC Program and Promising Practices. Also, we found that the NWIC lacked the financial management systems to properly account for the grant funds. Thus, we were unable to perform the level of review necessary to determine whether NWIC claimed costs under the grant were allowable and supported in its financial records. However, our limited review identified \$8,839 of grant funds that NWIC needs to return to the Department for costs not allowed for Promising Practices. We also identified \$68,863 of costs for Promising Practices for which NWIC needs to provide required supporting documentation or return the funds.

In addition to addressing the unallowed and unsupported costs, we recommend that OVAE take action to recover all or part of the \$632,241 grant award due to NWIC's material failure to deliver the services and products. We also recommend that the Department impose appropriate special conditions on current and future Departmental grants and take steps to ensure that NWIC establishes financial management systems that comply with Federal requirements and submits required audit reports.

FINDING NO. 1 – NWIC Did Not Meet the Terms and Conditions Specified in the Grant Proposals for Delivery of Services and Products for the DISC Program and Promising Practices

NWIC did not meet the terms and condition specified in the DISC Program proposal since it did not meet the three goals for enrollments, certification, and job placements and did not report performance data on three other goals. Also, NWIC did not complete all activities and deliver the products listed in its Promising Practices proposal. Thus, NWIC did not meet its responsibility to properly manage and monitor the DISC Program and Promising Practices activities.

² NWIC continued to record expenditures for Promising Practices through November 2001.

NWIC Did Not Meet Three Expected Goals and Failed to Report Data on Three Other Goals for the DISC Program

The purpose of the DISC Program was to provide basic education and vocational training in electronic document management and document conversion services to unemployed and low-income members of the tribal service population. As part of the DISC Program curriculum, the trainees were to obtain work experience with Core Intelligent Regions of the 21st Century (CIR21) Corporation³ and ultimately obtain employment with CIR21 or in the private sector. Trainees were to be paid a stipend of \$5.15 per attendance hour as an incentive to complete the curriculum, including the on-the-job component of the program. NWIC provided instruction to trainees under the DISC Program from January 2000 through June 2001 (18-month period).

Few Trainees Completed the DISC Curriculum or Obtained Employment. In its proposal, NWIC stated that the DISC Program would provide training to 72 individuals over the two-year grant period. The proposal's measurable goals, included:

Goal #3: 85% of the trainees will successfully complete their personal education and training goals as identified in their Training Plans and will receive One Year Certificate of Completion in the DISC Program from Northwest Indian College.

Goal #4: 80% of the trainees will be placed into jobs with the CIR21 Corporation within sixty days of their completion of the training program or will be pursuing additional training related to their training received under this program.

NWIC did not achieve the above goals. Based on unaudited information provided by NWIC, only five trainees completed the program and one trainee was placed with a tribal commercial facility during that period.⁴

		Actual
Enrolled	72	39
Obtained Certificate (85% of 72 trainees)	61	5 (a)
Placed in Jobs (80% of 72 trainees)	57	1
(a) Reported number of trainees that completed all six DISC course.		

³ The Lummi Indian Business Council created CIR21 Corporation, a for-profit company, on December 1, 1998, when the Council approved the corporation's operating agreement. The Council subsequently dissolved the CIR21 Corporation on August 15, 2000, based on a taskforce's findings that the corporation needed to be held more accountable to the Council and concerns that corporate officers had not operated in a forthright manner.

⁴ NWIC offered DISC program training over an 18-month period (January 1, 2000 through June 30, 2001) rather than 24-month period specified in the proposal. Even if the goals were adjusted to reflect expected trainees for an 18-month period, NWIC did not meet the goals.

Also, NWIC's statistical analysis showed that less than half of the enrolled trainees completed four or more of the six DISC courses.⁵

Number of DISC Courses Completed							
Courses	None	One	Two	Three	Four	Five	Six
Trainees	10	5	4	4	2	9	5

We identified 12 trainees who attended for a 10 to 17 month period even though NWIC designed the DISC program to be completed in three academic quarters (9 months). These 12 trainees received over \$115,000 in stipends, ranging from total stipends of \$6,097 to \$12,867. NWIC-provided data showed that only 3 of these 12 trainees completed all six of the DISC courses.

NWIC cited the late start of the program as a reason for not meeting the goals. However, even if the goals were adjusted to reflect the 18-month period of actual instruction, NWIC did not meet the goals. NWIC also cited the lack of support and involvement of the Lummi Indian Business Council and dissolution of the CIR21 Corporation as other reasons for failing to meet the goals. Because the CIR21 Corporation did not become fully operational, it did not provide on-the-job training for the DISC program or provide employment for certified graduates.

NWIC Did Not Report Data on Three Goals. In addition to the goals on enrollments, certification, and job placements, the grant proposal contained goals related to basic skills development and marketable skills.

Goal #1: Of the 72 trainees identified, recruited, selected and enrolled for participation in the DISC Program, 100% will have completed a comprehensive assessment of basic skills levels and career aptitudes and interests by the second week of their enrollment in the program and will have a completed individual Training Plan by one month after enrollment date.

Goal #2 (first part): 90% of the trainees referred to NWIC's basic skill education program will raise their education level in reading, math and/or writing by at least one grade level after one quarter of instruction.

Goal #3 (first part): 85% of trainees will successfully complete their personal educational and training goals as identified in their Training Plan.

NWIC did not provide data on these goals in Final Performance Reports for the first and second year of the grant. Page 35 of the DISC grant proposal states that the Project Director will generate annual reports with information on the achievement of stated objectives. The regulations at 34 C.F.R. § 74.51(d) state that performance reports must generally contain a comparison of actual accomplishments with the goals established for the period, and reasons why established goals were not met, if appropriate.

⁵ The brochure for the DISC Program showed the program was scheduled for a total of 960 hours over three academic quarters. The program consisted of three basic skill courses (140 contact hours), six DISC-specific courses (110 contact hours, 200 lab hours, and 480 on-the-job training hours), and one elective course (30 contact hours).

NWIC Did Not Complete All Activities or Deliver Acceptable Products For Promising Practices

The purpose of Promising Practices was to survey, assemble, and distribute best practices in the use of technology on projects funded by the Native American Vocational and Technical Education Program (NAVTEP).⁶ NWIC's project proposal listed the following deliverables:

- Create a survey instrument in consultation with NAVTEP personnel.
- Use the returned survey to identify promising practices at approximately eight sites in consultation with about eight expert consultants in technology.
- Provide 3000 manuals summarizing current practices for all NAVTEP projects and creating case studies (Tool-Kits) for the eight sites/projects identified as possessing promising practices.
- Produce a list of current contacts at each NAVTEP project who are responsible for technology.
- Present the project's findings orally at an NAVTEP Annual Meeting as well as mail written manuals and lists to persons throughout the NAVTEP Network and other groups as agreed upon.

Even though OVAE staff frequently monitored the status of the project, NWIC did not complete all activities and the few products delivered were not acceptable. In a letter dated November 13, 2001, OVAE acknowledged receipt of mock-ups of the manuals, a contact list, a rough cut of a video of one site, and an outline of a presentation on the project. OVAE concluded that the submitted documents did not meet the requirements specified in the project's scope of work. OVAE stated that the documents contained no comprehensive discussion of the survey findings and case studies were not prepared on the selected sites. OVAE concluded that the quality of all products was severely compromised since a panel of experts was not used to select the sites of promising practices and NWIC did not provide OVAE with the criteria or standards used to select sites. NWIC did not produce the 3000 manuals specified in the grant proposal.

In the Final Performance Report for Promising Practices, NWIC provided several reasons for delays in completing the project, including (1) difficulties in reaching agreement with the Department on the survey design, (2) lack of awareness until March 2000 that the Office of Management and Budget (OMB) approval of the survey was required, (3) unavailability of consultants originally scheduled to review completed surveys and select sites with promising practices, (4) unavailability of original NWIC staff to complete the project, and (5) lack of momentum in the final stages of the project. However, OVAE extended the performance period to accommodate OMB's approval and NWIC was able to gather a group of consultants.

NWIC Did Not Meet Its Responsibility to Properly Manage and Monitor the DISC Program and Promising Practices Activities

Federal regulations at 34 C.F.R. § 74.51(a) state "[r]ecipients are responsible for managing and monitoring each project, program, subaward, function, or activity supported by the award." Because NWIC materially failed to meet the goals of the DISC Program, the Federal funds provided under the OVAE grant were not used effectively to provide vocational training that led

⁶ Native American Vocational and Technical Education Program replaced Indian Vocational Education Program.

to jobs for unemployed and low-income members of the Lummi tribal service population. Because NWIC did not complete the Promising Practices activities and products, current NAVTEP grantees did not benefit from information on best practices in the use of technology and the Department was denied a resource for providing technical assistance to future NAVTEP grantees.

When a recipient fails to meet the terms and conditions of an award, the Department may disallow all or part of the costs of the project.

Remedies for noncompliance. If a recipient materially fails to comply with the terms and conditions of an award, whether stated in a Federal statute, regulation, assurance, application, or notice of award, the Secretary may, in addition to imposing any of the special conditions outlined in § 74.14, take one or more of the following actions, as appropriate in the circumstances:...(2) Disallow ... all or part of the cost of the activity or action not in compliance.
34 C.F.R. § 74.62(a)

The special conditions outlined in 34 C.F.R. § 74.14 allow the Department to place additional requirements on current grants from the Department and any future grants the Department awards to NWIC when a recipient has a history of poor performance, has not conformed with the terms and conditions of a previous award, or is not otherwise responsible. Another grantee attribute that allows the Department to impose special award conditions is that the recipient has a management system that does not meet the standards prescribed in 34 C.F.R. Part 74. As we report in Finding No. 2, NWIC also met this attribute for special conditions since it lacked financial management systems to properly account for the grant.

Recommendations

The Chief Financial Officer (in collaboration with the Assistant Secretary for Vocational and Adult Education) should—

- 1.1 Take action as authorized under 34 C.F.R. § 74.62 (a) to recover all or part of the \$632,241 awarded under OVAE Grant No. V101A990026.
- 1.2 Impose appropriate special conditions on current and any future Department grants to NWIC as authorized under 34 C.F.R. § 74.14.

NWIC Comments

NWIC agreed that it did not meet the expected goals of the DISC Program in terms of the number of trainees, completion of programs, and placement in jobs. However, NWIC disagreed that its failure to meet specific goal objectives constitutes a material breach of the terms and conditions of the award. NWIC stated that neither the award document nor OMB Circulars specify that failure to meet specific program goals was grounds for disallowance of total program costs. NWIC acknowledged that it had not reported on the three goals pertaining to comprehensive assessments, basic skills education, and completion of goals set forth in individual training plans.

NWIC agreed that it did not complete the deliverables specified for the Promising Practices portion of the grant. NWIC stated that its failure to complete the deliverables was due to a number of circumstances beyond the control of NWIC and at least partially attributed to communications problems with the NAVTEP. NWIC also stated that, given the various problems encountered, the time frame associated with completion of the project appears to have prevented its successful completion of the deliverables. NWIC stated that a detailed summary on how it intended to proceed to complete the project was provided in the Promising Practices final report, dated December 12, 2001. However, NWIC was uncertain on whether approval was granted to complete the project. NWIC stated that it should not be held solely responsible for the project's untimely implementation since NAVTEP had a critical role in the project's design, approval, and implementation process.

NWIC disagreed with our recommendation for the Department to impose special conditions on current and any future grants. NWIC stated that there is no evidence to indicate that the findings associated with the OVAE grant were widespread throughout the institution. Also, NWIC stated that the return of grant funds would impose a serious hardship on NWIC's financial position. NWIC described the corrective measures taken and in progress to improve its oversight of grant performance.

OIG Response

Our recommendations remain unchanged. The regulation at 34 C.F.R § 74.62(a) lists the grantee's application as a source for "terms and conditions" of a grant award. The grantee's material failure to meet those terms and conditions can cause the Department to disallow all or part of the costs of the activity. The Department awarded NWIC the grant based on the DISC Program's objective and goals set forth in NWIC's proposal, a part of its application. The Department's expansion of the grant was based on the deliverables that NWIC listed in its Promising Practices proposal. NWIC materially failed to meet those "terms and conditions." The Department of Health and Human Services (HHS) Departmental Appeals Board upheld a cost disallowance under an HHS regulation identical to 34 C.F.R § 74.62(a) based on a grantee's failure to accomplish the essential objective of a grant [Tuscarora Tribe of North Carolina, DAB No. 1835; 2002 HHSDAB LEXIS 79 (July 16, 2002)].

We concluded that OVAE had given NWIC sufficient time to complete the Promising Practices activities and deliverables. The original performance period for Promising Practices was a one-year period. OVAE extended the performance period an additional year to accommodate the time needed to develop and obtain OMB approval of the survey instrument. Except for creating and mailing the survey instrument, NWIC did not fully perform the other activities or complete the other deliverables. The grant was effectively terminated on September 28, 2001, since OVAE did not again extend the performance period. NWIC submitted the proposed plan to complete the deliverables over two months after the end of the performance period.

While the corrective actions outlined in NWIC's response may improve its oversight of grants, we remain concerned about current and future grants due to the seriousness of NWIC's failure to meet goals and provide deliverables on the OVAE grant. Also, without completed audits and the written assurances recommended in Finding No. 2, we remain concerned that NWIC does not have an adequate financial management system.

FINDING NO. 2 – NWIC Lacked the Financial Management Systems to Properly Account for Grant Funds

NWIC's financial management systems are not adequate to ensure accountability of grant funds. NWIC has experienced frequent turnovers in its financial director position. Financial records do not provide an adequate audit trail for grant expenditures. Due to the condition of the financial records, NWIC's certified public accountant has been unable to complete required audits for fiscal years 2001 and 2002. Also, NWIC was unable to provide a complete list of grant expenditures from its accounting system to support the expenditures reported to OVAE. In addition, we found that NWIC did not have adequate procedures for documenting staff time expended on the grant. We also identified transactions NWIC charged to the grant that were not allowed or where NWIC did not have required supporting documentation.

NWIC Has Experienced Continual Turnover in Financial Directors

Three individuals have held the financial director position at NWIC since we initiated our review of the grant. The financial director we initially met with on September 18, 2002, informed us that he was leaving the position at the end of the week. The subsequent financial director left on October 25, 2002. In January 2003, a new financial director was in place. According to NWIC staff, the college has had a total of six financial directors since April 2000.

NWIC's Financial Records Do Not Provide An Adequate Audit Trail

Around the first of June 2000, NWIC experienced a failure in its ability to retrieve data from its financial accounting database. NWIC eventually re-established its financial accounting database using journal entries to record grant expenditures incurred as of December 31, 2000, and in January 2001, began recording financial transaction in the database. NWIC was unable to provide financial details to support the journal entries used to re-establish the database. Due to the condition of the financial records, the certified public accountant (CPA) firm hired by NWIC has been unable to complete required audits. Also, we could not reconcile grant related financial reports to NWIC's financial records and had difficulty identifying detailed transactions charged to the grant.

CPA Firm Unable to Complete Required OMB Circular A-133 Audits. NWIC's CPA firm has been unable to complete the audits required for fiscal years ended June 30, 2001 and 2002. NWIC requested that the 2001 audit be delayed due to the database problems, accounting system changes, and personnel turnover. In October 2002, the CPA firm began an audit covering both years, but later suspended the audit to give NWIC additional time to get its records in auditable condition. The CPA firm was scheduled to restart the audits in June 2003.

The regulations at 34 C.F.R. § 74.26 (a) state that grant recipients are subject to the audit requirements contained in OMB Circular A-133. The Circular required NWIC to submit annual audits conducted in accordance with its provisions. The Circular provides for the following sanctions in cases of continued inability to provide the required audit: withholding or disallowing

indirect costs, terminating the Federal award, and withholding a percentage of Federal awards or suspending Federal awards until required audit is completed.

Grant Financial Reports Submitted to OVAE Could Not Be Reconciled to Financial Records. NWIC's financial data submitted with its performance reports could not be reconciled with expenditures recorded in its current financial database or other available financial reports.

		Promising Practices
Final Financial Data Submitted to OVAE	\$310,414	246,353
NWIC's Current Financial Database	404,140	258,148

The standards for financial management systems are specified in 34 C.F.R. § 74.21. The regulations at 34 C.F.R. 74.21 (b)(1) state the recipient's financial management systems shall provide for accurate, current, and complete disclosure of the financial results of each Federally-sponsored project.

Difficulty Identifying Detailed Transactions. Extensive OIG audit effort was needed to identify detailed transactions for amounts shown in NWIC's current financial database for the grant. From this effort, we were able to identify detailed transactions totaling in excess of the amounts shown in NWIC's current financial database for the DISC Program. For Promising Practices, the total detailed transactions we identified were less than the amount shown in NWIC's current financial database. The regulations at 34 C.F.R. § 74.21(b)(2) require that NWIC's financial management systems provide "[r]ecords that identify adequately the source and application of funds for federally sponsored activities." Attachment 2 identifies the amounts that we concluded were unsupported costs for Promising Practices because we could not identify sufficient detailed transactions.

NWIC Did Not Have a Payroll Distribution Method in Place for Personnel Costs

NWIC did not have a payroll distribution system in place to support the allocation of personnel costs to the grant. OMB Circular A-21 – Cost Principles for Educational Institutions establishes the principles for determining costs applicable to grants with educational institutions. Paragraph J.8.b. (1) (b) of the Circular states that the apportionment of employees' salaries and wages which are chargeable to more than one sponsored agreement or other objective will be accomplished by methods which will produce an equitable distribution of charges for the employee's activities. The Circular specifies the criteria for acceptable methods and provides examples of them. We identified three NWIC employees whose salaries were charged to Promising Practices and other activities. Attachment 2 shows the unsupported salaries and related fringe benefits that we identified as unsupported costs because NWIC lacked required support for the allocation of the salaries.

NWIC Charged Costs Not Allowed For The Grant and Did Not Provide Supporting Documentation For Some Transactions

From our limited review⁷ of the identified detailed transactions, we concluded that NWIC's current financial database included a transaction for \$660 that was not necessary for the DISC Program and transactions for \$14,817 that were not necessary for Promising Practices. OMB Circular A-21, Paragraph C.2 lists "reasonable" as a factor affecting allowability of costs charged to grants by educational institutions. Paragraph C.3 lists the following major consideration for determining the reasonableness of costs – "whether or not the cost is of a type generally recognized as necessary for the operation of the institution or the performance of the sponsored agreement."

Also, we concluded that NWIC lacked the required documentation for identified transactions for Promising Practices. The regulations at 34 C.F.R. § 74.21 (b)(7) state NWIC shall provide "accounting records... that are supported by source documentation." Given the limited nature of our review, we are unable to express an opinion on whether the detailed transactions identified for other costs, for which we did not review invoices or other supporting documentation, were allowable under the grant.

Attachment 1 provides details on the cost not allowed for the DISC Program. Since the amounts recorded in NWIC's financial database were significantly higher than the portion of the grant awarded for the DISC Program, we have not recommended that the \$660 plus \$132 in applicable indirect costs be returned to the Department.

Attachment 2 provides details on the unallowed costs and transactions that lacked required documentation for Promising Practices. We limited the recommended funds to be returned for unallowable costs to \$8,839, which is the amount of funds drawn in excess of the recorded costs after reduction for the \$14,817 of unallowable costs and inclusion of allowed indirect costs.

Recommendations

The Chief Financial Officer (in collaboration with the Assistant Secretary for Vocational and Adult Education), in addition to imposing appropriate special conditions on future grants to NWIC, should require NWIC to—

- 2.1 Instruct its certified public accountant to complete the required OMB Circular A-133 audits for fiscal years ended June 30, 2001 and 2002, and provide copies of the issued audit reports to the Department. If the audit reports are not received promptly, the Department should consider imposing the sanctions provided in the Circular.
- 2.2 Establish a financial management system that complies with the requirements of 34 C.F.R. 74.21 and OMB Circular A-21, and provide the Department with written assurances from its certified public accountant that the system has been fully implemented.

⁷ The Objectives, Scope, and Methodology section of this report describes the limited nature of our review.

- 2.3 Return \$8,839 to the Department for disallowed costs for Promising Practices.
- 2.4 Provide supporting documentation for \$57,386 of Promising Practices' costs for which we could not identify detailed transactions, NWIC lacked required salary distribution documentation, or other required supporting documents were not provided. If adequate supporting documentation is not provided, NWIC should be required to return \$68,863 (\$57,386 plus \$11,477 of applicable indirect costs). Attachment 2 provides details on the unsupported costs that comprise this amount.

The amounts identified in Recommendations 2.3 and 2.4 are also included in the amount for Promising Practices that is subject for return to the Department under Recommendation 1.1.

NWIC Comments

NWIC partially concurred with the findings and recommendations. NWIC agreed that there was instability in the financial director position for several months and unallowable costs should be returned to the Department after NWIC's review of the specific transactions. NWIC agreed with the recommendations to complete OMB Circular A-133 audits and provide the Department with written assurances that an adequate financial management system has been implemented.

NWIC disagreed with the OIG's conclusion that financial records made available to the auditors did not provide adequate documentation and stated that it had not received a list of the specific unsupported transactions referred to in the report. NWIC stated that, according to its review of the guidelines in OMB Circular A-21, the College had met the requirements for documentation related to personnel costs. NWIC stated that it had used time cards to document time at work and the employee's contract or other personnel documents list the appropriate institutional or grant line items to which payroll was to be charged. Nevertheless, NWIC stated it has implemented a time and effort report to document an employee's time on any individual grant and will review its policies and procedures to ensure compliance with OMB Circular A-21 requirements.

OIG Response

In a letter dated August 20, 2003, we provided NWIC with a detailed list of the transactions cited in the report as unsupported and questioned costs. The list identifies the journal entries for which NWIC had not provided detailed transactions and the transactions for which NWIC has not identified the payee or provided source documents. NWIC has yet to provide the needed information or documents for the transactions.

We have not changed our conclusion regarding NWIC's documentation of personnel costs. Paragraph J.8.b.(2)(b) lists one of the criteria for an acceptable method of documenting the allocation of personnel costs for employees whose salaries and wages are chargeable to more than one grant or other activities. The paragraph states "[t]he method must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached." The procedures described in NWIC's response to the draft report do not provide an after-the-fact confirmation of the allocation.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objectives were to determine whether NWIC (1) delivered the services and products specified in the grant proposals, and (2) claimed costs under the grant that were allowable and supported in its financial records. Our review covered the two-year grant period from July 1, 1999 through June 30, 2001 for the DISC Program. For Promising Practices, we covered the period from October 1, 1999 through November 26, 2001.

To accomplish these objectives, we reviewed the DISC Program and Promising Practices grant applications, budget narratives, performance reports, and correspondence between NWIC and OVAE. We also reviewed NWIC's OMB Circular A-133 audit report for the year ended June 30, 2000, which was prepared by its certified public accountant. We interviewed NWIC accounting staff responsible for the financial administration of grants and contracts, the instructor whose contracted services were funded by the DISC Program, and other NWIC officials. We also held discussions with OVAE grant administration staff responsible for providing oversight of the grant.

To achieve our audit objectives, we relied on a transaction report generated from NWIC's current financial database on October 1, 2002, which showed costs charged to the grant. We also used other computer-processed reports provided by NWIC. Our review of these reports identified inconsistencies and a lack of supporting documentation, which lead us to doubt the completeness and accuracy of the reports and to limit the extent of our transaction testing. However, when these reports are viewed in context with other available evidence, we believe the opinions, conclusions, and recommendations in this report are valid.

To determine if NWIC's financial records supported reported expenditures, we attempted to reconcile final financial reports submitted to OVAE to amounts shown in NWIC's current financial database. Since NWIC's financial database did not provide an adequate audit trail for all amounts, we expended extensive OIG audit effort to identify detailed transactions for amounts shown for the grant in NWIC's current financial database. Due to the significant effort required to identify transactions and obtain supporting documentation, we limited our review of the identified detailed transactions to an analysis of the transaction dates and descriptions in the financial database and other available financial reports. Except for the review of invoices provided for the consultant payments and equipment purchases, we did not attempt to review subsidiary records, invoices, cancelled checks, or other supporting documentation.

We performed our fieldwork at the NWIC campus on the Lummi Indian Reservation during September 18-27, October 15-18, and November 4-8, 2002. We held exit conferences with NWIC officials on November 8, 2002 and June 5, 2003. We performed our audit in accordance with generally accepted government auditing standards appropriate to the scope of the review described.

STATEMENT ON MANAGEMENT CONTROLS

Our assessment of NWIC's management control structure was limited to those areas of control weakness identified while conducting substantive tests of grant expenditures. The identified weaknesses are listed in Finding No. 2. Based on the identified control weaknesses, we concluded that NWIC lacked the financial management systems necessary to properly account for grant funds.

ADMINISTRATIVE MATTERS

Statements that managerial practices need improvement, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Departmental official, who will consider them before taking final action on this audit—

Jack Martin
Chief Financial Officer
Office of the Chief Financial Officer
U.S. Department of Education
Federal Building No. 6, MS 4300
400 Maryland Avenue, SW
Washington, DC 20202

Office of Management and Budget Circular A-50 directs Federal agencies to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be greatly appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions under the Act.

Sincerely,



Gloria Pilotti
Regional Inspector General for Audit

Attachment 1

DISC PROGRAM
Budget, Expenditures, and Questioned and Unsupported Costs

					Notes
Salaries	\$123,830	\$12,031		\$12,031	Note A
Fringe Benefits	29,720	657		657	Note A
Contracted Services		127,115			
Travel	3,536	1,447		1,379	Note A
Supplies & Equipment	62,000	68,230			
Space Costs	11,760	18,884	\$660	2,759	Note B
Total Direct Costs (excluding stipends)	230,846	228,364	\$660	\$16,826	
Applicable Indirect Costs Budgeted Rate 19.4% Negotiated Rate 20.0%	44,784	45,673	132	3,365	Note C
Stipends	90,536	147,434			Note D
Total	\$366,166	\$421,471	\$792	\$20,191	
Less Questioned Costs		792			
Total After Adjustment for Questioned Costs		\$420,679			

Note A: Unsupported Salaries, Fringe Benefit, and Travel Costs. We were unable to identify detailed transactions for these amounts shown in NWIC's financial database.

Note B: Questioned Space Costs. We concluded that the \$660 was not an allowed cost of the DISC Program based on the transaction description "Torchdown of Roof for Bookstore Addition."

Unsupported Space Costs. We were unable to identify detailed transactions from documents provided for \$2,759 of costs shown in NWIC's financial database.

Note C: The indirect costs shown in this schedule for NWIC's financial database, questioned costs, and unsupported costs were calculated using the final negotiated rate of 20 percent. The actual amount of indirect costs recorded in NWIC's financial database was \$28,342.

Note D: The stipends recorded in NWIC's financial database were significantly higher than the budgeted amount. NWIC reported in its Final Performance Report for Year 2 that institutional funds were used to pay students additional stipends.

Attachment 2

PROMISING PRACTICES
Budget, Expenditures, and Questioned and Unsupported Costs

				Unsupported Costs		Notes
Salaries	\$115,513	\$152,440			\$36,886	Note A
Fringe Benefits	28,880	46,988	\$5,029		10,324	Note A
Contracted Services	16,200	10,247	2,000	\$600	2,000	Note B
Travel	27,600	1,444				
Supplies & Other	34,650	7,180	143	4,339		Note C
Equipment		10,882	7,645	3,237		Note D
Total Direct Costs	\$222,843	\$229,181	14,817	\$8,176	\$49,210	
Applicable Indirect Costs	43,232	45,836	2,963	1,635	9,842	Note E
Total	\$266,075	\$275,017	\$17,780	\$9,811	\$59,052	
Less Questioned Costs		17,780		Total Unsupported Direct Costs		\$57,386
Total After Adjustment for Questioned Costs		\$257,237		Applicable Indirect Costs		<u>11,477</u>
				Total Unsupported Costs		\$68,863

Note A: Unsupported Salary and Fringe Benefit Costs. We were unable to identify the payees for four payroll summary entries totaling \$6,749. An additional \$30,137 of salaries was not supported because NWIC did not have the required support for the salary distribution of personnel who worked on more than one project or activity. The fringe benefits allocable to the unsupported salary costs were \$2,015 and \$8,309, respectively.

Questioned Fringe Benefit Costs: We concluded that the NWIC financial database included \$5,029 of fringe benefit costs that were not allocable to Promising Practices. The identified salary transactions include three adjusting entries that reduced salaries previously charged to Promising Practices. We found that a corresponding fringe benefit adjustment for one salary adjustment used a fringe benefit rate that was much lower than the actual average rate and no fringe benefits were associated with the other adjusting entries.

Note B: Questioned Contracted Services: NWIC provided documentation stating that the invoice for \$2,000 of consultant services was mistakenly charged to Promising Practices. The document showed the journal entry needed to remove the charge, but no such journal entry appeared in the transactions listing provided from NWIC's financial database.

Unsupported Contracted Services: We were unable to identify detailed transactions for \$600 of consultant services. Also, NWIC was unable to provide an invoice or other supporting documentation for a \$2,000 payment to a consultant.

**Attachment 2
(Continued)**

Note C: Questioned Supply Costs: We concluded that \$143 was not an allowed cost for Promising Practices based on the transaction description “DISC Program Instruction Books.”

Unsupported Supplies & Other Costs: We were unable to identify detailed transactions for \$4,339 of supplies and other costs shown in NWIC’s financial database.

Note D: Questioned Equipment Costs: We concluded that two purchases were not allowed costs for Promising Practices because the approved budget did not include a budget line for equipment purchases and the items were not one of the listed items under the supplies and other costs budget line. The purchases were \$99 for a mini F-Tripod and \$7,546 for a wireless Internet system for WIC’s Nesqually site.

Unsupported Equipment Costs: We were unable to identify detailed transactions for \$3,237 of equipment costs shown in NWIC’s financial database.

Note E: The indirect costs shown in this schedule for NWIC’s financial database, questioned costs, and unsupported costs were calculated using the final negotiated rate of 20 percent. The actual amount of indirect costs recorded in NWIC’s financial database was \$28,967.

Attachment 3

NWIC's Comments on the Draft Report

OIG NOTE

The attachments referred to in NWIC's comments are available on request.



NORTHWEST INDIAN COLLEGE

2522 Kwina Road, Bellingham, Washington 98226-9217

(360) 676-2772 Fax (360) 738-0136

July 30, 2003

Gloria Pilotti
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
501 I Street, Suite 9-200
Sacramento, California 95814

Reference: ED-OIG/A09-C0026

Dear Ms. Pilotti:

This letter responds to the findings and recommendations set forth in your letter of July 3, 2003 pertaining to Northwest Indian College Administration of the U.S. Department of Education, Office of Vocational and Adult Education Grant No. V101A990026. This grant provided Federal funds for Northwest Indian College's (NWIC's) administration of two projects: The Document Imaging Specialist Certificate (DISC) Program and the Promising Practices Dissemination Activity (Promising Practices).

BACKGROUND

The review by your office of the DISC Program was for a two-year grant period from July 1, 1999 through June 30, 2001. For Promising Practices, the review covered the period from October 1, 1999 through November 26, 2001.

There was a chain of events that led to the financial and administrative situation that NWIC finds itself in today in regards to these grants. Those events included the following:

1. Turnover in administrative and fiscal office personnel
2. Transfer of business office financial system from one software package to another
3. Turnover in the technology department

Until June 9, 2001, Bob Lorence served as President of Northwest Indian College. Upon his departure, Tommy Lewis served as President from January 1, 2001 until January 31, 2002. During the period in question, Michael Crow served as Vice President of Administrative Services and Project Director for the DISC grant. He also left the College in January 2002. Joe Rich who served as Vice President of Instruction and who

was involved in implementation of the grant also left the College in January 2002. Following Tommy Lewis' departure, Barbara Roberts former Dean of Humanities served as Interim President until Cheryl Crazy Bull was hired beginning October 1, 2002. The period of the review is important to the discussion regarding the findings and recommendations. The individuals currently responsible for remedying findings and recommendations were either not employed by the College at that time or held jobs not specifically associated with the DISC Program or Promising Practices.

In mid-2001, there was a period of political turmoil at the College. This turmoil led to the departure of three key administrators, the President and the Vice Presidents of Instruction and Administration in January 2002. It also contributed to the departure of the Finance Director and to turnover in that and other Business Office positions over a several month period.

In 1999, after extensive research, NWIC purchased a new accounting software package (which includes other components such as student records), Teams Elite. Jenzabar developed teams Elite specifically for educational institutions. NWIC developed an implementation plan for the new software including procedures for conversion of the data from the old accounting system to Teams Elite. The conversion was completed and the system was live January 1, 2000. After the conversion was complete, NWIC began experiencing problems with Team Elite. The system crashed several times and accounting staff were required to spend significant amounts of time reentering transactions as well as trying to understand why the system continued to crash. In March 2000 after several crashes NWIC abandoned Teams Elite and used Excel and Business Works on an interim basis until the issues with Teams Elite could be corrected.

During the time period associated with the change in accounting systems, the technology department at NWIC also experienced changes in personnel. Persons familiar with the transition left the institution leaving a void in support for the change. For several months, NWIC also found itself in the position of having insufficient financial resources to support the change including upgrades in the software.

INSTITUTIONAL RESPONSE

In response to these critical management and administrative issues, the Board of Trustees of the College initiated a national search for an experienced President. Ms. Crazy Bull began work on October 1, 2002 with a directive to remedy the College's financial management issues along with other initiatives. She brings over 20 years of experience to the position including considerable experience with financial management and corrective actions pertaining to financial matters. Her most recent position as Chief Educational Officer at a tribal school in South Dakota included leadership in correcting school audits that included material findings. At the time of her departure, the school had received its second clean audit. Her resume is attached at Appendix A.

NWIC also hired a Vice President of Instruction, Dr. Rissa Wabaunsee who is experienced with grants management. Her resume is attached at Appendix B. Dr.

Wabauunsee is responsible for oversight of NWIC's academic program grants including ensuring accomplishment of stated goals.

NWIC fully utilizes the Teams Elite software including Infomaker for its financial management. The College was successful in obtaining a Title III – Strengthening Developing Institutions grant that includes a significant commitment to improving technology resources and services. Funds are available for training, software including upgrades, and equipment. NWIC also employs a full-time database specialist to manage the college-wide database including the Business Office.

AUDIT RESULTS

FINDING NO. 1 – NWIC did not meet the terms and conditions specified in the grant proposals for delivery of services and products for the DISC Program and Promising Practices.

NWIC concurs that it did not meet the expected goals of the DISC Program in terms of number of trainees, completion of program and placement in jobs. The current administrative team has been unable to determine the reasons for the number of projected enrollees except that the Lummi Indian Business Council (LIBC) at that time expected to create employment through a tribal corporation, CIR21 Corporation, with high projected employment. CIR21 was dissolved by LIBC in August 2000 based on matters beyond the control of Northwest Indian College. Despite this failure to meet the numbers in terms of completion, the College did offer the program of study to students during the time period in question.

As the Corporation was an integral part of the overall plan for the DISC program, its closure had a severe impact on the initial goals as originally set forth. This variable, combined with the fact that the participants' level of effort cannot be completely controlled by the College explains why the expected goals were not met.

We disagree that NWIC's failure to meet specific goal objectives constitute a material breach of the terms and conditions of the award. With minor exceptions all monies for the DISC program were expensed appropriately toward the achievement of stated goals. The award document does not state, nor do the Circulars, that failure to meet specific program goals is grounds for disallowance of total program costs.

NWIC agrees that it did not report on data on three goals pertaining to comprehensive assessment, basic skills education and completion of goals set forth in individual training plans. The College does collect student data including assessments and basic skills information but reconstructing such data at this time would be prohibitive in terms of resources. However, despite the lack of reporting, student data was clearly used to place students in appropriate courses and course sections throughout the duration of the DISC program.

CORRECTIVE ACTION

NWIC has taken the following corrective measures:

1. Hired a well-qualified Vice President of Instruction, Dr. Rissa Wabaunsee, to oversee implementation of academic programs. As noted earlier, her resume is attached at Appendix B. Dr. Wabaunsee is experienced in grants management.
2. Completing development of an institutional assessment process, a component of which is the review of academic programs and their accomplishment.
3. Assigned oversight of grant programs to the appropriate vice-president who works with the project director to ensure compliance with grant requirements and accomplishment of goals.
4. Implemented an internal reporting system to track narrative and financial reports for all grant programs. A copy of a portion of this reporting system is provided at Appendix C. Our Grants Accountant, Richard Jenkins, tracks the reporting system.

NWIC did not complete all activities or deliver acceptable products for Promising Practices.

NWIC agrees that due to a number of circumstances beyond the control of the College and at least partially attributable to communications problems with the Native American Vocational and Technical Education Program (NAVTEP) that Promising Practices did not complete the deliverables as required by the Grant. The various reasons for non-completion have been detailed by NWIC in reports and correspondence previously submitted to NAVTEP. As indicated in page 5 of your letter of July 3, the time frame associated with completion of the project given the various problems that NWIC outlined appear have to prevented its successful completion. In the Promising Practice final report dated December 12, 2001, Michael Crow, former Vice President of Administration provides a detailed summary of how NWIC intended to proceed to complete the project. NWIC is unclear as to whether approval was granted to complete the project. In any case, individuals associated with the project continued to work on the project for several months. None of those individuals remain at the College. _____

Promising Practices was time-driven, and the great delay in the development and approval of the survey instrument and changes in expectations from the granting agency created almost insurmountable delays. Since NAVTEP had a critical role in the design, approval and implementation process, it is unconscionable that NWIC would be held solely responsible for the project's untimely implementation.

NWIC did not meet its responsibility to properly manage and monitor the DISC Program and Promising Practices Activities.

Current NWIC administrative team members are in a difficult position because while we concur that circumstances prevented NWIC from meeting all the goals and requirements of the grants, human and other resources were devoted to the activities of the grants resulting in a range of accomplishments. We did have students in the DISC Program with faculty and staff assigned or hired to meet their needs. We did conduct a number of activities related to completion of the Promising Practices goals. That goals were not fully met doesn't mean that resources were improperly spent.

NWIC was and is successful in the achievement of its objectives with nearly all grant programs. This achievement is what led NAVTEP to attach the Promising Practices grant to our DISC grant in the first place.

In light of the concerns addressed in the OIG letter, however, we are taking steps to ensure that goals of all of our programs including those of grants are met. Our primary strategy is to use a well-designed strategic plan and assessment process. We have spent the last 9 months designing both with adoption of the strategic plan expected in October and of the assessment plan soon after.

The steps outlined throughout this letter are more than adequate to prevent NWIC from being placed under special award conditions. Our current management system is designed to prevent such situations from ever occurring again.

CORRECTIVE ACTION

NWIC has hired qualified staff to provide special oversight of grant programs including reviewing achievement of goals as well as budget and report monitoring. Through the organizational structure, principal investigators and project directors report monthly progress on achieving goals either through written reports or in formal meetings of department and program teams.

Response to Recommendations

- 1.1 Take action as authorized under 34 C.F.R. 74.62 (a) to recover all or part of the \$632,241 awarded under OVAE Grant No. V101A99026.

NWIC strongly disagrees with the imposition of such a penalty. There is no evidence to indicate that the situation associated with this grant is widespread throughout the institution. Reviews by the President and Administrative Team of other institutional grant programs indicate successful achievement including many instances when achievements exceeded goals.

It is clear that this grant situation was exceptional. For the DISC Program the association with LIBC's development of a tribal business proved detrimental to the success of the project. NWIC to its credit continued to deliver services despite the potential loss of tribal employment opportunities. Promising Practices had problems associated with its implementation from the very beginning according to the written

evidence. These problems included changes required by NAVTEP and imposition of (appropriate) federal requirements for research on human subjects.

Such a penalty would also impose a serious hardship on NWIC's financial position. Like all tribal colleges and many other institutions of higher education, NWIC has to closely monitor its financial position in order to ensure ongoing delivery of core educational and student support services. NWIC is not in the financial position to repay funds of this magnitude.

- 1.2 Impose appropriate special conditions on current and any future department grants to NWIC as authorized under 34 C.F.R. 74.14.

NWIC strongly disagrees with this recommendation. The College has taken extraordinary measures in the last several months to correct prior administrative and financial problems. Literally hundreds of hours of staff and considerable financial resources have been devoted to completion of the audits, development and use of a viable budget, training, and software upgrades.

NWIC has invested in well-qualified staff and the Board of Trustees and President have worked conscientiously to retain these qualified persons. Department heads and grants managers are persistent and diligent in their monitoring of their budgets as well as any financial and narrative reports.

Significant improvements in our reporting and monitoring system, completion of our financial audits, adoption and implementation of Business Office Policies and Procedures and commitment of institutional resources are all evidence of our corrective actions in this area.

Finding NO. 2- NWIC lacked the financial management systems to properly account for grant funds.

Based on the time period associated with this review, NWIC partially concurs with this finding. However, we strongly disagree that such systems are not in place at this time.

As documented above, NWIC experienced substantial problems with the new accounting software implemented in January 2000. NWIC also experienced high turnover in the Business office particularly in the Finance Director position. Lack of institutional memory in the Business Office and the use of three software packages contributed to the problems with documentation associated with this review.

CORRECTIVE ACTION

Staffing pattern and qualifications

NWIC has hired a qualified Finance Director to oversee the Business Office. Barbara Barr brings over 23 of experience in finance including 12 in higher education. Her leadership has resulted in greatly improved processes and adherence to policies and guidelines. Her resume is at Appendix D. NWIC has also hired a well-qualified grants accountant who has over 20 years of accounting experience with 12 of those years spent in educational settings. His resume is attached at Appendix E.

2. Hiring of Accounting Firm

Because NWIC was behind in its completion of its audits, the existing staff found themselves trying to catch up while keeping up with daily requirements. This exacerbated an already difficult situation. NWIC advertised for an accounting firm to come in to prepare NWIC for completion of its audits working closely with our auditing firm. NWIC selected Ribail, Stauffer & Associates, and PLLC, to provide us with technical support to prepare for the audits and to remedy problems with our financial management system. As a result of their support and with the cooperation of our auditing firm, NWIC expects to complete its audits by mid-September. Copies of NWIC's contracts with Ribail, Stauffer & Associates is provided at Appendix F.

3. Monitoring System

Through the due diligence of our business office staff and administrative team, NWIC can provide accurate accountability and reporting for our grant and institutional funds. In March and April, all grants managers and program directors were directed to meet with business office staff to review institutional and grant budgets and to prepare and implement any necessary modifications to bring the grants current.

NWIC has implemented a clear separation of duties with purchasing initiated by program staff, purchase order issued by the purchasing department and payment through accounts payable. The Finance Director, Ms. Barr, carefully reviews all payments from the College's accounts to ensure proper coding and documentation.

Infomaker is the software package that creates access to the College's budgets. NWIC provides training to grants managers and program heads on the use of Infomaker to monitor their budgets. In addition, a monthly budget report is provided the administrative team and Board of Trustees of the College. The administrative team reviews the budget to ensure its reliability and to recommend any changes that might need to be made. A copy of the institutional budget for the fiscal year ending June 30, 2003 is provided at Appendix G. The budget report does not reflect end of the year adjustments.

4. The Finance Director has also completed a draft of an updated policies and procedures manual that will be approved by the Board of Trustees. The document closely aligns business office policies and procedures with federal regulations in addition to standard accounting procedures. A copy of the draft is provided at Appendix H.

NWIC has experienced continual turnover in financial directors.

NWIC concurs that there was instability in the financial directors position for several months including the time period associated with this review. This turnover occurred for reasons beyond the control or knowledge of the current administrative team although it appears to have been associated with frustration with the software system and with the hiring of persons who did not have the appropriate skills for the job. As noted earlier, the College hired and trained a full-time database specialist to oversee technology aspects associated with use of the software and hardware in the Business Office as well as in other areas such as student records. To remedy the skills-related issue, NWIC sought and hired well-qualified accountants with college or educational business office experience.

NWIC's financial records do not provide an adequate audit trail.

NWIC disagrees that the financial records that were available to the OIG auditor did not provide adequate documentation and have contributed to problems associated with completion of the audit. We are unable to determine from the letter provided by OIG specifically what transactions are being referred to pertaining to these grants. Business Office personnel have diligently reviewed the files associated with these grants and cannot find a listing of the specific transactions that are referred to in the OIG letter.

CORRECTIVE ACTION

- 1 NWIC hired an accounting firm, Ribail, Stauffer & Associates, PLLC, to remedy accounting deficiencies that were preventing our auditing firm, Moss-Adams from completing the 2001 and 2002 audits. Due the diligence of our staff and of our accounting firm, we expect our 2001 audit to completed in August 2003 with the 2002 audit to follow shortly thereafter. Thereafter, NWIC will be on track with completion of its audits.
2. As noted earlier NWIC has implemented changes in procedure to ensure adequate financial documentation and management.

NWIC did not have a payroll distribution method in place for personnel costs.

NWIC utilized time cards to document time at work during the time period in question. The employee's contract or other personnel documents list the appropriate institutional or grant line items to which payroll was to be charged. According to the guidelines in Circular No. A-21, NWIC is meeting the requirements for documentation. See Appendix I for the pertinent pages to this discussion.

At the time of this review, NWIC was following its normal procedures in documentation of employee time.

CORRECTIVE ACTION

NWIC has implemented a system wide use of a time and effort report to document an employee's time on any individual grant. Based on a recent review of the requirements of Circular No. A-21, NWIC is reviewing the time and effort requirements in order to ensure that our policies and practices meet the requirements.

NWIC did not charge the full amount of allowed indirect costs to the grant.

NWIC agrees with this and has ensured that an appropriate system is in place in the grants accounting office to track and collect indirect costs.

NWIC charged costs not allowed for the grant and did not provide supporting documentation for some transactions.

NWIC agrees that unallowable costs of \$8,839 should be returned based on the OIG review. This agreement is based on the excess drawdown of grant funds at the time of the grant periods.

Response to Recommendations

- 2.1 Instruct its certified public accountant to complete the required OMB Circular A-133 audits for fiscal years ended June 30, 2001 and 2002, and provide copies of the issued audit reports to the Department. If the audit reports are not received promptly, the Department should consider imposing the sanctions provided in the Circular.

As stated earlier, NWIC is working closing with an accounting firm and its auditors to complete the audits as soon as possible. We currently have a deadline of early to mid September for completion of both audits.

- 2.2 Establish a financial management system that complies with the requirements of 34 C.F.R. 74.21 and OMB Circular A-21, and provide the Department with written assurances from its certified public accountant that the system has been implemented.

Upon completion of the 2001 and 2002 audits, NWIC's certified public accountant will provide the requested written assurance.

- 2.3 Return \$8,839 to the Department for disallowed costs for Promising Practices.

Upon completion of the review of specific transaction, NWIC agrees to negotiate settlement of any overpayment.

- 2.4 Provide supporting documentation for \$57,386 of Promising Practices' costs for which we could not identify detailed transactions, NWIC lacked required salary distribution documentation, or other required supporting documents were not provide. If adequate supporting documentation is not provided, NWIC should be required to return \$68, 863 (\$57,386 plus \$11,477 of applicable indirect costs).

Because the July 3, 2003 letter from the OIG does not specify which transactions are in question, NWIC cannot prove the requested supporting documentation. Business Office personnel have reviewed available documents from the audit visit but cannot determine with any level of specificity which transactions are referred to particularly in the case of salary and fringe benefits.

STATEMENT ON MANAGEMENT CONTROLS

It is the position of NWIC that management controls are in place to properly manage institutional and grant funds and to ensure implementation of programs and grants. Weaknesses identified in association with this review have been remedied.

On behalf of Northwest Indian College, please call me at 360-676-2772, ext. 4241 or 360-392-4241, to discuss this matter further. Otherwise, we look forward to correspondence further detailing the financial transactions discussed above.

Sincerely,



Cheryl Crazy Bull
President