

MEMORANDUM

TO: [REDACTED]
Division Director
Division of Grants and Agreements

[REDACTED]
Division of Institution and Award Support

FROM: [REDACTED]
Associate Inspector General for Audit

SUBJECT: NSF OIG Audit Report No. OIG-04-1-008, Financial and Compliance
Audit of Northwest Indian College

Attached is the financial and compliance report prepared by Foxx & Company, a Certified Public Accounting Firm, on the audit of NSF grant numbers DUE-9752076, DUE-0053303, and ESR-0086186 awarded to Northwest Indian College (NWIC). The audit covers costs incurred from September 1, 1997 through December 31, 2001. We identified four material internal control weaknesses in NWIC's grant administration practices and questioned the entire \$1,115,306 in direct costs claimed by NWIC for the three awards. We have also questioned all of the \$35,534 cost sharing required for the closed Award Number DUE-9752076 and have identified the remaining \$141,114 as cost sharing at risk for Award Number DUE-0053303, which was still in process at the conclusion of our audit.

The internal control weaknesses identified in the report were that NWIC did not maintain supporting documentation for the costs charged to the NSF awards, track expenditures for the NSF awards, segregate financial duties properly and reconcile bank statements. As a result, a disclaimer of opinion was issued because the auditor was unable to determine whether the total \$1,115,306 of the claimed costs was actually incurred or that the costs benefited NSF's awards. We believe these material internal control weaknesses and other issues identified during the audit are systemic and are likely to affect ongoing and future NSF awards. Accordingly, NSF should recognize NWIC as a high risk grantee under its Risk Management Program and take immediate steps to ensure that NWIC institutes internal controls that ensure that all costs claimed to the NSF awards are properly and accurately

accounted for in its accounting system and are supported with adequate documentation. In addition, future awards to NWIC should not be made until NSF has verified that NWIC has implemented corrective actions on these control deficiencies.

We are providing a copy of this memorandum to the Division Directors of the Divisions of Undergraduate Education and Human Resource Development. The responsibility for audit resolution rests with the Division of Institution and Award Support, Cost Analysis/Audit Resolution Branch (CAAR). Accordingly, we ask that no action be taken concerning the report's findings without first consulting with CAAR at (703) 292-8244.

We consider the issues in the audit report to be significant. Accordingly, to help ensure findings are resolved within six months of issuance of the audit report, please coordinate with our office during the resolution period to develop a mutually agreeable audit resolution memorandum.

We thank your staff for the assistance that was extended to us during the audit. If you have any questions about this report, please contact [REDACTED].

Attachment

cc: [REDACTED], BFA
[REDACTED], EHR /DUE
[REDACTED], EHR/HRD



Foxx & Company
Certified Public Accountants

September 30, 2004

[REDACTED]

Office of Inspector General
Room 1135
National Science Foundation
Office of Inspector General
4201 Wilson Boulevard
Arlington, Virginia 22230

Dear [REDACTED]:

Enclosed is a copy of the final report for the audit of NSF Grant Numbers DUE-9752076, DUE-0053303 and ESR-0086186, awarded to the Northwest Indian College, Bellingham, Washington. We have incorporated a summary of the awardee's April 21, 2004 and September 23, 2004 written comments into the body of the report and provided responses where appropriate. Because of the voluminous size of the written response, only the letters transmitting and summarizing the responses are included in Appendix A. The entire text of the awardee's response is available from the NSF-OIG.

If you have any questions, please contact me at [REDACTED].

Sincerely,

FOXX & COMPANY

[REDACTED]

[REDACTED]

[REDACTED]

Enclosures

**NORTHWEST INDIAN COLLEGE
BELLINGHAM, WASHINGTON 98226**

**NATIONAL SCIENCE FOUNDATION
AWARD NUMBERS DUE-9752076
DUE-0053303, AND ESR-0086186**

**FINANCIAL SCHEDULES AND
INDEPENDENT AUDITORS' REPORTS
for the period
September 1, 1997 – December 31, 2001**

Foxx & Company
700 Goodall Complex
324 West Ninth Street
Cincinnati, Ohio 45202-1908

[REDACTED]

[REDACTED]

**Northwest Indian College
Bellingham, Washington 98226**

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EXECUTIVE SUMMARY



Foxx & Company
Certified Public Accountants

National Science Foundation
Office of Inspector General
4201 Wilson Boulevard
Arlington, Virginia 22230

EXECUTIVE SUMMARY

BACKGROUND

We were engaged to audit the funds awarded by the National Science Foundation (NSF) to the Northwest Indian College (NWIC) under three awards, numbers DUE-9752076, DUE-0053303, and ESR-0086186 for the period September 1, 1997 to December 31, 2001. Northwest Indian College, as a federal awardee, is required to follow the cost principles specified in the Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions* and Federal administrative requirements contained in OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*.

NWIC is a two-year accredited tribal college located on the Lummi Reservation in Bellingham, Washington. Descriptions of the three NSF grant awards audited are as follows:

Grant Award DUE-9752076 - The objective of this grant was to develop and test an advanced technical education program in Native American Environmental Technology for a two-year degree. The grant model consisted of curricula development, pilot testing student internships, and articulation agreements with four-year institutions. Program methods were created and developed specifically to support Native American learning styles, and to help develop and transfer technical skills that could lead to meaningful career employment in the area of environmental science and management.

Under this agreement, NSF awarded NWIC \$775,049 and NWIC agreed to cost share \$35,534. The period covered by the award and the audit was September 1, 1997 to August 31, 2000. The awardee claimed the entire \$775,049 of NSF funding as shown on its Federal Cash Transaction Report (FCTR) and did not claim any cost sharing expenses.

Grant Award DUE-0053303 - The objective of this award was to continue with the objectives of Award No. DUE-9752076 and expand the pilot program started under Award No. DUE-9752076 to a four-year degree program in environmental sciences.

Under this agreement, NSF awarded NWIC \$589,343 and NWIC agreed to cost share \$141,114. The award period was September 1, 2000 to August 31, 2003. Our audit period was from September 1, 2000 to December 31, 2001. As of December 31, 2001, the awardee had claimed \$277,484 of NSF funding as shown on its FCTR and did not claim any cost sharing expenses.

Grant Award ESR-0086186 - The objective of this award was to maintain a comprehensive and sustainable systemic reform effort in mathematics, science, and technology for NWIC's service area. The primary goal of the grant was to establish a center for surrounding schools that would provide comprehensive services in a systemic reform of mathematics, science and technology.

Under this agreement, NSF awarded NWIC \$100,000. The period of the award and the audit was September 1, 2000 to August 31, 2001. No cost sharing was required. The awardee claimed \$62,773 of the total NSF award as shown on its FCTR.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit engagement were to determine if:

1. Costs charged to the NSF awards by NWIC are allowable, allocable, and reasonable in accordance with applicable Federal cost principles and NSF award terms and conditions; and
2. The awardee's systems of internal controls are adequate to properly administer, account for, and monitor its NSF awards in compliance with NSF and Federal requirements.

We were engaged to conduct an audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, (1999 Revision) issued by the Comptroller General of the United States, and the *National Science Foundation Audit Guide* (September 1996), as applicable, and have issued our report thereon dated January 31, 2002. Accordingly, we planned and attempted to perform the audit to obtain reasonable assurance about whether the amounts claimed to NSF as presented in the Schedules of Award Costs (Schedules A-1 through A-3) are free of material misstatements. Our audit efforts assessed the accounting principles used and significant estimates made by NWIC and evaluated the overall financial schedule presentation.

To achieve our audit objectives, we examined, on a test basis, evidence supporting the amounts claimed for the awards in the Schedules of Award Costs (Schedules A-1 through A-3). However, significant amounts of documents were missing and unavailable as explained in the Summary of Audit Results Section of this report. Consequently, we were unable to test significant portions of claimed costs necessary to meet our objectives.

SUMMARY OF AUDIT RESULTS

We were unable to determine whether material amounts of claimed costs and cost sharing that NWIC charged to NSF Award Numbers DUE-9752076, DUE 0053303, and ESR-0086186 were allowable, allocable, and reasonable in accordance with applicable Federal cost principles and NSF award terms and conditions. For these reasons, we were unable to express an opinion on

the claimed costs on any of the three awards and cost sharing on two of the awards. We questioned a total of approximately \$1.1 million of the NSF funded costs and approximately \$35,000 of cost sharing and identified another approximately \$141,000 of “at-risk” cost sharing.¹

NWIC could not provide adequate source documentation to support the total amount of costs claimed for any of the three awards or show that they had provided any required cost share to the NSF awards. Specifically:

- NWIC did not maintain time and effort or other documentation supporting its claims for salaries, wages, and fringe benefits, which represent approximately \$670,000 or 60 percent of the total claimed-costs for these awards.
- NWIC could not provide adequate documentation to support the allowability of \$444,635 in non-payroll costs. We sampled transactions for the categories of equipment, consultant costs, travel, and materials and supplies with a value of approximately \$117,000, representing approximately 96 percent of the total costs claimed in these four categories and about 10 percent of the total costs claimed. NWIC was unable to provide documentation showing that these non-payroll expenditures benefited the NSF funded projects. The remaining 30 percent of untested non-payroll expenditures largely included indirect costs associated with the questioned direct costs and direct costs claimed in excess of the amounts expended according to NWIC’s accounting records.
- NWIC could not provide documentation to support any of the \$176,648 of cost sharing required at the time of our audit. In addition, NWIC did not account for cost sharing separately from direct funded expenditures. NWIC claimed that it had cost shared employee time to the NSF projects, however, it was unable to show that any labor costs had been expended on the projects except the labor costs that were already charged directly to the awards.

We identified material deficiencies in NWIC’s internal controls for administering NSF awards. NWIC could not provide source documentation to support costs or cost share charged to the NSF awards and had not established an adequate financial management system for recording or documenting the receipt and expenditure of funds under projects supported by the NSF awards.

We found that NWIC could not match its expenditures by budget category to amounts it had proposed to NSF or describe the methodology it used to crosswalk the costs to NSF budget categories. As a result, NWIC could not demonstrate that the costs claimed benefited the NSF awards; readily prepare the Schedules of Award Costs (indicating what types of expenditures were incurred under the NSF awards); or reconcile its expenditures with the amounts reported on its quarterly Federal Cash Transaction Reports (FCTRs). In addition, NWIC did not comply with Federal and NSF award terms and conditions relating to financial management standards, property and procurement standards, segregation of duties and bank statement reconciliations.

These conditions occurred because of material deficiencies in NWIC’s financial management system for administering NSF award funds. NWIC maintained no written rules or guidance for

¹ Cost sharing is identified as “at risk” if an awardee is lagging in meeting its cost sharing obligation for an award that is still active.

accounting for or reporting on the status of its NSF awards. NWIC also did not prepare or keep source documentation evidencing how it used NSF funds and officials stated that its personnel did not understand NSF and Federal grant regulations. NWIC's management indicated there was an overall lack of knowledge of federal and NSF award requirements at the time the awards were performed.

As a result, NWIC was unable to ensure that NSF funds were scrutinized for allowability of costs or used for their intended purposes. Further, the lack of documentation and inadequate policies and procedures to timely and accurately account for and report on the status of NSF funds creates a high risk that fraud and/or abuse could occur and not be detected.

The pervasiveness of the financial management deficiencies at NWIC suggest an overall control environment at NWIC that warrants immediate corrective action toward establishing good internal controls and compliance with federal award terms and conditions. Until the corrective actions recommended in this report are addressed, NSF has little or no assurance that NWIC has and will spend NSF award funds on authorized purposes. NWIC's lack of adequate accounting systems and written policies and procedures for its NSF award financial activities place NWIC's awards at a high risk that misstatements, in amounts that would be material in relation to the Schedules of Award Costs (Schedules A-1 through A-3), may occur and not be detected.

For these reasons, we were unable to express an opinion on NWIC's claimed costs and cost share, and have therefore, questioned all of the approximately \$1.1 million of NSF-funded costs and all of the approximately \$35,000 of required cost share, and identified the remaining approximately \$141,000 as cost sharing at risk. Questioned costs are (1) costs for which there is documentation that the recorded costs were expended in violation of the law, regulations or specific conditions of the award, (2) costs that require additional support by the awardee, or (3) costs that require interpretation of allowability by NSF – Division of Institution and Award Support. Cost sharing is identified as "at risk" if an awardee is lagging in meeting its cost sharing obligation for an award that is still active.

We recommend that the NSF Directors of the Divisions of Institution and Award Support and Grants and Agreement designate NWIC as a "high risk" awardee under its risk management program. In addition, NSF should direct NWIC to establish and prepare written procedures that document the system to account for the receipt and expenditure of NSF funds and cost share; develop written policies and procedures to ensure that FCTR submissions and award funds, including participant support costs, are monitored to ensure that only allowable expenditures are charged to the award and that award funds are used only for the purposes of the award; require employees working on federally funded projects to complete labor activity reports supporting the level of labor effort expended on each award; reassign duties to achieve better segregation of duties in the payroll and accounts payable processes; reconcile monthly bank statements to accounting records; provide grant management training for NWIC personnel involved in managing NSF awards; develop written procedures for managing the NSF project and claimed costs with supporting documentation in accordance with NSF and Federal requirements, including standards for property management and procurement; and assure that cost sharing is met.

NWIC officials stated that the issues noted in the draft report and findings have been corrected, although we did not verify that the conditions were corrected. NWIC also provided written

reviews performed by its CPA firm stating that the problems had been resolved. NWIC officials did not respond to the questioned costs because they stated there were not sufficient details to comment on the individual items questioned. Therefore, the auditors provided additional detail to NWIC, which identified the individuals whose salary charges to the NSF projects were questioned. However, again NWIC did not provide documentation supporting the questioned costs. Therefore, all costs questioned in the draft report remain questioned in the final report. NWIC's response has been summarized within the body of the report. The NWIC letters dated April 21, 2004 and September 23, 2004, responding to the draft report have been included in Appendix A. Appendices A-D, included in NWIC's comments, contain materials related to the corrective actions it had taken with regard to policies, procedures and practices newly instituted at NWIC to address internal control and compliance issues. We understand that these items were prepared in response to the 2003 OMB Circular A-133 audit report. Because these materials are voluminous, they are contained in a separate volume of this report and are available upon request from the NSF OIG.

For a complete discussion of each finding, refer to the Independent Auditors' Report on Internal Control Over Financial Reporting and Compliance with Laws and Regulations.

FOLLOW-UP OF PRIOR AUDIT FINDINGS

Northwest Indian College has had single audits performed in accordance with *Government Auditing Standards* and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, for the years ended June 30, 1997 through 2000. However, the three grant awards included in this NSF audit were not tested as a major program for the years ended June 30, 1997 through 2000. These audit reports contained findings related to all Federal awards including the NSF awards DUE-9752076, DUE-0053303, or ESR-0086186. The reported findings stated that NWIC had inadequate internal controls for the payroll processing and accounts payable functions and lacked a property management system.

Subsequent to our audit fieldwork, a Single Audit for the period July 1, 2001 through June 30, 2002 was issued on October 22, 2003. Because Single Audits are due nine months after the close of the fiscal year, this audit was seven months late. The scope of this audit included Award No. DUE-0053303 as a major program. This report disclosed that the Awardee was not documenting its cost sharing for the NSF awards. The report questioned \$58,000 in cost sharing because NWIC could not show that it provided any of the required cost share for DUE-0053303. Furthermore, similar internal control problems in the payroll and accounts payable areas reported in the previous Single Audit and in our audit were still present.

EXIT CONFERENCE

An exit conference was held on January 31, 2002 at the Northwest Indiana College's office in Bellingham, Washington.

We discussed findings and recommendations contained in this report, as well as other observations, with those attending:

Representing NWIC were personnel in the following positions:

Name	Title
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

Representing Foxx & Company:

Name	Title
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

AUDIT FINDINGS AND RECOMMENDATIONS



Foxx & Company
Certified Public Accountants

National Science Foundation
Office of Inspector General
4201 Wilson Boulevard
Arlington, Virginia 22230

INDEPENDENT AUDITORS' REPORT ON FINANCIAL SCHEDULES

We were engaged to audit the costs claimed by the Northwest Indian College (NWIC) to the National Science Foundation (NSF) on the Federal Cash Transactions Reports (FCTR) - Federal Share of Net Disbursements for the NSF awards listed below. In addition, we were also engaged to audit the amount of cost sharing claimed for the awards. The Federal Cash Transactions Reports, as presented in the Schedules of Award Costs (Schedules A-1 through A-3), are the responsibility of the Northwest Indian College's management.

Award Number	Award Period	Audit Period
DUE-9752076	September 1, 1997 to August 31, 2000	September 1, 1997 to August 31, 2000
DUE-0053303	September 1, 2000 to August 31, 2003	September 1, 2000 to December 31, 2001
ESR-0086186	September 1, 2000 to August 31, 2001	September 1, 2000 to August 31, 2001

We were unable to determine whether \$1,115,306 in total costs claimed, \$35,534 in required cost sharing and the remaining \$141,114 in "at-risk" cost sharing included in the Schedules of Award Costs (Schedules A-1 through A-3) for NSF Award Numbers DUE-9752076, DUE 0053303, and ESR-0086186 were allowable, allocable, and reasonable in accordance with applicable Federal cost principles and NSF award terms and conditions. This occurred because NWIC was unable to provide adequate source documentation to support the total claimed costs for all three awards and cost sharing for two awards.

NWIC was unable to provide source documentation for \$670,671 in payroll and related benefit costs and \$444,635 in non-payroll costs for these three awards. Specifically, salary and related fringe benefit costs we tested, totaling approximately 15 percent of the payroll costs, were not supported by time and effort reports. NWIC did not have time and effort reporting for the individuals we tested and the balance of the payroll and benefit costs were for most of the same individuals who were included in our sample. Therefore, we questioned all of the payroll and related benefit costs. Non-personnel costs we tested, representing approximately 42 percent of the total claimed costs, were not supported by source documentation identifying the expenditures as benefiting NSF's grants. NWIC did not have adequate documentation (such as invoices, purchase orders, receipts and purchase requisitions) for non-payroll costs. The remaining

untested non-payroll expenditures largely included indirect costs associated with the questioned direct costs and direct costs claimed in excess of the amounts expended according to NWIC's accounting records. NWIC officials stated that they were not aware of the federal financial management requirements for documenting costs incurred under NSF awards.

Since NWIC could not provide source documentation to support the total amount claimed to NSF and we were unable to apply other auditing procedures to satisfy ourselves concerning the allowability, reasonableness and allocability of expenditures NWIC claimed and cost share; the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Schedules of Award Costs (Schedules A-1 through A-3).

Accordingly, we have questioned the entire \$1,115,306 in direct costs claimed by NWIC for the three awards. We have also questioned all of the \$35,534 cost sharing required for the closed Award Number DUE-9752076 and have identified the remaining \$141,114 as cost sharing "at risk" for Award Number DUE-0053303, which was still in process at the conclusion of our audit.

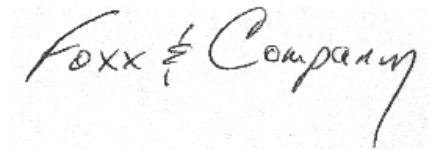
Questioned costs are (1) costs for which there is documentation that the recorded costs were expended in violation of the law, regulations or specific conditions of the award, (2) costs that require additional support by the awardee, or (3) costs that require interpretation of allowability by NSF – Division of Institution and Award Support. The National Science Foundation will make the final determination regarding whether such costs are allowable. The ultimate outcome of this determination cannot presently be determined. Accordingly, no adjustment has been made to costs claimed for any potential disallowance by NSF. Cost sharing is identified as "at risk" if an awardee is lagging in meeting its cost-sharing obligation for an award that is still active.

The accompanying financial schedules were prepared in conformance with the requirements of the *National Science Foundation Audit Guide* (September 1996) as described in the Notes to the Financial Schedules, and are not intended to be a complete presentation of financial position in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* and the *National Science Foundation Audit Guide*, we have also issued a report dated January 31, 2002 on our tests of NWIC's compliance with certain provisions of laws, regulations, and the NSF award agreements and our consideration of NWIC's internal control over financial reporting. The Independent Auditors' Report on Compliance with Laws and Regulations and Internal Control Over Financial Reporting is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the Northwest Indian College's management, the National Science Foundation, NWIC's Federal cognizant agency, the Office of Management and Budget, and the Congress of the United States of America, and is not intended to be, and should not be used by anyone other than these specified parties.

Foxx & Company

A handwritten signature in cursive script that reads "Foxx & Company". The signature is written in black ink on a light-colored background.

Cincinnati, Ohio
January 31, 2002



Foxx & Company
Certified Public Accountants

National Science Foundation
Office of Inspector General
4201 Wilson Boulevard
Arlington, Virginia 22230

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND COMPLIANCE WITH LAWS AND REGULATIONS**

We were engaged to audit the costs claimed as presented in the Schedules of Award Costs as presented in Schedules A-1 through A-3, which summarize the financial reports submitted by Northwest Indian College (NWIC) to the National Science Foundation (NSF) and claimed cost sharing for the awards listed below, and have issued our report thereon dated January 31, 2002.

Award Number	Award Period	Audit Period
DUE-9752076	September 1, 1997 to August 31, 2000	September 1, 1997 to August 31, 2000
DUE-0053303	September 1, 2000 to August 31, 2003	September 1, 2000 to December 31, 2001
ESR-0086186	September 1, 2000 to August 31, 2001	September 1, 2000 to August 31, 2001

We did not express an opinion on the Schedules of Award Costs because we were unable to determine whether \$1,115,306 in total costs claimed, \$35,534 in required cost sharing and the remaining \$141,114 in "at-risk" cost sharing included in the Schedules of Award Costs (Schedules A-1 through A-3) for NSF Award Numbers DUE-9752076, DUE-0053303, and ESR-0086186 were allowable, allocable, and reasonable in accordance with applicable Federal cost principles and NSF award terms and conditions. This occurred because NWIC was unable to provide adequate source documentation to support the total claimed costs for all three awards and cost sharing for two awards.

NWIC was unable to provide source documentation for \$670,671 in payroll and related benefit costs and \$444,635 in non-payroll costs for these three awards. Specifically, salary and related fringe benefit costs we tested, totaling approximately 15 percent of the payroll costs, were not supported by time and effort reports. NWIC did not have time and effort reporting for the individuals we tested and the balance of the payroll and benefit costs were for most of the same individuals who were included in our sample. Therefore, we questioned all of the payroll and related benefit costs. Non-personnel costs we tested, representing approximately 42 percent of

the total claimed costs, were not supported by source documentation identifying the expenditures as benefiting NSF's grants. NWIC did not have adequate documentation (such as invoices, purchase orders, receipts and purchase requisitions) for non-payroll type costs. The remaining untested non-payroll expenditures largely included indirect costs associated with the questioned direct costs and direct costs claimed in excess of the amounts expended according to NWIC's accounting records. NWIC officials stated that they were not aware of the federal financial management requirements for documenting costs incurred under NSF awards.

We conducted our audit of the Schedules of Award Costs as presented in Schedules A-1 through A-3 in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States in 1999, and the *National Science Foundation Audit Guide* (September 1996), as applicable. These standards and the *National Science Foundation Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. We were unable to obtain documentation supporting financial activity and the total costs claimed and we were unable to satisfy ourselves by other auditing procedures that financial activities were supported.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The management of the NWIC is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial schedules in accordance with accounting principles prescribed by the National Science Foundation. Because of inherent limitations in internal control, misstatements due to errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of internal controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of Schedules A-1 through A-3 for the period of September 1, 1997 to December 31, 2001, we considered NWIC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

We noted certain matters described below involving the internal control over financial reporting and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect NWIC's ability to record, process, summarize, and report financial data in a manner that is consistent with the assertions of management in the financial schedules. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be

material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control over financial reporting would not necessarily disclose all matters related to internal control over financial reporting that might be reportable conditions and accordingly would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

Of the reportable conditions described below, we consider Finding Nos. 1 and 2 to be material weaknesses. These findings led to our disclaimer of opinion. These findings are also discussed in Schedules of Award Costs (Schedules A-1 through A-3) and Schedules of Questioned Costs (Schedules B-1 through B-3).

Finding No. 1: Salaries, Wages, and Fringe Benefits of Academic and Contract Staff, Non-Payroll Costs and Cost Sharing Were Not Supported With Adequate Documentation.

OMB Circular A-21, Subpart J, Section .8.b. - Payroll Distribution – requires NWIC to have a payroll distribution system that "will allow confirmation of activity allocable to each sponsored agreement." (OMB A-21, Subpart J, Section .8.b (2)(c) states that acceptable payroll methods require the use of at least one of the following labor effort confirmation methods: *Annual Activity Reports, After-the-Fact Activity Records, and Multiple Confirmation Records.*

According to OMB Circular A-110, Subpart C, Section .21(b) recipients' financial management systems shall provide for "accurate, current and complete disclosure of the financial results of each federally-sponsored project or program." Section .52 – Financial Reporting requires that the records identify adequately the source and application of funds for Federally sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest. The records shall be supported by source documentation.

NSF GPM Section 333, NSF Cost Sharing and Matching, requires a grantee to maintain records of all costs claimed as cost sharing and those records are subject to audit. These regulations also state that cost-sharing expenses must not be included as contributions to any other federal award or funded by any other federal award. In addition, OMB Circular A-110, Section 23, Cost Sharing or Matching, states that cost-sharing expenses must be verifiable from the recipient's records.

Payroll and Related Fringe Benefit Costs

NWIC's charges for salaries, wages and fringe benefits claimed in the amount of \$670,671 were not supported with adequate or reliable documentation. Specifically, prior to July 2001, NWIC did not have any labor activity (time and effort) reports or other equivalent documentation to support \$670,671 of academic and contractor salaries and related fringe benefits charged to the NSF grants. NWIC officials stated that they did not require academic and contract personnel to document time charged to the NSF grants. Furthermore, our tests of salary costs charged to NSF for 29 individuals found 3 unidentified employees and 1 employee that did not work on the NSF awards.

Also, we noted that for 7 of the 29 selections, the actual percentage of salary costs for key individuals charged to the grants did not agree to the percentages of their effort proposed in the grant budget. The differences between the actual and budgeted percentages were as much as 20 percent.

As a result, NWIC was unable to ensure the validity and accuracy of the salary and benefit costs it charged to its NSF awards. Without labor effort records, NWIC was unable to support that the salary and related costs charged to the NSF awards were actually incurred and that they benefited the NSF awards.

Because of the lack of supporting documentation for \$670,671 salaries charged to the NSF grants and inadequate controls that allowed for unidentified individuals and individuals that did not work on the NSF award to be charged to NSF, we have questioned the entire \$670,671 claimed for salary, wages, and fringe benefit costs on the three NSF awards.

Non-Payroll Costs

Non-payroll costs in the amount of \$444,635 or 100%, which NWIC assigned to the NSF awards were not adequately supported by source documentation. We sampled transactions for the categories of equipment, consultant costs, travel, and materials and supplies with a value of approximately \$117,000, representing approximately 96 percent of the total costs claimed in these four categories and about 10 percent of the total costs claimed. NWIC was unable to provide documentation showing that these non-payroll expenditures benefited the NSF funded projects. The remaining 30 percent of untested non-payroll expenditures largely included indirect costs, associated with the questioned direct costs, and direct costs charged to NSF in excess of the amounts recorded in NWIC's accounting records for the NSF awards.

We attribute the incomplete and unreliable documentation supporting NWIC's payroll and non-payroll costs to inadequate accounting systems and uninformed staff. NWIC officials stated that NWIC relied on a total of four accounting systems, including the use of Excel spreadsheets, to account for the NSF awards. The current system was initiated in July 2001, but it was subject to crashes and lockouts, which resulted in data being lost. Also, they stated that current staff had limited knowledge of older transactions and accounting data and had experienced a high turnover and a limited number of accounting staff. Also, the PI and accounting staff were not knowledgeable of NSF and Federal requirements, and accordingly did not have any procedures for ensuring proper supervisory review, approval and monitoring of grant expenditures. Because of the lack of documentation identifying the expenditures as related to the NSF projects, \$670,671 in payroll costs and \$444,635 in non-payroll costs totaling to the entire \$1,115,306 claimed on the three NSF awards were questioned.

Cost Sharing

We found that NWIC did not have a system to identify, account for, monitor, and report cost sharing. In addition, NWIC did not account for cost sharing separately from direct funded expenditures. According to the grant provisions, the awardee was required to cost share in the amounts of \$35,534 for Grant No. DUE-9752076 and \$141,114 for Grant No. DUE-0053303.

However, NWIC was unable to provide any evidence to support its cost share contributions to these awards. In particular, NWIC lacked a system to track and account for cost sharing. Although NWIC claimed that it had cost shared employee labor effort to the NSF projects, it could not provide any records showing that labor costs had been expended on the NSF projects, except the labor costs it charged directly to the awards. Similarly, NWIC's A-133 Single Audit for FY 2002 confirmed that the failure to account for cost sharing was still present for the FY 2002 period and recommended that "NWIC provide non-federal cost sharing equal to the required amount. The match should be adequately documented in accordance with federal regulations."

As a result, we questioned all of the \$35,534 in cost sharing on Grant No. DUE-9752076 and identified \$141,114 on Grant No. DUE-0053303 as "at risk" of not being met. Cost sharing is identified as "at risk" if an awardee is lagging in meeting its cost-sharing obligation for an award that is still active. In addition, without evidence of cost sharing, it is unclear whether NWIC compromised the project objectives, or in the alternative, whether the project could have been accomplished for a lesser cost.

Recommendation No. 1

We recommend that the NSF Division Directors of DIAS and DGA require NWIC to:

- 1) Establish a system to have all employees working on NSF funded projects complete the appropriate labor activity report supporting the level of effort expended on NSF awards and ensure that all employees charged are actually working on the award and all salary charges are otherwise properly documented as benefiting the NSF award, in accordance with OMB Circular A-21, Subpart J, Section 8.
- 2) Establish a system to accurately and timely account for, document, and report the receipt and expenditure of NSF project funds and cost share, in accordance with the federal and NSF award requirements. This should include maintaining all supporting source documentation for payroll and non-payroll costs and cost share and tracking and monitoring actual expenditures to the budgeted costs presented in the grant proposal.

Awardee Comments

The Awardee, concerning payroll costs, stated that:

Personnel charges to the NSF grants were in support of program services. Current employees with the College were associated with the grants that were audited by Foxx & Company and can provide verification that the charges were appropriate and necessary to the success of the program. It is unclear from the information provided

by Foxx & Company in the audit report as to which personnel charges are specifically questioned. Our position is that adequate documentation can be provided as evidence of the appropriateness of the charges in the personnel area.

The Awardee, concerning non-payroll costs and cost sharing, stated that:

In May 2003, the College hired an accounting firm to assist in the completion of the two (OMB Circular A-133) audits that the College was behind in completing and to work on the completion of the 2003 audit in a timely manner. As a result of this investment, the College was able to complete the three audits before the end of March 2004. All three audits are on file in the Clearinghouse.

This investment also resulted in vastly improved compliance in the College's financial management system and accounting records. Attached at Appendix D is a copy of a letter from the College's auditor, [REDACTED], indicating the College's compliance with accepted accounting practices in the current system operations.

Further, this process identified and organized a substantial amount of the accounting records that had previously been in disarray due to the events also discussed earlier.

Auditor's Response

Upon receipt of the awardee's comments, we again provided NWIC with specific identifying data for the unsupported payroll charges. However, because the awardee still did not provide any supporting documentation, the finding remains as stated. The awardee's comments are otherwise responsive to the recommendations; however, the findings cannot be resolved until NSF verifies that proposed corrective actions have been implemented. (Note that Appendix B referred to in NWIC's response is contained in a separate volume of this report and is available upon request from the NSF OIG).

Finding No. 2: NWIC Could Not Identify, Track, Accumulate, or Report Expenditures under the NSF Awards.

According to OMB Circular A-110, Subpart C, Section .21(b), recipients' financial management systems shall provide for "accurate, current and complete disclosure of the financial results of each federally-sponsored project or program." Section .52 – Financial Reporting requires that the records identify adequately the source and application of funds for Federally sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest. The records shall be supported by source documentation.

Also, NSF's Grant General Conditions (GC-1, 10/98), Article 2.b, state that funds provided for participant support may not be used for other categories of expense without the written prior approval of the cognizant NSF program officer. To comply with this requirement, an awardee must be able to identify and track its participant support expenditures.

Accumulation of Costs by Budget Category

However, NWIC did not accumulate and track expenditures by NSF budget cost categories, and NWIC could not provide a crosswalk tying expenditures under the NWIC accounting structure (account codes) to the cost categories in the NSF proposed budgets. Although NWIC established separate accounts for each NSF grant, NWIC officials stated they were not aware that they should be able to cross walk actual costs to NSF budget categories. Further, as discussed above, NWIC maintained little or no subsidiary records or source documentation to indicate what charges were for.

Because NWIC did not track budgeted to actual expenditures, or retain source documentation, it was unable to monitor its actual expenditures on NSF awards against the budgeted costs or monitor and evaluate the attainment of project objectives in light of budgeted and actual costs. In addition, NWIC could not determine whether it had properly used \$67,500 of NSF funds provided for participant support activities. Due to poor accounting records, the actual amount NWIC spent on participant support costs was unknown. Also, participant support funds could have been spent on ineligible functions, -- either other project costs that required NSF prior approval to use participant support funds or on totally unrelated NWIC activities. Without adequate accounting records, it was not possible to make that determination. NWIC officials told us that they were not aware of the requirement to track participant support costs or to obtain approval from NSF prior to spending participant support funds for other project purposes.

Federal Cash Transaction Reports

NWIC did not accurately or timely report its cash advances from NSF or expenditures on its FCTR.

We found that beginning with the FCTR for the quarter ended June 2000, the actual monthly expenditures recorded in NWIC's general ledger did not agree or reconcile with the expenditure amounts reported on the FCTRs to NSF. NWIC reported \$26,681 more in expenditures on its cash FCTRs for its three awards than was reflected in its general ledger. In addition, the monthly advances NWIC received via NSF's FastLane system did not reconcile to the receipts NWIC reported on its quarterly FCTRs. Furthermore, for three quarters (December 1999, June 2000, and December 2000), NSF notified NWIC that quarterly FCTRs were not submitted by the required date. This occurred because NWIC did not have any procedures in place to ensure that financial reports were submitted to NSF on a timely basis. Therefore, NWIC did not properly or timely report to NSF the status of its expenditures or receipts on the NSF awards, nor could it accurately monitor actual expenditures to those budgeted in the NSF awards to determine if funds were being spent to attain project objectives.

Because of the lack of adequate grant accounting and reporting practices and procedures, we were unable to rely on NWIC's accounting records to accurately report its claimed costs. This combined with the missing source documents is the basis for disclaiming our opinion and questioning the entire NSF funding and cost share.

Recommendation No. 2:

We recommend that the NSF Division Directors of DIAS and DGA:

1. Require NWIC to track actual NSF grant expenditures by NSF budget cost categories;
2. Require NWIC to develop written procedures to ensure that participant support costs are used for their intended purpose, are tracked separately, and that NSF approval is obtained before participant support costs are rebudgeted for other purposes.
3. Require NWIC to establish procedures to ensure that the amounts received from NSF and expended per NWIC's general ledger reconcile to the amounts of receipts and expenditures claimed on the quarterly FCTR.
4. Recognize NWIC as a high risk awardee under its risk management program, ensure that NWIC develop a corrective action plan detailing specific actions it will take to address the report findings and recommendations, and verify that these corrective actions are implemented before making additional new awards to NWIC.

Awardee Comments

The awardee stated in its September 23, 2004 response to the report that additional measures had been taken to strengthen its financial management system and make it compliant with Federal requirements. Based on these improvements the awardee did not believe it should be considered a "high risk" awardee.

In addition, the awardee stated in its April 21, 2004 response that:

In May 2003, the College hired an accounting firm to assist in the completion of the two (OMB Circular A-133) audits that the College was behind in completing and to work on the completion of the 2003 audit in a timely manner. As a result of this investment, the College was able to complete the three audits before the end of March 2004. All three audits are on file in the Clearinghouse.

This investment also resulted in vastly improved compliance in the College's financial management system and accounting records. Attached at Appendix D is a copy of a letter from the College's auditor, [REDACTED], indicating the College's compliance with accepted accounting practices in the current system operations.

Further, this process identified and organized a substantial amount of the accounting records that had previously been in disarray due to the events also discussed earlier.

Further, the awardee stated that:

A monitoring system is managed by our grants accountant in collaboration with individual grant managers to ensure that all financial and narrative reports are filed in a timely manner and that cash transactions and annual reports are appropriately reconciled. Documents pertinent to the grants monitoring system are attached at Appendix B.

Auditor's Response

The awardee's comments are responsive to the recommendations; however, the findings cannot be resolved until NSF verifies that proposed corrective actions have satisfactorily been implemented. (Note that Appendix B and D referred to in NWIC's response are contained in a separate volume of this report and are available upon request from the NSF OIG).

Finding No. 3: Duties Were Not Assigned Properly to Accomplish Required Segregation of Duties.

Effective internal controls require that the staff's duties are properly segregated to ensure that all transactions are separately reviewed for propriety and accuracy and that only authorized disbursements are made. Functions such as payroll processing, check writing, check distribution, handling of cash receipts, and reconciling bank account information to accounting records should be assigned to staff in a manner that will provide the proper checks and balances and ensure that all transactions are properly processed, reviewed and approved.

NWIC's payroll process and the accounts payable function did not have adequate segregation of duties. Our audit disclosed that the grant accountant performed essentially all duties within the payroll cycle, including processing time cards, preparing and signing payroll checks, and disbursing checks to employees. While the Comptroller, who was not part of the accounting and payroll process, performed a review of total payroll amounts, he did not review payroll ledgers detailing individual payroll amounts or disbursements.

In addition, we also noted that the accounts payable clerk prepared and signed outgoing checks for all non payroll-related costs. Prior to printing the checks, the Comptroller reviewed check runs, but again undertook no further review to assure that the checks printed were for authorized purposes benefiting NSF's grants.

NWIC officials stated that they did not have sufficient accounting personnel to perform separate functions of the various processes related to payroll processing and accounts payable. As a result, the potential exists for payments to be made for inaccurate amounts or to unauthorized employees or vendors without being detected. This condition was also reported as a significant internal control weakness in NWIC's A-133 Single Audit Report for the period ended June 30, 2002.

Recommendation No. 3:

We recommend that NSF Division Directors of DIAS and DGA require NWIC to reassign duties to achieve better segregation of duties in the payroll and accounts payable processes or institute independent review procedures to ensure that all transactions are for authorized NSF grant purposes.

Awardee Comments

The Awardee stated that the A-133 Single Audits provide evidence that there is adequate segregation of duties in their current business structures.

Auditor's Response

The awardee's comments are partially responsive to the recommendations; however, the awardee did not identify the steps taken to correct the weaknesses. The finding cannot be resolved until NSF verifies that the corrective action has satisfactorily been implemented.

Finding No. 4: NWIC Did Not Perform Periodic Bank Reconciliations.

Effective internal controls require that bank accounts be reconciled and reviewed for accuracy and completeness at least monthly.

NWIC did not have procedures, written or otherwise, for periodically reconciling its bank accounts. We found that at the time of our audit in January 2002, NWIC personnel had not performed a bank reconciliation of any accounts since December 2000. As a result, there was no assurance that the bank account balances were accurate. NWIC officials stated that they did not have sufficient accounting personnel to perform monthly bank reconciliations. However, it is our understanding that most banks could have performed the monthly reconciliations, if this service had been requested.

As a result, accurate and complete cash balances may not be recorded NWIC's accounting books. Also, incomplete or incorrect cash transactions may be posted to the bank accounts but not be detected on a timely basis by the NWIC accounting personnel.

Recommendation No. 4:

We recommend that the NSF Division Directors of DIAS and DGA ensure that NWIC:

- 1) assign an employee that is independent of the cash receipts, accounts payable and payroll functions to reconcile the bank account on a monthly basis with NWIC's official accounting records, or
- 2) request the bank to provide this service.

Awardee Comments

The Awardee stated that:

All NWIC bank reconciliations are current. Bank reconciliations are the responsibility of the Senior Accountant with the support of the Finance Director.

Auditor's Response

The awardee's comments are responsive to the recommendations; however, the finding cannot be closed until NSF verifies that the proposed corrective action has satisfactorily been implemented.

COMPLIANCE

Compliance with applicable Federal laws, regulations, and the provisions of the NSF award terms and conditions is the responsibility of NWIC's management. As part of obtaining reasonable assurance about whether the financial schedules referred to above are free of material misstatements, we performed tests of NWIC's compliance with certain provisions of laws, regulations, NSF award terms and conditions; noncompliance with which could have a direct and material effect on the determination of the financial schedules' amounts. However, providing an opinion on overall compliance with such provisions was not an objective of our audit of the financial schedules. Accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed instances of noncompliance that are required to be reported herein under *Government Auditing Standards* and the *National Science Foundation Audit Guide*. Three instances of noncompliance with federal grant requirements are discussed below. The remaining four instances of noncompliance are also internal control weaknesses that are discussed in Finding Numbers 1 through 4 in the Internal Control Over Financial Reporting section of this report. Finding Numbers 1 and 2 directly resulted in and are the basis for our disclaimer of opinion on the costs presented in Schedules A-1 through A-3.

Finding No. 5: NWIC Did Not Comply with Requirements for NSF Funded Publications.

Two of the three NSF award letters contained special terms and conditions regarding requirements for publications, websites and other documents produced under the awards. NSF Award No. DUE-9752076 contains the following special provisions:

The National Science Foundation encourages the broad dissemination of materials resulting from NSF awards. If this award involves the development of materials or publications, which will be disseminated commercially, the grantee is responsible for developing, documenting and implementing a publication or distribution plan, which includes, at a minimum, the following elements:

- Procedures to be followed for selection of a publisher or distributor so as to ensure reasonable competition or justification for non-competitive selection;
- Delineation of the criteria used in the selection of the publisher or distributor;
- Steps taken to prevent conflicts of interest in the selection of a publisher or distributor.

Also, the grantee must ensure that the publisher or distributor of any material supported under the NSF award agrees to provide the Government with a royalty-free license to use the materials for Government purposes as described in Grant General Conditions, GC-1 (10/95) Article 18. Any publication or distribution agreement must be consistent with GC-1, Article 20. Broadcasts and other materials developed (e.g., videotapes of programs, a teacher's guide, etc.) as part of the

project, including such electronic components as the World Wide Web, must include a clear indication of the source(s) of support (NSF and any other contributors) and must include the NSF logo in a manner approved by NSF. NSF credits normally should be included at both the heads and tails of both broadcast and non-broadcast programs and placed on the covers of publications.

NSF Award No. DUE-0053303 contains the following special provision:

All materials produced as part of this project, including electronic components such as World Wide Web pages, must include a clear indication of source(s) of support (both NSF and any other contributors).

The awardee did not develop a "publication and distribution plan" required by NSF Award No. DUE-9752076. The NSF funded publications and website did not include an NSF disclaimer, an acknowledgment of NSF's support, or the NSF logo, as required by special award letter terms and conditions in both awards. Also, NSF support of the publications was not acknowledged to the users under either of the awards and materials developed under the NSF awards did not acknowledge that NSF has a royalty-free license on the works produced, as required by Article 20 of the NSF General Grant Conditions (GC-1). Specifically,

1. NWIC did not include the required disclaimer on the "Handbook for Facilitators" produced with grant funds. NWIC did not acknowledge the NSF financial support or include a disclaimer on the Web page for the NSF sponsored projects as required for both awards. NWIC did not have support to show that a royalty free license had been acknowledged to NSF on the "Handbook for Facilitators" or in any other documents produced with grant funds.
2. Specific NSF award terms and conditions required the awardee to develop a "publication and distribution plan." The NWIC Grants Office Procedure Manual required that documents produced under the NSF awards be provided to the Grants Management officials for review, according to NWIC officials. NWIC grant administration officials stated that they did not always receive grant documents and publications from the technical personnel to assure that award terms were met. Required acknowledgements and disclaimers were not included in materials produced and specific award requirements relating to the publications were not met.

NWIC stated that they did not have a "publication and distribution" plan required by the award because they were not aware of the requirement. The lack of acknowledgement of NSF support, disclaimer, and NSF logo may have resulted in the general public not understanding that the project was financed with NSF funds and the public may have perceived that the views in the "Handbook for Facilitators" and on the website were shared by the National Science Foundation.

Recommendation No. 5:

We recommend that the Division Directors of NSF's Division of Institution and Award Support (DIAS) and Division of Grants and Agreement (DGA) require NWIC to:

1. establish and implement written policies and procedures to ensure that grant requirements are met for developing a publication and distribution plan, acknowledging NSF's royalty-

free license on work products, and revising grant products to include an acknowledgement of NSF's financial support and a disclaimer and,

2. provide training to NWIC staff responsible on requirements for NSF funded publications.

Awardee Comments

The Awardee stated in its written comments that the College's administrative team, comprised of the President and three Vice Presidents ensure that all appropriate obligations of grants including dissemination, acknowledgement of royalty-free licenses and inclusion of appropriate recognition of federal agency (including NSF) support occurs. Individual grant managers are trained in the implementation of their grant requirements.

Auditor's Response

NWIC's comments are responsive to the recommendations; however, the finding will remain unresolved until NSF verifies that the proposed corrective actions have satisfactorily been implemented.

Finding No. 6: NWIC Had No Written Procedures for Monitoring and Keeping Track of Property and Equipment Purchased with Federal Funds.

OMB Circular A-110, Subpart C, Section .34 requires that awardees maintain property management procedures for equipment acquired with Federal funds and Federally-owned equipment. Awardees are also required to perform physical inventories every two years. Accordingly, NWIC was required to maintain property management procedures and complete a physical inventory every two years.

NWIC did not have documented property management procedures for equipment acquired with federal funds and/or federally owned equipment. Also, we found that NWIC had not conducted a physical inventory of property and equipment in the required two-year time period, including the \$19,681 of property and equipment acquired with the NSF funds during the period covered by our audit. Although the amount of property and equipment claimed was relatively small, we were unable to determine if property was missing or unaccounted for because there was no inventory list or source documentation to show that equipment had been purchased under the awards. (See Finding No. 1 on lack of supporting documentation.) As a result, we could not determine if assets acquired with Federal funds were missing or unaccounted for because they were not properly recorded or safeguarded.

Similar findings were reported in NWIC's annual A-133 Single Audit Reports completed for fiscal years ended June 30, 1997, June 30, 2000, and June 30, 2002. NWIC personnel informed us that NWIC did not have sufficient accounting personnel to take an inventory or reconcile differences and changes to the property records.

Recommendation No. 6:

We recommend that the Division Directors for DIAS and DGA require NWIC to develop and implement written property management procedures that meet the requirements established by the Office of Management and Budget, Circular A-110, Subpart C, Section 34 – Property Management Standards, including conducting physical inventories every two years and adjusting the property records for any differences.

Awardee Comments

The awardee stated that NWIC maintains a physical inventory of all property through a property management system maintained by the Business Office. All inventory is properly documented and physically reviewed by the Property & Supply Clerk and appropriate NWIC staff on an annual basis.

Auditor's Response

The Awardee's actions were partially responsive to the recommendation. The Awardee did not state in its comments that written procedures had been developed. The finding will remain unresolved until NSF verifies that written procedures were developed and that the proposed corrective actions have satisfactorily implemented.

Finding No. 7: NWIC Could Not Document its Procurements to Show Adequate Competition Resulted in the Most Advantageous Price to the Government.

OMB Circular A-110, Subpart C, Sections .40 - .48 Procurement Standards requires that all recipients establish written procurement procedures and maintain written standards of conduct governing the performance of the employees engaged in the award and administration of contracts. The procedures are required to assure that recipients fairly compete their contracts and obtain the most advantageous price in its acquisition of goods and services with federal funds.

Documentation was not available to support that contracts, for goods and services were awarded to the bidder that offered the most advantageous price under the awards. Over \$81,443 in equipment, materials and supplies was acquired under the NSF awards and NWIC could not show that it had obtained these in the most cost effective way. NWIC also could not document that it had acquired consultant services, in excess of \$77,168, at the best price available.

NWIC also did not have written procurement procedures, as required by OMB Circular A-110, Subpart C, Section .44(a), including written standards of conduct governing the performance of its employees engaged in the award and administration of contracts. As a result, NWIC could not show it had obtained adequate competition or the most advantageous price. This condition existed because NWIC officials were not aware of Federal requirements for procurement of goods and services under federal grants.

Recommendation No. 7:

We recommend that the NSF Division Directors of DIAS and DGA require NWIC to:

1. Establish written procedures for the steps that should be taken to ensure that the award of all contracts for goods and services are based on fairly competed proposals. Documentation should be maintained to explain why the successful bidder was selected, and
2. Prepare and implement written procurement procedures that meet the requirements established by the OMB, Circular A-110, Subpart C, Section .40 through .48 and written standards of conduct in Section .42 - Codes of Conduct, governing the performance of employees engaged in the award and administration of contracts.

Awardee Comments:

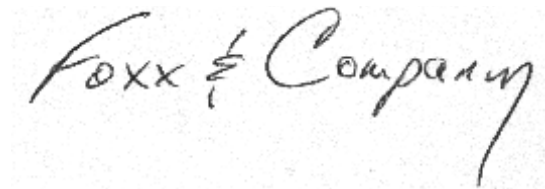
The Awardee stated that NWIC complies with appropriate expectations for expenditure of grant and institutional funds by requiring the grants managers and department heads to obtain a minimum of three bids for items within the guidelines of federal and college regulations and policies and requires documentation of choice when a decision is made to sole source an item or service.

Auditor's Response:

The Awardee's comments are responsive to the recommendations. However, the finding will remain unresolved until NSF verifies that the proposed corrective actions have satisfactorily been implemented.

The pervasiveness of the financial management deficiencies involving the NSF award funds, identified in this report suggest an overall control environment at NWIC that warrants immediate corrective action toward establishing good internal controls and compliance with federal award terms and conditions. NWIC's management indicated there was an overall lack of knowledge of federal and NSF award requirements at the time the awards were performed. In addition to that lack of knowledge, the inadequate systems to properly account for NSF funds, and the overall lack of policies and procedures to administer NSF awards and the lack of supporting documentation indicate the need for NWIC management to place a high priority on addressing these deficiencies. Until the corrective actions recommended in this report and those NWIC addressed in its comments are verified, NSF has little or no assurance that NWIC has and will spend NSF award funds on authorized purposes. NWIC's lack of adequate accounting systems and written policies and procedures for its NSF award financial activities place NWIC's awards at a high risk that misstatements, in amounts that would be material in relation to the Schedules of Award Costs (Schedules A-1 through A-3), may occur and not be detected.

This report is intended solely for the information and use of the NWIC's management, the NSF, NWIC's cognizant Federal agency, the Office of Management and Budget, and the Congress of the United States, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Foxx & Company". The signature is written in dark ink on a light-colored, slightly textured background.

Foxx & Company
Cincinnati, Ohio
January 31, 2002

**FINANCIAL SCHEDULES AND
SUPPLEMENTAL INFORMATION**

SCHEDULE B-1

**NORTHWEST INDIAN COLLEGE
BELLINGHAM, WASHINGTON**

NATIONAL SCIENCE FOUNDATION AWARD NO. DUE-9752076

SCHEDULE OF QUESTIONED COSTS

**For the period September 1, 1997 to August 31, 2000
FINAL**

Note B-1a Salaries and Wages

The questioned salaries and wages of [REDACTED] represent \$11,199 of salary charges to the NSF grant not adequately supported that were included in our testing. The remaining [REDACTED] of costs claimed were not tested but questioned because overall, NWIC did not maintain adequate support documentation for salary and wage costs. We were unable to apply other auditing procedures to satisfy ourselves that salary and wage costs claimed on the Schedule of Award Costs is presented fairly. Our review of salary and wages charged to Grant No. DUE-9752076 included a test of eleven individuals charged to this grant, as follows:

Date of Charge	Amount	Reason for Questioned Cost
[REDACTED]	\$1,190	Individual and job description not identified
[REDACTED]	256	Amount claimed not supported
[REDACTED]	1,161	No time and effort support
[REDACTED]	72	Amount claimed not supported
[REDACTED]	1,653	No time and effort support and not a grant employee
[REDACTED]	2,661	Individual and job description not identified
[REDACTED]	1,600	No time and effort support
[REDACTED]	1,141	No time and effort support
[REDACTED]	820	No time and effort support
[REDACTED]	237	Individual and job description not identified
[REDACTED]	408	No time and effort support
Total	\$11,199	

As shown above, seven of the sampled charges revealed that activity reporting or some other form of supporting documentation in accordance with OMB Circular A-21, Paragraph J.8, was not available; three of the charges were not identified by person, job description, or pay rate; and one person who was charged to the grant did not work on the grant. As a result, we have questioned \$11,199 of salaries claimed or 100 percent of the items we tested. According to NWIC personnel, academic and contract personnel were not required by NWIC to document charges to NSF grants, until after July 2001. Alternate documentation was also unavailable for review. In addition, because many of the same individuals that were found not to have support for charges in the sample were also in the untested payroll charges, we have questioned the remaining [REDACTED] of salary and wage costs claimed.

Awardee Comments

The awardee did not respond specifically to the questioned costs.

Auditor's Response

Although additional information was provided to the awardee identifying the individuals selected for audit, the awardee did not respond. Accordingly, the questioned costs remain in the final report.

Note B-1b Fringe Benefits

Because the associated salary and wage costs were not supported with adequate documentation and the awardee only had summary sheets by year showing a total fringe amount for the year without a break down of the fringe benefit components, we could not determine the allowability of the fringe benefits. Accordingly, we questioned all fringe benefits claimed of [REDACTED] as unsupported in accordance with OMB Circular A-110, subpart C paragraph .21(b)(1) through (7).

Awardee Comments

The awardee did not comment on the specific cost questioned.

Auditor's Response

Because the awardee did not comment on the questioned costs, it remains questioned.

Note B-1c Permanent Equipment

The [REDACTED] questioned represents \$6,512 questioned which was expended on permanent equipment for which the awardee could not provide adequate documentation required by OMB Circular A-110, Subpart C .21 (b) (1) through (9) supporting that this equipment benefited the NSF grant and the remaining [REDACTED] was questioned because of overall poor controls and a lack of procedures over property. The awardee could not provide supporting documentation that identified that the NSF funded project benefited for the following items:

<i>Vendor</i>	<i>Item Description</i>	<i>Amount</i>
[REDACTED]	Lap Top Computers	\$ 3,428
	Lite Projector	3,084
		<u>\$ 6,512</u>

Awardee Comments

The awardee did not comment on the specific cost questioned.

Auditor's Response

Because the awardee did not comment on the questioned costs, it remains questioned.

Note B-1d Travel

The \$2,196 of travel questioned represents charges to the grant included in our testing that were not supported by documentation. The awardee could not provide expense reports to support the following charges:

<i>Item Description</i>	<i>Date</i>	<i>Amount</i>
[REDACTED]	[REDACTED]	\$ 1,694
		502
		<u>\$ 2,196</u>

Because the awardee could not provide documentation to support the costs as required by OMB Circular A-110, Subpart C, paragraph .21(b)(1) through (7), we have questioned \$2,196 in travel costs claimed.

Awardee Comments

The awardee did not comment on the specific cost questioned.

Auditor's Response

Because the awardee did not comment on the questioned costs, it remains questioned.

Note B-1e Participant Support

The \$51,500 questioned represents costs budgeted for participant support for which the awardee could not provide support which documented costs were expended on approved participant support activities.

Awardee Comments

The awardee did not comment on the specific cost questioned.

Auditor’s Response

Because the awardee did not comment on the questioned costs, it remains questioned.

Note B-1f Materials and Supplies

The [REDACTED] questioned represents \$7,194 of materials and supplies included in our testing for which the awardee could not provide adequate support and the remaining [REDACTED] was questioned because of overall poor controls and a lack of oversight on all costs incurred by the awardee. The following items were included in the \$7,194 questioned:

<i>Vendor</i>	<i>Item Description</i>	<i>Date</i>	<i>Amount</i>
[REDACTED]	[REDACTED]	[REDACTED]	\$ 6,778
			416
			<u>\$ 7,194</u>

Because the above items do not benefit only the NSF grant in accordance with OMB Circular A-110, Subpart C, .21(b)(1) through (7), the \$7,194 has been questioned.

Awardee Comments

The awardee did not comment on the specific cost questioned.

Auditor’s Response

Because the awardee did not comment on the questioned costs, it remains questioned.

Note B-1g Publication Costs

The \$2,677 of publication costs has been questioned because of overall poor controls and a lack of oversight on the costs incurred.

Awardee Comments

The awardee did not comment on the specific cost questioned.

Auditor’s Response

Because the awardee did not comment on the questioned costs, it remains questioned.

Note B-1h Consultant Costs

The [REDACTED] questioned represents \$8,920 of consultant costs tested for which the awardee could not provide adequate support for the amount being charged to the NSF project and [REDACTED] not tested which was questioned because of overall poor controls and a lack of oversight on the costs incurred by the awardee. The \$8,920 questioned consisted of the following items:

<i>Vendor</i>	<i>Item Description</i>	<i>Date</i>	<i>Amount</i>
██████████	██████████	██████████	\$ 8,920
			<u>\$ 8,920</u>

Because the awardee could not provide documentation supporting these items as benefiting the NSF funded project in accordance with OMB Circular A-110, Subpart C, .21, (b) (1) through (7), we questioned the \$8,920.

Awardee Comments

The awardee did not comment on the specific cost questioned.

Auditor’s Response

Because the awardee did not comment on the questioned costs, it remains questioned.

Note-B-1i Other Costs

The \$36,553 of other costs was questioned because of overall poor controls and a lack of oversight on the cost incurred by the awardee.

Awardee Comments

The awardee did not comment on the specific cost questioned.

Auditor’s Response

Because the awardee did not comment on the questioned costs, it remains questioned.

Note B-1j Indirect Costs

The ██████████ questioned represents \$22,500 of indirect costs claimed applicable to the amounts questioned during our detailed testing and the remaining ██████████ was questioned because of the overall poor controls and lack of oversight on the direct costs incurred by the awardee. The NSF award included a fixed indirect cost rate of 21.4 percent applied to direct costs less participant support costs. The 21.4 percent rate applied to the costs questioned during our detailed testing less the questioned participant support costs results in \$22,500 questioned calculated as follows:

Costs Questioned during testing	\$ 105,141
	21.4%
Indirect Cost Questioned	<u>\$ 22,500</u>

Awardee Comments

The awardee did not comment on the specific cost questioned.

Auditor's Response

Because the awardee did not comment on the questioned costs, it remains questioned.

Note B-1k Unsupported/Undocumented Costs

The \$3,480 questioned represents costs the awardee claimed in excess of actual costs incurred according to NWIC's general ledger. Because the awardee could not provide documentation that the costs were incurred or benefited the NSF grant in accordance with OMB Circular A-110, Subpart C, .21(b) (1) through (7), the \$3,480 has been questioned.

Awardee Comments

The awardee did not comment on the specific cost questioned.

Auditor's Response

Because the awardee did not comment on the questioned costs, it remains questioned.

Note B-1l Cost Sharing

OMB Circular A-110 Section .23 and GPM 333.6(a) require that awardee's account for cost sharing in a manner that is verifiable by the awardee's records. The awardee's accounting system did not account for the \$35,534 of required cost sharing, nor was there any supporting documentation to show that NWIC cost shared any portion of the project. Because NWIC could not provide any supporting documentation and did not maintain records of its cost sharing, we questioned the required cost sharing of \$35,534. (See Finding No. 1.)

Awardee Comments

The awardee did not comment on the specific cost questioned.

Auditor's Response

Because the awardee did not comment on the questioned costs, it remains questioned.

NORTHWEST INDIAN COLLEGE
 BELLINGHAM, WASHINGTON

NATIONAL SCIENCE FOUNDATION AWARD NO. DUE-0053303

SCHEDULE OF QUESTIONED COSTS

For the period September 1, 2000 to December 31, 2001

Note B-2a Salaries and Wages

The questioned salaries and wages of ██████ represents \$14,838 of salary charges to the NSF award included in our testing not adequately supported and the remaining ██████ of salaries incurred which were not tested but were questioned because NWIC did not maintain adequate support documentation for salary and wage costs. We were unable to apply alternative procedures to satisfy ourselves that salaries and wages on the Schedule of Award Costs is presented fairly. Our review of salary and wages charged to Grant No. DUE-0053303 included a test of eleven individuals charged to this grant as follows:

Date	Amount	Reason for Questioned Cost
██████	\$1,161	No time and effort support
██████	1,161	No time and effort support
██████	424	Amount charged not supported
██████	1,862	No time and effort support
██████	813	No time and effort support
██████	1,741	No time and effort support
██████	774	No time and effort support
██████	2,548	No time and effort support
██████	1,001	No time and effort support
██████	2,765	No time and effort support
██████	588	No time and effort support
	\$14,838	

As shown above, the charges sampled revealed that activity reports or some other documentation supporting the time and effort charged to the award in accordance with OMB Circular A-21, Paragraph J.8 was not available. As a result, we have questioned \$14,838 of salaries tested.

According to NWIC personnel, prior to July 2001, NWIC did not require academic and contract personnel to document charges to NSF grants. Alternative documentation was also unavailable for review. In addition, because many of the same individuals that were found not to have support for charges in the sample were also in the untested payroll charges, we have questioned the remaining [REDACTED] of salary and wage cost claimed.

Awardee Comments

The awardee did not respond specifically to the questioned costs.

Auditor's Response

Although additional information was provided to the awardee identifying the individuals selected for audit, the awardee did not respond. Accordingly, the questioned costs remain in the final report.

Note B-2b Fringe Benefits

The [REDACTED] questioned represents \$1,319 of unallowable fringe benefits for interns and the remaining [REDACTED] of fringe benefits because the associated salary and wage costs were not supported with adequate documentation and the awardee only had summary timesheets by year showing a total fringe amount for the year without a breakdown of fringe benefit components. We found that NWIC charged the following items to the NSF project:

[REDACTED]	\$ 1,319
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Awardee Comments

The awardee did not comment on the specific cost questioned.

Auditor's Response

Because the awardee did not comment on the questioned costs, it remains questioned.

Note B-2c Permanent Equipment

The [REDACTED] questioned represents \$586 included in our testing, which was a portion of [REDACTED] paid to Xerox by the awardee and the remaining \$255 claimed because of overall poor controls and a lack of oversight on the grant costs. The awardee could not provide documentation to support how this portion of the [REDACTED] benefited the NSF grant in accordance with OMB Circular A-110, Subpart C, and 21(b) (1) through (7); therefore the \$586 has been questioned.

<i>Item Description</i>	<i>Amount</i>
[REDACTED]	\$ 586
Total	<u>\$ 586</u>

Awardee Comments

The awardee did not comment on the specific cost questioned.

Auditor’s Response

Because the awardee did not comment on the questioned costs, it remains questioned.

Note B-2d Travel

The [REDACTED] of travel expenses questioned represent \$742 of travel charges included in our testing that were not supported by documentation and the remaining [REDACTED] of travel was questioned because of overall poor controls and lack of oversight over the awardee’s claimed costs. The awardee could not provide expense reports to support the following charges in accordance with OMB Circular A-110, Subpart C, .21(b)(1) through (7):

<i>Item Description</i>	<i>Amount</i>
[REDACTED]	\$ 409
[REDACTED]	333
	<u>\$ 742</u>

Awardee Comments

The awardee did not comment on the specific cost questioned.

Auditor’s Response

Because the awardee did not comment on the questioned costs, it remains questioned.

Note B-2e Participant Support

The \$16,000 questioned represents costs budgeted for participant support that the awardee’s could not provide documentation supporting that the costs were expended on the intended purposes.

Awardee Comments

The awardee did not comment on the specific cost questioned.

Auditor’s Response

Because the awardee did not comment on the questioned costs, it remains questioned.

Note B-2f Materials and Supplies

The [REDACTED] questioned represents materials and supplies that consisted of a \$178 charge included in our testing for which the awardee could not provide adequate support. The following item for \$178 was questioned, because the awardee could not provide support showing how this

item benefited the NSF grant, in accordance with OMB Circular A-110, Subpart C, .21(b)(1) through (7):

<i>Item Description</i>	<i>Amount</i>
██████████	\$ 178
	<u>\$ 178</u>

The remaining ██████████ was questioned because of overall poor controls and a lack of oversight on the costs incurred as a result of the problems noted during our audit.

Awardee Comments

The awardee did not comment on the specific cost questioned.

Auditor's Response

Because the awardee did not comment on the questioned costs, it remains questioned.

Note B-2g Consultant Costs

The \$18,865 questioned represents consultant costs, which were not tested, but questioned because of overall poor controls and a lack of oversight on the costs incurred as a result of the problems noted during our audit.

Awardee Comments

The awardee did not comment on the specific cost questioned.

Auditor's Response

Because the awardee did not comment on the questioned costs, it remains questioned.

Note B-2h Other

The \$30 questioned represents the remainder of "Other" costs. This amount was questioned because of overall poor controls and a lack of oversight on all costs incurred by the awardee.

Awardee Comments

The awardee did not comment on the specific cost questioned.

Auditor's Response

Because the awardee did not comment on the questioned costs, it remains questioned.

Note B-2i Indirect Costs

The [REDACTED] questioned represents \$5,682 of indirect costs claimed applicable to the amounts questioned during our detailed testing and the remaining [REDACTED] was questioned because of overall poor controls and lack of oversight on the costs. The NSF award included a fixed indirect cost rate of 21.4 percent applied to direct costs less participant support costs. The 21.4 percent rate applied to the costs questioned during our detailed testing less the questioned participant support costs results in \$5,682 questioned calculated as follows:

Costs Questioned during testing	\$	26,553
		21.4%
Indirect Cost Questioned	<u>\$</u>	<u>5,682</u>

Awardee Comments

The awardee did not comment on the specific cost questioned.

Auditor's Response

Because the awardee did not comment on the questioned costs, it remains questioned.

Note B-2j Undocumented Costs

The \$8,890 questioned represents undocumented costs that the awardee could not support. The awardee's accounting system showed that \$268,594 had been charged to the accounting ledger for this grant. However, the awardee received \$277,484 of federal funds according to its FCTR dated December 31, 2001. The awardee could not support the difference of \$8,890. Therefore, it has been questioned in accordance with OMB Circular A-110, Subpart C, .21, (b)(1) through (7).

Awardee Comments

The awardee did not comment on the specific cost questioned.

Auditor's Response

Because the awardee did not comment on the questioned costs, it remains questioned.

Note B-2k Cost Sharing

The awardee's accounting system did not account for the \$141,114 of required cost sharing nor did it have an alternative method to account for the cost sharing. Because the grant period was not yet completed, the awardee may incur the cost-sharing amount. However, the awardee is "at risk" to not meet the cost sharing requirement, because it does not separately account for cost sharing expenditures. During Fiscal Year 2002 (July 1, 2001-June 30, 2002), the Single Audit also disclosed that the awardee did not have support for the cost sharing. (See Finding No. 1.)

Awardee Comments

The awardee did not comment on the specific cost questioned.

Auditor's Response

Because the awardee did not comment on the questioned costs, it remains questioned.

NORTHWEST INDIAN COLLEGE
 BELLINGHAM, WASHINGTON

NATIONAL SCIENCE FOUNDATION AWARD NO. ESR-0086186

SCHEDULE OF QUESTIONED COSTS

for the period September 1, 2000 to August 31, 2001

Note B-3a Salaries and Wages

The [REDACTED] questioned represents \$7,738 of salary charges to the grant that we tested and found no support, and the remaining [REDACTED] of salary and wage costs claimed that were not tested but questioned because of overall NWIC did not maintain adequate support documentation for salary and wage costs. We were unable to apply alternative procedures to satisfy ourselves that salary and wage costs claimed on the Schedule of Award Costs is presented fairly. Our review of salary and wages charged to Grant No. ESR-0086186 included a test of four individuals charged to this grant, as follows:

Date	Amount	Reason for Questioned Cost
[REDACTED]	\$4,805	No time and effort or other support
[REDACTED]	1,052	No time and effort or other support
[REDACTED]	393	No time and effort or other support
[REDACTED]	1,488	No time and effort or other support
Total	\$7,738	

According to OMB Circular A-21, Paragraph J.8, salary costs charged to grants must be supported by some form of documentation showing that the costs were incurred on the awards. Because the salaries were not adequately supported, the salaries tested of \$7,738 have been questioned.

Awardee Comments

The awardee did not respond specifically to the questioned costs.

Auditor's Response

Although additional information was provided to the awardee identifying the individuals selected for audit, the awardee did not respond. Accordingly, the questioned costs remain in the final report.

Note B-3b Fringe Benefits

We have questioned the fringe benefits claimed of \$8,933 because the associated salary and wages were not supported with adequate documentation and the awardee only had summary timesheets by year showing a total fringe amount for the year without a breakdown of the fringe benefit components.

Awardee Comments

The awardee did not comment on the specific cost questioned.

Auditor’s Response

Because the awardee did not comment on the questioned costs, it remains questioned.

Note B-3c Permanent Equipment

The \$1,329 questioned represents costs expended on permanent equipment by NWIC for which the awardee could not provide adequate documentation supporting that this equipment benefited the NSF grant. We sampled selected transactions and found that the awardee could not provide supporting documentation for the following item:

<i>Item Description</i>	<i>Amount</i>
██████████	\$ 1,329
	<u>\$ 1,329</u>

The above item appears to be general-purpose equipment, which should not be charged directly to the NSF grant. Because the awardee could not provide documentation to support this item as benefiting the NSF grant, the \$1,329 has been questioned in accordance with OMB Circular A-110, Subpart C, .21(b)(1) through (7).

Awardee Comments

The awardee did not comment on the specific cost questioned.

Auditor’s Response

Because the awardee did not comment on the questioned costs, it remains questioned.

Note B-3d Travel

The [REDACTED] questioned represents \$2,325 of travel charges to the grant included in our testing that were not supported by documentation and the remaining [REDACTED], which was questioned because of overall poor controls and a lack of oversight on the costs incurred. The awardee could not provide expense reports that supported that the following trips benefited the NSF grant in accordance with OMB Circular A-110, Subpart C, .21(b)(1) through (7) and we questioned the following amount of \$2,325:

<i>Item Description</i>	<i>Amount</i>
[REDACTED]	\$ 261
	2,064
	<u>\$ 2,325</u>

Awardee Comments

The awardee did not comment on the specific cost questioned.

Auditor’s Response

Because the awardee did not comment on the questioned costs, it remains questioned.

Note B-3e Materials and Supplies

The [REDACTED] questioned represents \$802 questioned included in our testing for which the awardee could not provide adequate support in accordance with OMB Circular A-110, Subpart C, .21(b)(1) through (7), and the remaining \$639 was questioned because of overall poor controls and a lack of oversight on the awardee’s claim. Because the Awardee could not provide documentation showing how these items benefited the NSF grant, we questioned the following items included in the \$802:

<i>Item Description</i>	<i>Amount</i>
[REDACTED]	\$ 393
[REDACTED]	250
[REDACTED]	53
[REDACTED]	56
[REDACTED]	50
	<u>\$ 802</u>

Awardee Comments

The awardee did not comment on the specific cost questioned.

Auditor’s Response

Because the awardee did not comment on the questioned costs, it remains questioned.

Note B-3f Consultant Costs

The [REDACTED] questioned represents \$1,717 of consultant costs included in our testing for which the awardee could not support that the costs benefited the NSF grant and the remaining costs of [REDACTED] have been questioned because of overall poor controls and a lack of oversight on the costs incurred because of the problems noted during the audit. Following are the items making up the \$1,717 questioned:

<i>Item Description</i>	<i>Amount</i>
[REDACTED]	\$ 1,217
[REDACTED]	500
	<u>\$ 1,717</u>

Because the awardee could not provide documentation to support the above costs as benefiting the NSF grant, the \$1,717 is questioned in accordance with OMB Circular A-110, Subpart C, .21 (b)(1) through (7).

Awardee Comments

The awardee did not comment on the specific cost questioned.

Auditor's Response

Because the awardee did not comment on the questioned costs, it remains questioned.

Note B-3g Indirect Costs

Although the grant contained a fixed indirect cost amount, the awardee did not claim any indirect costs. Therefore, the \$12,528 was not considered or questioned.

Note B-3h Undocumented Costs

The \$14,311 questioned represents undocumented costs that the awardee could not support. The awardee's accounting system showed that \$48,462 was incurred on this grant. However, the awardee claimed a total of \$62,773 of federal funds as shown on its FCTR dated September 30, 2001. The awardee could not support the difference of \$14,311 (\$62,773-\$48,462). Accordingly, the \$14,311 has been questioned in accordance with OMB Circular A-110, Subpart C, .21, (b)(1) through (7).

Awardee Comments

The awardee did not comment on the specific cost questioned.

Auditor's Response

Because the awardee did not comment on the questioned costs, it remains questioned.

SCHEDULE C-1

**NORTHWEST INDIAN COLLEGE
SUMMARY SCHEDULES OF AWARDS AUDITED AND AUDIT RESULTS**

September 1, 1997 to December 31, 2001

Summary of Awards Audited

Award Number	Award Period	Audit Period
DUE-9752076	09/01/97 – 08/31/00	09/01/97 – 8/31/00
DUE-0053303	09/01/00 – 08/31/03	09/01/00 – 12/31/01
ESR-0086186	09/01/00 – 08/31/01	09/01/00 – 08/31/01

Award Number	Type of Award	Award Description
DUE-9752076	Grant	Environmental Technology.
DUE-0053303	Grant	Natural Resources Manage.
ESR-0086186	Grant	Rural Systemic Initiative

Summary of Questioned and Unresolved Costs by Award

NSF Award Number	Award Budget	Claimed Costs	Questioned Costs	Unsupported Costs
DUE-9752076	\$ 775,049	\$ 775,049	\$ 214,306	\$ 596,277
DUE-0053303	589,349	277,484	46,781	230,703
ESR-0086186	100,000	62,773	28,232	34,551
Total	\$ 1,464,398	\$ 1,115,306	\$ 289,319*	\$ 861,531

* This amount includes \$35,534 of cost sharing which is not included in claimed costs.

Summary of Questioned Cost by Explanation

Condition	Questioned Cost Amount	Internal Control Weaknesses	Non-Compliance
Unsupported Salaries	\$ 33,775	Yes	Yes
Participant Support Re-budgeted	67,500	Yes	Yes
Unexpended Costs	26,681	Yes	Yes
Documentation not Available	32,501	Yes	Yes
Unexpended Cost Sharing	35,534	Yes	Yes
Unsupported fringe benefits	66,959	Yes	Yes
Indirect Costs applicable to questioned costs	28,182	Yes	Yes
Total Questioned Costs	\$ 291,132		

Summary of Internal Control Weaknesses and Non-Compliance Issues

Condition	Non-Compliance or Internal Control	Material, Reportable or Other
Lack of Adequate Documentation	Non-Compliance & Internal Control	Material Weakness
Could not Track Expenditures	Non-Compliance & Internal Control	Material Weakness
Segregation of Duties	Non-Compliance & Internal Control	Reportable Condition
Bank Reconciliation	Non-Compliance & Internal Control	Reportable Condition
Publications	Non-Compliance	
Property Management	Non-Compliance	
Procurement Standards	Non-Compliance	

SCHEDULE D

**NORTHWEST INDIAN COLLEGE
BELLINGHAM, WASHINGTON**

SUMMARY OF AWARD COSTS BUDGETED, CLAIMED, AND QUESTIONED

<u>NSF Award Number</u>	<u>Award Budget</u>	<u>Cost* Claimed</u>	<u>Questioned Costs</u>	<u>At-risk Cost Sharing</u>
DUE-9752076	\$775,049	\$775,049	\$775,049	\$ -
Cost Share	35,534	-	35,534	-
DUE-0053303	589,343	277,484	277,484	
Cost Share	141,114	-	-	\$141,114
ESR-0086186	100,000	62,773	62,773	
Cost Share	-	-	-	-
NSF Costs	<u>\$1,464,392</u>	<u>\$1,115,306</u>	<u>\$1,115,306</u>	
Cost Sharing	<u>\$ 149,648</u>	<u>\$ -</u>	<u>\$ 35,534</u>	<u>\$141,114</u>

* The claimed amount equals the amount of Federal funds claimed on the Federal Cash Transaction Reports for each grant through December 31, 2001.

**NORTHWEST INDIAN COLLEGE
NOTES TO FINANCIAL SCHEDULES**

September 1, 1997 to December 31, 2001

Note 1: Summary of Significant Accounting Policies

Accounting Basis

The accompanying financial schedules have been prepared in conformity with National Science Foundation (NSF) instructions. Schedules A-1 and A-2 have been prepared from the reports submitted to NSF and information obtained from the accounting records maintained for the grant award by NWIC. The basis of accounting utilized in preparation of these reports differs from generally accepted accounting principles. The following information summarizes these differences:

A. Equity

Under the terms of the award, all funds not expended according to the award agreement and budget at the end of the award period are to be returned to NSF. Therefore, the awardee does not maintain any equity in the award and any excess cash received from NSF over final expenditures is due back to NSF.

B. Equipment

Equipment is charged to expense in the period during which it is purchased instead of being recognized as an asset and depreciated over its useful life. As a result, the expenses reflected in the Schedule of Award Costs include the cost of equipment purchased during the period rather than a provision for depreciation.

Except for awards with nonstandard terms and conditions, title to equipment under NSF awards vests in the recipient, for use in the project or program for which it was acquired, as long as it is needed. The recipient may not encumber the property without approval of the federal awarding agency, but may use the equipment for its other federally sponsored activities, when it is no longer needed for the original project.

C. Inventory

Minor materials and supplies are charged to expense during the period of purchase. As a result, no inventory is recognized for these items in the financial schedules.

D. Federal Income Tax

As a tribally chartered institution, NWIC has no Federal income tax liability.

**NORTHWEST INDIAN COLLEGE
NOTES TO FINANCIAL SCHEDULES**

September 1, 1997 to December 31, 2001

Note 2: NSF Cost Sharing and Matching

The following represents the cost-sharing requirements and actual cost share as of December 31, 2001:

	<u>Cost Share Required</u>	<u>Actual Cost Share Claimed</u>	<u>Unsupported Cost Share</u>	<u>Actual Supported Cost Share</u>	<u>Actual Cost Share Over/(Under) Required</u>
Award No. DUE- 9752076	\$ 35,534	\$ 0	\$ 35,534	\$ 0	\$ (35,534)
Award No. DUE-0053303	141,114	0	141,114	0	(141,114)
Award No. ESR-0086186	<u>0</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 176,648</u>	<u>\$ 0</u>	<u>\$ 176,648</u>	<u>\$ 0</u>	<u>\$ (176,648)</u>

See Finding and Recommendation No. 1 on Financial Management in the *Independent Auditor's Report on Compliance with Laws and Regulations and Internal Control Over Financial Reporting*.

Note 3: Indirect Cost Rates

Award Number	Indirect Cost Rate	Base
DUE-9752076	21.4%	Direct Costs less participant support
DUE-0053303	21.4%	Direct Costs less participant support
ESR-0086186	\$12,528	Fixed Dollar Amount

APPENDIX A

AWARDEE'S COMMENTS TO REPORT

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