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February 24, 2006

**Control Number**  
**ED-OIG/A09F0020**

Dr. David Dobler  
President  
Sheldon Jackson College  
801 Lincoln Street  
Sitka, AK 99835

Dear Dr. Dobler:

This **Final Audit Report**, entitled *Sheldon Jackson College's Administration of Fund for the Improvement of Postsecondary Education Grants*, presents the results of our audit. The purpose of the audit was to determine whether Sheldon Jackson College (SJC) properly accounted for and used funds provided under the Fund for the Improvement of Postsecondary Education (FIPSE). Our review covered the period from June 1, 2002 through August 25, 2005 for FIPSE Grant No. P116Z020135 and the period May 15, 2004 through August 25, 2005 for FIPSE Grant No. P116Z040007.

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## BACKGROUND

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SJC is a private, four-year liberal arts college located on Baranof Island in Sitka, Alaska. An independent board of trustees operates the College under a historical arrangement with the Presbyterian Church. SJC offers bachelor degrees, associate degrees, and a certificate program in the following areas: Teacher Education, Environmental Science, Individualized Studies, Liberal Arts, Outdoor Leadership, Business Administration, and Human Services. Total enrollment for the Fall 2005 semester was 391 students (247 high school students taking college classes, 118 full-time college students, and 26 part-time college students). SJC is accredited by the Northwest Commission on Colleges and Universities.<sup>1</sup> In addition to administering a full

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<sup>1</sup> The accreditation is under a "show cause" order issued January 2005. The Commission issues a "show cause" order when it finds that an institution has not taken satisfactory steps to address identified concerns or when an institution is found to be in serious non-compliance with the Commission's accreditation criteria. The Commission notified SJC, in a letter dated February 10, 2006, that it expected SJC to send one or more representatives to the Commission's July 2006 meeting to address the continuing "show cause" order. In the letter, the Commission reminded SJC that, when issued a "show cause" order, the burden rests with the institution to demonstrate why its accreditation should be continued beyond the stated period.

range of Title IV-Student Financial Assistance Programs, SJC administers various grants awarded by the U.S. Department of Education (Department) and other Federal agencies.

The Office of Postsecondary Education (OPE) is the Department component that awarded the two FIPSE grants to SJC. Grant No. P116Z020135 is a congressionally directed grant that provided \$2 million for teacher training to address the shortage of teachers in rural Alaska. The grant application states that the funds will be used to establish the Sheldon Jackson College Center for Alaskan Rural Education to (1) increase recruitment of students for teacher training; (2) improve assessment, placement, remediation, and retention activities; (3) strengthen teaching/learning in science education; (4) implement an expeditionary learning model appropriate to Alaska; (5) develop and implement workshops and seminars and summer programs to address the shortage of rural teachers; and (6) improve library and learning resources. The grant performance period was from June 1, 2002 through September 30, 2005.

Grant No. P116Z040007 is a congressionally directed grant that provided \$497,050 for teacher training and training of human services professionals to enhance SJC's degree programs in Teacher Education and Human Services by providing support for (1) salaries of Human Services personnel; (2) retention/developmental services for Human Services and Teacher Education students; (3) recruitment travel and materials for Human Services and Teacher Education students; (4) professional development for faculty who teach and/or administer Human Services and Teacher Education students; and (5) financial assistance to students in Human Services and Teacher Education. The grant performance period was from May 15, 2004 through May 14, 2005. On August 12, 2005, the Department granted SJC a no-cost extension of the performance period through December 31, 2005.

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## AUDIT RESULTS

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SJC did not properly account for funds provided under the FIPSE grants. SJC improperly drew down FIPSE funds in excess of the immediate needs of the grant programs to provide cash for its entire payroll and other non-grant related expenses. In addition, SJC used a financial management system that did not properly account for the receipt and use of the FIPSE funds or meet other standards for such systems. Due to the deficiencies in SJC's financial management system, we were unable to determine whether SJC used FIPSE funds for reasonable, allocable, and allowable costs of the grants.

On September 19, 2005, we briefed OPE on our initial findings and followed up the conversation with an interim audit memorandum on September 27, 2005. On September 28, 2005, OPE placed special award conditions on current and future grants awarded by the Department to SJC because SJC had not properly administered grants provided by OPE.

SJC did not dispute our findings in its comments to the draft report, but it did state concurrence with our recommendations. SJC's comments are summarized at the end of each finding and the full text of the comments is included as an attachment to the report.

**FINDING NO. 1 – SJC Inappropriately Drew Down FIPSE Grant Funds to Provide Cash for the College’s Payroll and Other Non-Grant Expenses**

SJC requested Federal funds for the FIPSE grants through the Department’s Grant Administration and Payment System (GAPS). We found that SJC made draws of grant funds through GAPS for the purpose of obtaining cash to cover the College’s entire payroll and other non-grant related expenses.

Section 74.22(b) of the Education Department General Administrative Regulations (EDGAR) provides—

. . . (2) Cash advances to a recipient organization are limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project.

(3) The timing and amount of cash advances are as close as is administratively feasible to the actual disbursements by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs.

To remind grantees of the above requirement, GAPS asks grantees to respond to the following statement when initiating a request for Federal funds:

I certify, by processing this payment request and/or reallocation, that the funds are being expended within three business days of receipt for the purpose and condition of the grant or agreement. Are you sure you want to submit the request?

The following table shows the number of GAPS draws for each grant at the time of our review and the number of draws for which we found that SJC’s documentation showed the draws were made to provide cash for other than grant purposes. Our review provides no assurance that other draws were made solely for grant purposes.

<b>SJC Draws of FIPSE Grant Funds As of August 25, 2005</b>				
<b>Grant Number</b>	<b>Draws of Grant Funds Per GAPS</b>		<b>Draws Made to Provide Cash for SJC’s Entire Payroll or Other Non-Grant Purposes</b>	
	<b>Number of Draws</b>	<b>Amount</b>	<b>Number of Draws</b>	<b>Amount</b>
P116Z020135	124	\$1,977,283(a)	6	\$758,800
P116Z040007	10	484,586(b)	5	462,000
<b>Total</b>	<b>134</b>	<b>\$2,461,869</b>	<b>11</b>	<b>\$1,220,800</b>

(a) SJC drew the remaining balance of \$22,717 on September 26, 2005.  
 (b) SJC drew the remaining balance of \$12,464 on September 26, 2005. In October 2005, refunds, totaling \$69,530, were credited to the GAPS account for funds returned on August 17, 2005, but posted to the wrong GAPS account. As of November 12, 2005, the \$69,530 remained available for future draws.

Despite being aware of the EDGAR § 74.22(b)(2) requirement, SJC did not limit its draws to the immediate cash required to carry out the purposes of the FIPSE grants. Memoranda in SJC files document that the former Chief Financial Officer (CFO) instructed the former Accounting Manager to make GAPS draws to “borrow” funds from the FIPSE grants. SJC used the term “borrow” in the related documentation. Also, emails dated September 1, 2004 document the former Accounting Manager’s request for approval and the College President’s subsequent approval to “borrow” funds from the FIPSE grants to “cover net payroll and federal taxes due early next week.” A SJC board member may also have been aware of the “borrowing” since the board member was included as a cc: on the email sent from the President to the Accounting Manager. GAPS shows that SJC drew \$200,000 from the FIPSE grants on September 1, 2004.

The Independent Public Accountant (IPA) previously reported that SJC made improper GAPS draws in the OMB A-133 audit report for fiscal year ended June 30, 2004, dated August 19, 2004. The IPA reported that SJC made draws on the FIPSE grants that were used to pay for expenses other than those related to the purpose of the approved program.<sup>2</sup> After issuance of the IPA’s report, SJC continued to make GAPS draws to “borrow” funds. In addition to the improper draw on September 1, 2004, SJC made four more improper draws from the FIPSE grants.

As a result of the inappropriate draws, the Federal Government incurred unnecessary interest costs. Also, the “borrowing” of funds placed Federal funds at risk of misuse. SJC did, in some cases, recognize a liability in its financial management system for the “borrowed” funds, and reduced the liability as SJC incurred grant expenses. For example, the liability for “borrowing” for Grant No. P116Z040007 reached a total of \$287,946 by December 31, 2004 before SJC began to reduce the liability by charging expenses to the account. As of August 25, 2005, SJC’s accounting system showed an outstanding liability for borrowed funds of \$9,030 for Grant No. P116Z020135 and \$47,548 for Grant No. P116Z040007.<sup>3</sup>

SJC’s “borrowing” is a serious violation of the EDGAR § 74.22(b)(2) requirement that drawdowns of Federal funds be made solely for the actual, immediate cash requirements to carry out the purpose of the approved project. SJC’s unauthorized use of the FIPSE grant funds obtained through the excessive drawdowns was a serious violation of Office of Management and Budget (OMB) Circular A-21 Cost Principles for Educational Institutions, which defines the allowable uses of Federal funds. Without legal authority and with no consultation with Department, SJC took the FIPSE funds to use for its own purposes. SJC’s plan to repay the “borrowed” funds when it incurred actual FIPSE grant expenditures does not mitigate the seriousness of its improper actions.

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<sup>2</sup> The IPA’s audit report stated that the funds improperly drawn were later repaid to the Department. During a phone interview held September 21, 2005, a staff auditor for the IPA advised us that the audit documentation notes that the former CFO stated in an interview with the auditor that the draws in question were “borrowings” that were later repaid. The IPA’s audit documentation stated the auditor “[r]eviewed support, noting the support was consistent with client assertion.” The audit documentation did not identify the support used by the auditor in making this determination.

<sup>3</sup> As we discuss in Finding No. 2, we were unable to confirm that all drawn funds were recorded in SJC’s accounting systems for Grant No. P116Z020135 and that the expenses applied to the liabilities were for allowable costs of the grants.

We are not making recommendations to improve SJC procedure for drawing funds because the special conditions implemented by OPE's letter of September 28, 2005 will allow the release of current and future grant funds to SJC (except for costs of project director salaries) only after SJC obtains Department approval of its business and financial plan, SJC provides documentation of proposed costs, and OPE determines that the proposed costs are reasonable, allocable, and allowed based on the scope of the grant. These procedures, if properly implemented by the Department, will ensure that SJC draws are limited to the immediate needs of the respective grant.

### **Recommendation**

- 1.1 We recommend that the Chief Financial Officer, in collaboration with the Assistant Secretary for Postsecondary Education, require SJC to determine the average daily balance of "borrowed" funds for the grants and reimburse the Federal Government for the interest costs incurred.

### **SJC Comments**

SJC concurred with the recommendation. SJC stated its opinion that eligible expenses were incurred in due course that correlated with the borrowed funds. SJC stated it would complete the task of determining the timing between drawdowns and eligible expenditures by June 30, 2006.

## **FINDING NO. 2 – SJC's Financial Management System Did Not Properly Account for FIPSE Funds**

SJC used accounting software to maintain its financial records with a separate fund (set of accounts) established for each FIPSE grant. However, SJC used the accounting software in a manner that did not provide for the proper accounting of the FIPSE funds. We found that SJC did not use a consistent method for recording receipts in the FIPSE accounts and SJC's recording of uses of FIPSE funds in its account did not facilitate identification of the grant expenditures. We also found that SJC did not provide sufficient documentation for accounting entries, did not adhere to approved budgets, and did not have required written procedures.

Section 74.21(b) of EDGAR lists the standards for financial management systems of recipients of Federal grants.

- (b) Recipients' financial management systems shall provide for the following:
  - (1) Accurate, current, and complete disclosure of the financial results of each federally-sponsored project in accordance with the reporting requirements established in Sec. 74.52. . . .
  - (2) Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.

- (3) Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.
- (4) Comparison of outlays with budget amounts for each award. Whenever appropriate, financial information should be related to performance and unit cost data.
- (5) Written procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury and the issuance or redemption of checks, warrants or payments by other means for program purposes by the recipient . . . .
- (6) Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.
- (7) Accounting records including cost accounting records that are supported by source documentation.

Section 74.44 of EDGAR specifies requirements for procurement procedures.

- (a) All recipients shall establish written procurement procedures. These procedures shall provide for, at a minimum, that --
  - (1) Recipients avoid purchasing unnecessary items;
  - (2) Where appropriate, an analysis is made of lease and purchase alternatives to determine which would be the most economical and practical procurement for the Federal Government; or
  - (3) Solicitations for goods and services provide for all of the following:
    - (i) A clear and accurate description of the technical requirements for the material, product or service to be procured. In competitive procurements, a description shall not contain features which unduly restrict competition.
    - (ii) Requirements which the bidder/offeror must fulfill and all other factors to be used in evaluating bids or proposals.
    - (iii) A description, whenever practicable, of technical requirements in terms of functions to be performed or performance required, including the range of acceptable characteristics or minimum acceptable standards. . . .

SJC's financial management systems did not meet any of these standards.

### **Inconsistent Recording of FIPSE Receipts**

SJC did not use a consistent method to record funds received from GAPS draws in its financial records for Grant No. P116Z040007. As a result, we could not readily confirm that GAPS receipts were properly recorded in SJC's accounting system. SJC received 10 GAPS draws totaling \$484,586 and recorded the draws in two different accounts. Four draws, totaling \$362,000, were recorded in a liability account called Grant Advance Payable and the other six totaling \$122,586 were posted to Release of Restricted Funds, a revenue account. After extensive analysis of the accounting entries, we were able to confirm that all funds drawn from GAPS for Grant No. P116Z040007 were recorded in the financial management system.

We were unable to confirm that \$879,955 of the \$1,911,122<sup>4</sup> of FIPSE funds for Grant No. P116Z020135 were recorded in the financial records. From the records made available, we could not identify accounting entries recording the receipt of all 69 draws of FIPSE funds that occurred prior to July 7, 2003 and 5 of the 55 draws of FIPSE funds that occurred between July 7, 2003 and December 2, 2004.

### **Irregular Recording of Uses of FIPSE Funds**

Due to the manner in which SJC recorded uses of FIPSE funds in its financial management system, we were unable to obtain or develop complete expenditure lists for the two grants. Our review of individual accounting entries found that expenditures were recorded in other than expense accounts (Accounts Receivable, Construction In-Progress, Equipment, and Grant Advance Payable). In addition, SJC used journal entries to transfer amounts to the FIPSE grant accounts from other SJC accounts. SJC almost exclusively used journal entries to record amounts for Grant No. P116Z040007.

### **Inadequate Supporting Documentation for Individual Accounting Entries**

SJC did not provide sufficient documentation for the journal entries and other individual accounting entries to assess whether costs charged to the FIPSE grant accounts were allowable uses of grant funds. EDGAR § 74.27 and OMB Circular A-21 establish the cost principles for educational institutions. Paragraph C.2 of Circular A-21 lists the factors to consider when evaluating the allowability of costs—

*Factors affecting allowability of costs.* The tests of allowability of costs under these principles are: (a) they must be reasonable; (b) they must be allocable to sponsored agreements under the principles and methods provided herein; (c) they must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (d) they must conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items.

We reviewed supporting documentation for 77 non-personnel transactions (accounting entries) of \$2,000 or greater.<sup>5</sup> For 21 transactions, SJC provided only a printout of the transaction or no

<sup>4</sup> \$1,977,283 less \$66,161 refund adjustment made after August 25, 2005.

<sup>5</sup> Our review of selected transactions did not include transactions related to payroll (i.e., salaries, staff benefits, etc.).

documentation. For 47 entries, SJC had purchase orders, invoices, or other documentation, but the documentation was not sufficient to make a determination as to the allowability of the costs. For example, SJC charged \$298,214 to Grant No. P116Z040007 for “SJC Forgivable Education Loans,” “SJC Educational Opportunity Grants,” and reclassified student discounts. The FIPSE grant funds may be used to “provide financial assistance to students in human services and teacher education.” For \$261,164 of the charges, SJC only provided printouts of the journal entries. For the remaining \$37,050 of the charges, SJC provided printouts of individual student ledgers showing previously awarded credits to the student account (i.e., Dean’s List, Faculty Honors, Legacy, Alaska Leaders, Diversity Award). Additional documentation would be required to evaluate the eligibility of the individual students for discounts. From our review of the 77 accounting entries, we were only able to confirm that eight accounting entries, totaling \$35,075, for Grant No. P116Z020135 and one entry, totaling \$18,167, for Grant No. P116Z040007 were allowable costs of the grants.<sup>6</sup>

### **Lack of Adherence to Approved Budgets**

SJC did not adhere to the approved budget for Grant No. P116Z020135. SJC’s financial management system shows asset balances of \$917,117 for equipment and \$188,054 for construction in-progress. According to the grant application, the Center for Alaskan Rural Education was to be housed in the newly refurbished Yaw classroom building. During the grant period, major renovations were underway on the Yaw building. The approved budget included \$75,000 for costs incurred to comply with the Americans With Disabilities Act and \$350,000 for equipment purchases to upgrade campus technology. The equipment asset balance substantially exceeded the amounts in the approved budget. We also were unable to identify the type of equipment purchased or services provided from the supporting documentation for 15 of the 18 transactions posted to the equipment and construction in progress accounts.

### **Inadequate Written Procedures**

SJC did not have written procedures for determining the reasonableness, allocability, and allowability of costs charged to grants or written procedures to minimize the elapsed time between the receipt of Federal funds and issuance of payments for program purposes required by EDGAR § 74.21(b)(5) and (6). Also, SJC did not have the written procurement procedures required by EDGAR § 74.44(a). SJC staff provided us with their instructions for recording transactions in the accounting system and preparing checks and the forms used to document certain transactions, but the instructions and forms contained only a few internal control procedures (i.e., check invoices for accuracy, obtain approving signatures on forms). Also, our review of the instructions disclosed that the instructions may not provide for appropriate segregation of duties (i.e., Accounting Technician entered new employees into the payroll system and entered payroll transactions into accounting system) and safeguard access to user passwords (i.e., user identification and password used to request draws of Federal grant funds

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<sup>6</sup> For Grant No P116Z020135, the eight transactions covered expenses for 1) membership in the Sitka Educational Consortium (Check # 51743), 2) printer paper and toner for recruitment printing (two transactions for Check # 52525), 3) computer virus protection (Check # 51546), 4) travel of high school students’ visits to SJC for student recruitment purposes (Check # 51499, # 51553, and # 52650), and 5) office furniture for the YAW building (Check # 51413). For Grant No. P116Z040007, the one transaction covered travel of high school students’ visits to SJC for student recruitment purposes (Journal Voucher # 050531DNJV).



was printed in the instructions). Also, the approving signatures called for in the instructions were those of the CFO and Accounting Manager. These individuals knowingly authorized the “borrowing” of the FISPE grant funds.

The Department intended the FIPSE funds award to SJC to be used for teacher training to address the shortage of teachers in rural Alaska and for teacher training and training of human services professionals to enhance SJC’s degree programs in Teacher Education and Human Services. Because SJC did not maintain a financial management system that properly accounted for the receipt and use of the FIPSE funds, there is no assurance that the FIPSE funds received from GAPS draws were used for reasonable, allocable, and allowable costs incurred in the performance of the grants’ purposes.

We are not making recommendations to improve SJC procedures because the special conditions implemented by OPE’s letter of September 28, 2005 required SJC to prepare and implement a business and financial plan that includes a written accounting manual that establishes standards and procedures for internal controls, budgetary controls, back-up source documentation and separation of duties, documentation for temporary or established indirect cost rates, and accounting ledgers. The letter also states that SJC cannot incur any additional obligations under Department grants other than those associated with the salaries of project directors until the Department approves SJC’s business and financial plan. The letter also requires that any revision to approved budgets must be approved by the Department. SJC is also required to submit detailed quarterly financial reports with expenditure documentation (e.g., invoices).

## **Recommendation**

- 2.1 We recommend that the Chief Financial Officer, in collaboration with the Assistant Secretary for Postsecondary Education, require SJC to provide a list of grant expenditures incurred with supporting documentation for Grant No. P116Z020135 and Grant No. P116Z040007. SJC should return to the Department the FIPSE funds for which it is unable to identify expenditures and provide documentation showing that the uses of the funds were reasonable, allocable, and allowable costs of the grants.

## **SJC Comments**

SJC concurred with the recommendation. SJC stated that, due to the changes in Business Office personnel during 2004-2005, it is unclear whether FIPSE receipts were recorded consistently. SJC also stated that locating stored documentation had been a problem and that the Academic Dean had copies of purchase orders and spreadsheets that were not reviewed during the audit. SJC stated its staff is currently developing processes to obtain complete expenditure lists and appropriate supporting documentation for the FIPSE grants. The SJC staff is also examining the financial records related to expenditures for equipment and construction in progress and other associated costs. SJC plans to accomplish these tasks by June 30, 2006.

## OIG Response

The OIG auditors did not have time to review the Academic Dean's copies while on site because the binder containing the documents was not made available to the auditors until shortly before their departure. In response to the auditors' subsequent requests for documentation, SJC did not provide any copies of purchase orders or spreadsheets. We encourage SJC to provide the copies along with its complete list of expenditures (including expenditures for equipment, construction in process, and associated costs) and other expenditure documentation to the Department for review during audit resolution.

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## OBJECTIVE, SCOPE, AND METHODOLOGY

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The purpose of the audit was to determine whether Sheldon Jackson College properly accounted for and used funds provided under the FIPSE Grant Nos. P116Z020135 and P116Z040007. Our review covered the period June 1, 2002 through August 25, 2005 for Grant No. P116Z020135 and May 15, 2004 through August 25, 2005 for Grant No. P116Z040007.

To accomplish our objective, we reviewed SJC's FIPSE grant award notifications, budgets, and OMB Circular A-133 audit reports for the years ended June 30, 2003 and 2004. We also reviewed SJC's available written policies and procedures applicable to draw downs and charges to these grants. We interviewed SJC officials and staff currently responsible for implementing the financial and program portions of the FIPSE grants. We also communicated with the FIPSE staff within OPE responsible for administering the FIPSE program.

To achieve our audit objective, we obtained reports on grant activity for the period June 1, 2002 through August 25, 2005, which SJC staff generated from its financial accounting system. We tested the completeness of the data by comparing the total drawdowns on the report to the total amount drawn down in GAPS. We attempted to identify the grants' expenditures from the report and compare information on the report to information on source documents for all drawdown activity and other accounting entries of \$2,000 or greater. As we noted in Finding No. 2, we were unable to confirm that all receipts of FIPSE grants were included in the reports and were unable to develop a complete list of grant expenditures from the reports. Also, due to the lack of adequate supporting documentation, we were unable to assess the accuracy and appropriateness of individual accounting entries. Based on the significant problems noted with the reports, we concluded that the reports were not reliable for use in meeting the audit objective.

We gained an understanding of SJC's internal control system related to personnel and purchasing. We interviewed SJC staff currently responsible for these areas and performed detailed testing to confirm our understanding. Due to time constraints, we interviewed SJC staff responsible for processing payroll, but did not perform any testing or analysis related to payroll. Also, we limited our testing to non-personnel transactions of \$2,000 or greater charged to the FIPSE grants for the period June 1, 2002 to August 25, 2005.

We performed our fieldwork at SJC in Sitka, Alaska during the period August 23, 2005 through September 1, 2005. We held an exit briefing with SJC officials on December 16, 2005. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

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## ADMINISTRATIVE MATTERS

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

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

Sally L. Stroup  
Assistant Secretary for Postsecondary Education  
U.S. Department of Education  
Suite 7115  
1990 K St.  
Washington, D.C. 20006

Danny Harris  
Deputy Chief Financial Officer  
U.S. Department of Education  
Room 4E314  
400 Maryland SW  
Washington, D.C. 20202

It is the policy of the U. S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,

/s/

Gloria Pilotti  
Regional Inspector General for Audit

**Attachment: SJC's Comments on the Draft Report**



24 January 2006

Gloria Piloti  
Regional Inspector General for Audit  
United States Department of Education  
Office of Inspector General  
501 I Street, Suite 9-200  
Sacramento CA 95814

Dear Ms. Pilotti:

In the temporary absence of the President of Sheldon Jackson College, I - as senior administrator - am responding to your letter of 29 December 2005 (Control Number ED-OIG/A09F0020), *Draft Audit Report*. Thank you and your team for your diligence.

**Regarding Recommendation 1.1** (p. 5), we agree that the Chief Financial Officer, in collaboration with the Assistant Secretary for Postsecondary Education, should determine the average daily balance of "borrowed" funds for grants P116Z020135 and P116Z040007 in order to reimburse the Federal Government for interest costs incurred. It is our opinion that eligible expenses correlating with these borrowed funds were in due course met. Therefore, the task will involve determining the times between drawdowns and eligible expenditures. We plan to accomplish this task by the end of this fiscal year (30 June 2006).

**Regarding Recommendation 2.1** (p.9), it is important to state that there was a rapid and complete changeover of personnel in the Sheldon Jackson College Business Office during 2004 - 2005. As a result, it is unclear whether the recordation of FIPSE receipts was consistent. One problem may be one of locating stored documentation that would support expenditures of funds that were reasonable, allocable, and allowable. For instance, additional records have been maintained by the Academic Dean (copies of purchase orders and spreadsheets) that were not reviewed during this audit. Staff are currently developing processes to obtain and develop complete expenditure lists and appropriate supporting documentation for these grants. At the same time, staff are examining the financial records relating to expenditures for equipment and construction in progress and other associated costs. As a result, we agree that the Chief Financial Officer, in collaboration with the Assistant Secretary for Postsecondary

Education should obtain a list of grant expenditures along with supporting documentation for grants P116Z020135 and P116Z040007. Determination of ineligible expenditures will occur during this process. We plan to accomplish this task by the end of this fiscal year (30 June 2006).

Sincerely,

/s/

David R. Harrington, Ph.D.  
Dean of Academic Affairs