



## **RESOLUTION OF DISALLOWED COSTS RELATED TO THE OREGON DEPARTMENT OF JUSTICE -- INVESTIGATION OF KLAMATH LAKE EMPLOYMENT TRAINING INSTITUTE, INC. AND RELATED AUDIT ISSUES**

### **WHY WAS THERE AN INVESTIGATION IN THE FIRST PLACE?**

In June of 2005 incident reports were filed alleging inappropriate management practices by KLETI. These incident reports were filed with the TOC Administrative Office and were, in accordance with grant requirements and policy, forwarded to CCWD who then filed them with the U.S. Dept. of Labor Employment and Training Administration. After reviewing the incident reports, USDOL directed CCWD to conduct an investigation into the incidents. CCWD then contracted with Oregon DOJ in order to assure an independent and unbiased investigation.

### **WHAT WERE THE RESULTS OF THE INITIAL INVESTIGATION?**

The Investigative Report cited three findings –related to fiscal management, fiscal reporting, personnel time reporting, allocation and accrual. A fourth finding is listed in the report and is related to nepotism in the hiring of immediate family. The final report based on these findings questioned nearly \$1.6 million of WIA and non-WIA funds spent during Program Year 2004 (July 1, 2004 – June 30, 2005). CCWD issued its Final Determination related to these findings in July of 2006 – questioning \$1.6 million.

### **WHERE ARE WE NOW?**

The Oregon Consortium has painstakingly been following and working its way through a myriad of federal and state policies and laws related to the resolution of this matter.

Early on The Oregon Consortium Board of Directors (TOC) attempted to work directly with KLETI to resolve this matter. KLETI failed to take the steps necessary to bring the situation to resolution, resulting in the termination of contractual relationships with the organization. Following that action, KLETI was unable to continue to support the expense of consultants (North Coast Consulting) to work on their behalf to resolve the fiscal mismanagement issues and in accordance with policy TOC was compelled to issue a “Final Determination” disallowing more than \$1.2 million.

The next phase in this complex process was for TOC to engage North Coast Consulting at its own expense to continue this very technical work in order to further reduce the disallowance.

In April of 2007, after months of work, TOC issued a revised Final Determination to KLETI disallowing \$300,689.34. CCWD reviewed this determination and the supporting information and issued their own Revised Final Determination ultimately disallowing \$398,819.96 of the \$1.6 million originally in question (this figure includes interest).

But wait, there’s more – we have moved on to the appeals and hearing portion of the process. KLETI has appealed this disallowance and requested a hearing from TOC. TOC has also

appealed the disallowance and requested a hearing from CCWD. As a result this matter will not be resolved in the near future.

**RECENT DISALLOWANCE (PY05 & PY06):**

On April 4, 2008 a “Notice of Final Determination for Program Year 2005 and Program Year 2006 was forwarded to the KLETI Board of Directors due to the organization’s “Failure to Provide Audit and/or Supporting Documentation Related to Funds Under Contract with The Oregon Consortium” disallowing for Program Year 2005 (7/1/2005 – 6/3/2006) \$1,744,920 and for the portion of Program Year 2006 (7/1/2006 – 12/31/2007) \$557,688.

In accordance with the agreement between KLETI and TOC under which KLETI was paid to provide employment and training services for Klamath and Lake Counties for the period July 2005 through December 31, 2006, it has been determined that KLETI was in breach of the agreement and also violated federal and state regulations.

Agreements (contracts) require that subcontractors be in compliance with the Workforce Investment Act (WIA) and the applicable rules and regulations. WIA requires that recipients and sub-recipients of federal funds comply with Office of Management and Budget Circulars, record retention, and maintenance of fiscal books and records in accordance with generally accepted accounting principles. KLETI has been unwilling or unable to complete the necessary steps in order to be in compliance – therefore forcing TOC to issue the referenced determination. (Note – On April 10, TOC received communication that KLETI intends to cooperate in achieving the required audit.)

The Final Determination related to this issue will go through very similar policies and procedures for resolution. The ultimate disallowed costs are yet to be determined.

**QUESTIONS:**

If you have questions or would like additional information regarding the resolution process please contact Kris Latimer, Chief Executive Officer of The Oregon Consortium & Oregon Workforce Alliance at 541.928.0241 x219.