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Office of Inspector General

PUBLIC RELEASE

ECONOMIC DEVELOPMENT ADMINISTRATION

Affiliated Tribes of Northwest Indians Economic Development Corporation Shoreline, Washington Revolving Loan Fund EDA Grant No. 07-39-03859

Audit Report No. STL-14142-1-0001 / August 2001

Office of Audits, Seattle Regional Office

TABLE OF CONTENTS

EXECUTIVE SUMMARY i

INTRODUCTION 1

OBJECTIVES, SCOPE, AND METHODOLOGY 2

FINDINGS AND RECOMMENDATION 3

THE TRIBAL CORPORATION IS NOT PREPARED TO UTILIZE THE RLF GRANT 3

RLF Administrative Requirements Are Not Complete 3

The Corporation Could Not Assure the Availability of Matching Funds 5

Tribal Corporation Response 6

OIG Comments 6

RLF GRANT SHOULD BE CLOSELY MONITORED 7

RECOMMENDATION 7

APPENDIX – The Corporation Response to the Draft Report

EXECUTIVE SUMMARY

The Affiliated Tribes of Northwest Indians Economic Development Corporation (the Corporation) is a non-profit corporation representing 55 federally recognized Tribes in the states of Washington, Oregon, Idaho, Alaska, Montana, and California. The Corporation was incorporated in 1997 to promote the economic development of tribal resources by providing technical assistance, education, coordination, and or administration to development projects.

In September 1998, EDA awarded the Corporation a $300,000 grant, No. 07-39-03859 under Title IX of the Public Works and Economic Development Act of 1965, as amended, to fund a revolving loan fund. The revolving loan fund (RLF) was formed to address the lack of access to credit and capital that was identified as a significant impediment to economic development on sovereign tribal lands. The grant required the Corporation to provide $100,000 in matching funds so that the total RLF capitalization would be $400,000. No funds for administration, estimated at an additional $100,000, was provided by the grant. The grant award period is from September 22, 1998, to September 30, 2001.

As of March 2001, the Corporation had not made any disbursements from the $300,000 federal funds and had not finalized any RLF loans. We performed a limited scope compliance audit of the RLF at the Corporation office in Shoreline, Washington, during February and March 2001. The purpose of our audit was to determine the reasons for the Corporation's delays in drawing down the RLF grant award and to assess its compliance with applicable RLF administrative requirements.

We found that the Corporation has not complied with RLF program requirements and that its future capability to administer the RLF in compliance with the grant terms and conditions is highly questionable. The Corporation currently lacks adequate funds for its administrative operations, has not completed grant requirements necessary to disburse federal funds, and cannot assure that matching funds can be secured for new loans that are being developed. The Corporation is trying to complete its first loan before the grant expires on September 30, 2001. However, as of the end of our field work EDA administrative requirements necessary to draw on the grant funds had not been completed, no formal project funding application for the initial loan had been received, and the Corporation's loan review board had not approved any projects.

In response to our draft report, the Corporation generally concurred with the deficiencies as stated in our report. However, the Corporation stated that subsequent to the end of our fieldwork the noted deficiencies were corrected by (1) using administrative funds to hire a fulltime RLF program director; (2) completing an EDA approved RLF Administrative Plan; (3) obtaining the required matching funds; (4) completing the first RLF loan; and (5) initiating a second RLF loan to be completed by September 2001. The Corporation

stated that the actions taken justify EDA extending the period of award and releasing the RLF funds. The Corporation's response is summarized in the body of the report and provided, without attachments, in the Appendix to this report.

Although the EDA grant was awarded two and one-half years ago and the economic development objectives of the program have not yet been met, the Corporation has made significant progress since March 2001. The Corporation has addressed most of the deficiencies included in our draft report, yet the risk that the Corporation will make imprudent last minute loans to disburse funds before the EDA grant expires in September 2001, remains relatively high. In order to reduce the risk, and to allow the RLF to achieve its stated objectives, we are recommending that EDA's Seattle Regional Director extend the award period for one additional year, and closely monitor the Corporation's RLF loan program to ensure that program requirements and future disbursement time schedules are met. Should the Corporation fail to meet the amended RLF program requirements, we then recommend that the Director immediately act to terminate the program and deobligate any remaining RLF grant funds.

INTRODUCTION

The Affiliated Tribes of Northwest Indians Economic Development Corporation (the Corporation) is a non-profit corporation representing 55 federally recognized Tribes in the states of Washington, Oregon, Idaho, Alaska, Montana, and California. The Corporation was incorporated in 1997 to promote the economic development of tribal resources by providing technical assistance, education, coordination, and or administration to development projects.

In September 1998, the Economic Development Administration awarded the Corporation a $300,000 grant, No. 07-39-03859 under Title IX of the Public Works and Economic Development Act of 1965, as amended, to fund a revolving loan fund (RLF). The grant required the Corporation to provide $100,000 in matching funds, which brought the total RLF capitalization to $400,000. No funds for administration were authorized by the grant, so the initial administrative expenses (estimated at an additional $100,000) were to be provided by the Corporation. The grant award period is from September 22, 1998, to September 30, 2001.

The EDA funded RLF is one of three programs operated by the Corporation, the other two being a tribal economic development program and an energy opportunities development program. The RLF program was formed to address the lack of access to credit and capital that was identified as a significant impediment to economic development on sovereign tribal lands.

As of March 2001, the Corporation had not drawn any federal funds and had not made any loans. The Corporation's first loan was in process, but not finalized at the time we completed fieldwork. The project was to construct four rental units at an existing tribal coastal resort with an estimated total cost of $450,000, with the tribe contributing $100,000, the RLF providing $100,000, ($75,000 of federal funds and $25,000 in matching funds), and a private bank contributing $250,000.

OBJECTIVE, SCOPE, AND METHODOLOGY

We performed a limited scope compliance audit of the RLF at the Corporation's office in Shoreline, Washington, during February and March 2001. The purpose of our audit was to determine the reasons for the Corporation's delays in making loans and to assess the Corporation's compliance with applicable RLF administrative requirements. To achieve this objective, we examined pertinent EDA and Corporation records, and interviewed agency and grantee officials as deemed necessary. We reviewed Corporation administrative records and correspondence from July 1998 through March 2001. Except as reported, we did not review the Corporation's compliance with other federal regulations due to the limited scope of our review.

We examined the Corporation's most recent annual single audit report that was for the period April 1998 to December 1999. This audit was conducted by an independent certified public accountant in accordance with generally accepted accounting principles. The report disclosed no material internal control weaknesses. Since no loans had been made by the Corporation at the time of our review, we reviewed the Corporation's activity to obtain necessary funding to adequately operate the RLF program and the processing of its most promising applicant to determine Corporation actions in analyzing, evaluating and approving the loan application.

We did not rely on computer-processed data as a basis for making any audit conclusions. Consequently, we did not conduct tests of either the reliability of the data or the controls over the computer-based system that produced the data.

Except as disclosed in this report, the results of our tests indicate that, with respect to the items tested, the Corporation complied in all material respects with applicable federal laws and regulations. With respect to items not tested, nothing came to our attention that caused us to believe that the Corporation had not complied in all material respects with those laws and regulations.

The audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, and was performed under the authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated May 22, 1980, as amended.

FINDINGS AND RECOMMENDATION

THE TRIBAL CORPORATION IS NOT PREPARED TO UTILIZE THE RLF GRANT

As of March 2001, the Corporation has not made any RLF loans using the $300,000 of federal funds awarded in September 1998, two and a half years earlier. At the time of the award the Corporation did not have adequate administrative funds to staff the program, had not completed necessary administrative requirements to operate the program, and did not have the required matching funds to make loans. The Corporation addressed these requirements only after obtaining the EDA award and therefore have not met EDA's timeline requirement for disbursing RLF funds.

RLF Administrative Requirements Are Not Complete

The Corporation's ability to adequately operate the RLF program is questionable. The Corporation estimated that about $100,000 in administrative funds would be required to adequately begin operating the RLF. In the two and a half years since the award, the Corporation has been unsuccessful in obtaining sufficient administrative funds to begin operations, has not completed an approved Administrative Plan to fund loans, and has yet to obtain a formal loan request from its initial project borrower.

The Corporation's grant proposal estimated that administrative expenses of about $100,000 would be necessary begin the RLF program, mainly to fund the banking and finance director position. The EDA award does not provide or allow any of the $400,000 award to be used for administration. Therefore, the $100,000 of estimated administrative costs was to be provided by the Corporation. The award also requires that the RLF operate under an Administrative Plan that is approved by the Corporation's governing board, and that (1) is tailored to support the implementation of the area's Economic Adjustment Strategy; (2) provides for administrative clarity, continuity and consistency; and (3) is acceptable to EDA. Specific guidance to grant recipients is published in EDA's *RLF Plan Guidelines*, which includes EDA evaluation criteria, format and content, and required topics to be addressed in adopting a strategy and operational procedures.

As of March 2001, two and a half years after the EDA grant award, the necessary administrative requirements have not been completed. In August and October 2000, the Corporation obtained two private grants totaling $90,000 of which $65,000 was allocated toward administrative expenses. The grant received in August was for $40,000 from a private nonprofit charitable organization for general support of the RLF. The Corporation's executive director stated that $25,000 may be allocated as matching funds to the Corporation's first RLF loan, and the remaining $15,000 would be allocated for administrative expenses. The grant received in October, from another private nonprofit organization, was $50,000 for RLF administrative expenses. This award was the first

year payment of a three-year award totaling $120,000. The year-one award ($50,000) requires no Corporation match, however, year two ($40,000) and year three ($30,000) requires the Corporation to provide a one-for-one match from new or existing fund sources. At the time of our review, obtaining the remaining $35,000 in administrative funds ($100,000 budgeted less $65,000 obtained) was not assured.

According to the Corporation executive director, an application for a $100,000 loan had been made to the Rural Community Assistance Corporation, a non-profit organization providing technical assistance in housing development, environmental infrastructure, and community development. Subsequent to our draft audit report, a $100,000 loan from the RCAC was obtained in June 2001. With these funds the Corporation now has the necessary administrative and matching funds required by the EDA grant.

The administrative requirements necessary to obtain EDA approval to begin operating the RLF were not complete. The RLF guidelines require an approved Administrative Plan that describes the RLF operating policies and procedures. The Corporation's plan was inadequate in these areas. The EDA reviewed the draft plan in early April and determined that the draft did not follow the EDA plan format as recommended by the RLF Guidelines, lacked actual Corporation policies and procedures that would be used by the RLF, and lacked approval by the Corporation's governing board. In addition, the draft plan lacked important detail such as how RLF services would be marketed and how future prospective loans would be identified and developed. For example, the Corporation's plan lacked detail in how the RLF services would be marketed. Under the marketing section, the plan stated "Meets Customer Needs" and assigned the responsibility to the Director of Banking and Financial Services. The plan also did not identify the focus of RLF services, but covered all of the 55 eligible tribes, even though the executive director stated that 8 of the 55 tribes had sufficient economic resources and financial knowledge and ability to plan and fund their own business development projects.

The Corporation was processing its first RLF loan to provide partial funding to build four additional rental units at an existing tribal coastal resort in time for the 2001 tourist season. However, the loan documentation lacked a formal (signed) RLF loan application from the tribe, and the project had not been formally reviewed and approved by the Corporation's loan review board.

The Corporation's executive director partially attributed the slow progress of the RLF to the lack of administrative funds and the rapid turnover in Corporation staff. The first full-time executive director left in December 2000, after only one year in the position. The position of director of banking and finance, the official primarily responsible for the RLF operation, had also been vacant. The prior director left in early 1999, and an acting director, who is paid as funds become available, has been used since then. A full-time director was recently hired and began work in April 2001.

The lack of administrative continuity has limited the progress of the RLF and may continue to delay the program in the future. Even with a new director of banking and finance, the ability of the RLF to complete administrative requirements and make loans prior to the current grant expiration is highly questionable.

The Corporation Could Not Assure the Availability of Matching Funds

At the time of our audit, two and a half years after the award, the Corporation was unable to secure the $100,000 in required matching funds, had yet to complete its first RLF loan, and therefore had not complied with grant and program requirements. The EDA has allowed program flexibility, but the lack of matching funds made it unlikely that the program would be operating as required before the grant expires in September 2001.

EDA's *RLF Standard Terms and Conditions* and its *Administrative Manual* both provide specific guidance regarding the source and use of matching funds. The *Administrative Manual* requires that matching funds be nonfederal and be available at the time RLF loans are made. The *Standard Terms and Conditions* require that loans made at a rate not less than 50 percent within 18 months, 80 percent within two years and 100 percent within three years. However, EDA officials stated that guidance from its headquarters is to allow maximum flexibility in the operation of the grant assistance program, especially to economically depressed areas. Therefore, EDA officials allowed the Corporation to fulfill its matching fund requirements by borrowing funds from banks and using federal loan funds or grant funds (only if authorized by legislation) from other federal programs, as long as the objectives of the borrowed funds are close to EDA's RLF program objectives. The disbursement requirements are also flexible, in that the grant terms and conditions allow full disbursement to be extended to five years after the grant award.

Even with the relaxed matching fund requirements allowed by EDA, the Corporation had not secured all of its required matching funds. At the time of our review, the Corporation was in the process of completing its first RLF loan. The proposed loan is to build four additional cabins at an existing coastal tribal resort at an estimated cost of $450,000. The RLF would contribute $100,000 ($75,000 federal funds and $25,000 match), the tribe would contribute $100,000 plus the land, and a commercial bank would contribute $250,000. The Corporation obtained a $40,000 grant from a private non-profit organization and could allocate $25,000 as the match for this loan. In addition, the Corporation has obtained a $25,000 line of credit, at about 10 percent interest, from another commercial bank that can also be used as matching funds. According to the Corporation's executive director, the grant and loan funds will not be used unless matching funds from other sources cannot be obtained.

At the time of our audit, the Corporation had another loan request for $30,000 to fund pre-development activities (i.e. feasibility study, and preliminary design) for an inter-tribal rendezvous market. The Corporation has delayed consideration of this project due to the need to finalize and get approval for the Administrative Plan and to finalize the

initial RLF loan. Need to obtain the matching funds was also cited by the executive director as a reason for delaying this project. The Corporation's executive director stated that the $100,000 loan from the RCAC would provide the needed administrative and matching funds necessary to disburse the entire EDA grant. Subsequent to our draft audit report, the RCAC loan was obtained in June 2001.

Tribal Corporation Response

The Corporation generally concurred with the deficiencies as stated in our report. However, the Corporation stated that subsequent to the end of our fieldwork the noted deficiencies were corrected by (1) using administrative funds to hire a fulltime RLF program director; (2) completing an EDA approved RLF Administrative Plan; (3) obtaining the required matching funds; (4) completing the first RLF loan; and (5) initiating a second RLF loan to be completed by September 2001. The Corporation stated that the actions taken justify EDA extending the period of award and releasing the RLF funds. The Corporation's response is provided, without attachments, in the Appendix to this report.

The Corporation stated that since the RLF program has been operating, beginning in January 1999, to June 2001, a total of about $187,000 in operating funds has been obtained. This amount of funding is sufficient to fund a full time position to operate the RLF for the coming year. The RLF Administrative Plan, which was approved by the Corporation's loan committee and the EDA in April 2001; was also approved by the Corporation's Board of Directors in June 2001. In addition, the Corporation stated that, as of June 20, 2001, the Rural Community Assistance Corporation (RCAC) disbursed a $100,000 loan that will be used as the matching funds required by the RLF award. The Corporation also stated that even though the RLF loan disbursement schedule was not met, the first RLF loan of $100,000 was closed in June 2001, and a second loan for $200,000 is expected to close in September 2001.

OIG Comments

The hiring of a full time director to operate the RLF and the formal adoption of a RLF Administrative Plan by the Corporation's governing board and obtaining EDA's approval, adequately addresses our concerns about administrative weaknesses. In addition, obtaining the required matching funds and closing the first RLF loan are actions that add credibility to the Corporation's RLF program. Based upon the achievement of key objectives, such as hiring an experienced program director, developing an EDA approved Administrative Plan, obtaining matching funds, and closing of the first RLF loan, we will withdraw our draft report recommendation to terminate the award and recommend instead that EDA extend the award period. However, due to the Corporation's past record of two and a half years of nonperformance, we will recommend that EDA closely monitor the Corporation's actions.

RLF GRANT SHOULD BE CLOSELY MONITORED

The Corporation's efforts to increase economic development on tribal lands have not been successful due to the lengthy delays in getting the RLF operating. Although positive actions have occurred in June 2001, such as the approval of the Administrative Plan, obtaining matching funds, and the closing of the initial RLF loan, the basic purpose of the RLF program has not been achieved. The RLF program has not met the required EDA grant disbursement requirements in the past two and a half years since the award.

EDA's *RLF Standard Terms and Conditions*, Section C.11, provides that EDA may terminate any grant based on the recipient's failure to comply with grant conditions. The Corporation has made significant progress in meeting grant requirements only in the past several months. The grant is scheduled to expire on September 30, 2001, if EDA does not approve a grant extension. Without a grant extension, the risk that the Corporation may make imprudent, ill considered, or other questionable loans in order to utilize the grant funds prior to the grant expiration date remains relatively high.

RECOMMENDATION

We recommend that Economic Development Administration's Seattle Regional Director extend the EDA award for one year, and closely monitor the Corporation's RLF grant program to ensure that future loans adhere to RLF program requirements and disbursement time schedules. Should the Corporation fail to meet RLF program requirements, we recommend that the Director immediately act to terminate the program and deobligate any remaining RLF grant funds.

8/6/01

David Sheppard Date
Acting Regional Inspector General
for Audits

Affiliated Tribes of Northwest Indians

Economic Development Corporation

June 28, 2001

Ray McIntosh, Regional Inspector General
Office of Inspector General
United States Department of Commerce
915 Second Avenue, Room 3062
Seattle, Washington 98174

RE: Draft Audit Report No. STL-14142-1-XXXX
EDA Award No. 07-39-03859

Dear Mr. McIntosh:

We herewith respectfully submit our response to the aforementioned Draft Audit Report. In the response, we have documented the events that occurred after the field work for the audit was concluded, which mitigate the deficiencies noted. We have also given explanations for any concerns of the Inspector General identified in the audit. In our opinion, consideration of the information provided will materially affect the conclusion that was reached.

I wish to note that Mr. Rich Sugimura, who performed the field work, was professional and respectful in every way. We always welcome opportunities for us to learn how we can improve our organization and will certainly benefit from this experience. Should you require anything more of us, please call me at 206-542-5115.

Respectfully,

J. Gregory Starup
Director of Banking and Financial Services

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Affiliated Tribes of Northwest Indians

Economic Development Corporation

Affiliated Tribes of Northwest Indians – Economic Development Corporation
Response to Draft Audit Report No. STL-14142-1-XXXX
EDA Award No. 07-39-03859

Overview

The Affiliated Tribes of Northwest Indians Economic Development Corporation (ATNI-EDC) is a 501 (c) (3) organization created by 54 Tribes from a six state region. Its mission is to assist Tribes in strengthening their Tribal economies. In September, 1998 the Economic Development Administration (EDA), awarded grant # 07-39-03859 to provide the initial capitalization of a Tribal Revolving Loan Fund. The grant required a match of $100,000 in non-Federal funds.

Draft Audit Report No. STL-14142-1-XXXX dated May 30, 2001 was received by ATNI-EDC on June 5, 2000. The Inspector General's Office identified the following concerns:

1) Administrative Funds are not adequate
2) Administrative Plan is not Complete
3) Lack of Administrative Continuity
4) Perceived Marketing Plan Deficiencies
5) The Corporation cannot assure the availability of Matching Funds
6) Disbursement Requirements not met
7) Risk that Future Loan Decisions could be made in Haste

The Special Award Conditions issued as an attachment to the Financial Assistance Award No. 07-39-03859, acknowledged these conditions as of the award date, and required that they be satisfied prior to any disbursal of funds.

Work began on the administrative plan and fundraising after the January 23, 1999 ATNI EDC Board of Director's work session detailing the steps required and people responsible for each component. The Special Award Conditions have taken considerable time to be met, given the unique circumstances of working with over 50 Sovereign Tribes over a wide geographic area and with private institutions unfamiliar with Indian Country or working with the complex legal and community issues that accompany this situation. In addition, The Corporation experienced several unavoidable changes of personnel over the period, which disrupted continuity.

In retrospect, it appears that the ATNI-EDC may have applied for the grant prematurely, given the time requirements needed to put everything in place. But, in many respects, the existence of

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the EDA award was a necessary prerequisite to obtaining the required resources to develop and implement the RLF plan. Therefore, it was necessary that it be in place prior to beginning many of the processes required for implementation.

I.G. Finding #1: Administrative Funds are not adequate

The original grant proposal estimated that administrative funds of approximately $100,000 would be required to begin operations. From the beginning of this program in January, 1999, to June, 2001, a total of $187,200 has been raised and collected to fund operating expense, including $21,200 from the Tribes themselves. An additional $70,000 has been committed by the Murdock Foundation, to be disbursed in the next two years. (See Exhibit # 1, Schedule of Funding). As of June 6, 2001, our program officer at the F.B. Heron Foundation stated that the President and Staff had completed a positive review of our additional $40,000 request, resulting in a recommendation to their Board for funding. An award is expected in early August. Several other funding requests have been made which offer promise. At this point, these others are speculative. The existing funding is sufficient to provide full time funding for the Director of Banking's salary for the coming year.

Over $100,000 of funding has come from financial institutions, which demonstrates a considerable amount of support for our Tribal RLF concept from the private sector. Banks perceive that the RLF will be beneficial to their efforts in providing financial resources to Tribal businesses. This is evidenced by the participation of Key Bank in financing $250,000 to a Tribe for their resort expansion as a direct result of our offer to lend $100,000 into the project, which is a condition of their loan commitment.

Contrary to the Draft Audit Report's findings, these operating fund grants were not intended as a match for the subject EDA grant funds, and have not been used as such. The Draft Audit Report erroneously indicated that $25,000 of these operating funds had been designated for the EDA match.

No EDA funds from the subject award were used or requested for funding administrative costs. The non-EDA funded costs allowed the Corporation to develop the Administrative Plan, develop several funding requests, provide Technical Assistance to Tribal Businesses and present seminars and workshops designed to create a better understanding between banks and Tribes helping to facilitate greater access to credit. Technical assistance is a required result of much of the capacity building funding that the Corporation has been granted. It also is a prudent business practice in lending activities, as it creates greater chances for success of the borrower. Although no loans were made prior to the Draft Audit Report's completion, (our first loan was completed on June 25, 2001 after eleven months of negotiation), this component contributed to the success of the economic development efforts of the organization over the period.

Additional funding was used in marketing and outreach programs to Tribes explaining the uses and benefits of the RLF to Tribal businesses. This outreach generated Loan Requests and inquiries about potential funding opportunities totaling $1,100,000 (see schedule, page 6). Not all of these will be eligible due to funding restrictions or the amount of available funds to lend. These create significant possibilities for partnering with banks, and/or other RLF's such as

Cascadia Fund to address these capital needs. This outreach also assisted Tribes in finding conventional sources of credit, which in itself, is a measure of success for the program.

I.G Finding #2: Administrative Plan is not complete

The Corporation developed its Administrative Plan over the course of approximately one year beginning in January 1999 following the ATNI EDC Board of Director's meeting immediately following the EDA Award. The plan was completed in draft form in Fall of 1999. It was not submitted to EDA for approval until Spring 2001 because we had not yet met match funding requirements. When match funding was secured and funding of our first loan became imminent, the Administrative Plan was submitted to EDA for approval. It was found to contain some deficiencies, which were corrected. The Plan was approved by the EDA on April 25, 2001 (see attached Exhibit #2 [EDA Approval Letter]). The Administrative Plan was approved by the RLF Loan committee at the end of April, 2001 and the ATNI-EDC Board of Directors (see attached Exhibit #3) in June 2001.

As identified in the Draft Audit Report, rapid and successive turnover of staff contributed to delays in the RLF's development. It should be noted that the reasons for this rapid turnover were as a result of significant career opportunities becoming available to the incumbents (in one case, appointment to a White House position, in another as a senior executive at the Bonneville Power Administration (BPA)) and not as a result of inadequacy, incompetence or instability of the EDC Board or Corporation. In the new positions that the former EDC employees accepted, these Tribal members were able to contribute to the economic development efforts of Tribes on a national level. Their decisions to leave our organization made more sense from the standpoint of Tribal benefit, rather than staying to ensure continuity of the RLF program.

I. G. Finding #3: Lack of Administrative Continuity

The Draft Audit Report indicates that "The lack of administrative continuity has limited the progress of the RLF and may continue to delay the program in the future." In January, 2001, the ATNI EDC Board began a regional search for a full time banking professional for the ATNI RLF program. A commercial lender who held his last position for 17 years was hired, greatly reducing the likelihood of continued delays, or administrative instability. This individual has managed a commercial loan office of a local bank, and was directly responsible for loan generation that achieved profitability for his unit within one year of start-up. He was responsible for all other facets of the unit including financial management. His skills and drive will greatly assist our program in being successful. (see attached Exhibit # 4 [resume]) This position is currently funded full time from grants received.

I. G Finding #4: Perceived Marketing Plan Deficiencies

The target market of the ATNI-EDC RLF is identified in the Administrative Plan as our 54 member Tribes' Tribally owned Businesses, on or near Reservations, and Indian owned private businesses that service Tribal Enterprises. The need for credit by these businesses is great.

Because our member Tribes are spread primarily over three states (WA, OR, ID), with additional members on three other Northwest states (AK, MT, CA), personal contact with the Tribes' Economic Development personnel rather than advertising is most effective in marketing our program. These individuals know what is going on business-wise within the Tribes, and often are directly involved in management of Tribal enterprises. As a member organization, we also have other opportunities to communicate with Tribal leaders, including at our thrice-yearly working conferences. These conferences are attended by Tribal Council members from each member Tribe.

I. G Finding #5) The Corporation cannot assure the availability of Matching Funds

As stated in the Special Award Conditions paragraph J., issued as an attachment to the Financial Assistance Award No. 07-39-03859 dated September 1998, "Recipient's cash contribution must be available at the time needed for loan closing(s)." This condition has been met as of June 20, 2001, with the disbursement of non-federal funds from the Rural Community Assistance Corporation (RCAC) (see attached Exhibit # 5 [copy of Commitment letter, copy of wire]). A previous commitment had been made by RCAC, which required additional financial commitment from Member Tribes totaling $46,000 more that the $21,500 that was raised from ATNI members Through negotiation that spanned 18 months, this condition of the commitment was eventually dropped by RCAC in the current funding agreement.

Additional sources of capitalizing the RLF are being pursued, which include First Nations Oweesta Corporation (funding of $100,000 expected August, 2001) (see attachment # 6 [Oweesta Letter]), USDA Intermediary Relending Program, the CDFI Fund, and Banks. Often a criterion for an award of funds is the demonstration of a successful lending program. We are just now entering that phase and expect to be successful in capitalizing our fund to a much larger degree as a result of completing our first loan in June, 2001. The EDA award is a critical component to our success in growing the Loan Fund.

A $25,000 bank Line of Credit was arranged by the Corporation to use as a match for the RLF's first loan in the event that RCAC funds were not available to provide for timely closing and disbursement. In that event, the credit line would have been repaid from the funding of the RCAC. A statement of the Executive Director's referencing allocation of $25,000 of a $40,000 operating grant toward matching funds was taken out of context. These funds *could* be allocated as matching funds should either the Line of Credit or RCAC funding not have been available at the time required for timely closing of the first loan. This was meant to demonstrate our resourcefulness and ability to develop contingency plans.

I.G Finding #6: Disbursement Requirements Not Met

The RLF has not met the RLF Standard Terms and Condition's requirement that funds be drawn for lending at a rate of 50% within 18 months and 80% within two years,. It is unlikely to reach 100% within the three years ending September 30, 2001. The reasons listed above all explain why this condition has not been met. However as stated in the Administrative Guidelines, the EDA allows flexibility in these requirements especially to economically depressed areas.

The ATNI EDC Revolving Loan Fund is an innovative multi-state, multi-tribe endeavor that is the first of its kind in the Nation. Along with legal issues and the challenges presented as a result of the wide geographic area, there are complex issues related to the differing cultures of each of the 54 tribes represented. As a generality, Tribal governments take much longer to make decisions, preferring to reach consensus before action is taken. Standards meant for the population as a whole do not have validity when we allow Tribes to follow procedures consistent with their cultures. The ATNI EDC RLF has been directed by its governing body to be sensitive to these cultural issues, and therefore it has taken us longer to implement the plan.

The Affiliated Tribes of Northwest Indians Economic Development Corporation requested an extension of the three-year grant disbursement schedule to the full five years allowable by law in April 2000 (see attached Exhibit # 7 [Two letters for extension request]). EDA does not have a record of this request, but a subsequent request for a one-year extension was made in May, 2001. Our discussions with the Seattle Office on June 26th have indicated that approval is forthcoming and expected by July 2, 2001.

After eleven months of negotiations, we closed our first loan June 25, 2001. (see exhibit #8 [promissory note & copy of check]). Initial discussions began in June 1999 as this Tribal Enterprise began planning for their Resort expansion. The application process did not start in earnest until July, 2000, and a complete application package was not provided until January, 2001. Credit analysis and initial Loan Committee review were completed by the end of February, at which time our attorney began drafting documents. Further negotiation occurred in March and April with final Loan Committee approval of loan documents in early May. We formally requested to draw funds from EDA, but our disbursement request was not acted upon. The loan was funded by funds from the Rural Community Assistance Corporation (RCAC) so that we could honor our financing commitment to the Tribe allowing them to complete the project in time for the 4th of July beginning of the rental season,. These funds represent the matching funds required for the full $300,000 EDA award.

I. G. Finding #7: Risk that Future Loan Decisions could be Made Imprudently or in Haste to meet current EDA grant deadlines

The process described above does not typify a decision made in haste, as the Draft Report suggests. We are keenly aware of loan quality issues and will not be forced into making poor decisions. Our Director of Banking has 17 years experience in a commercial bank including time spent in a special credits function, and recognizes the risk of hasty decisions. He also recognizes that one bad loan at this stage of our existence could cause the collapse of the Fund as a viable, sustainable lending entity. Our mission is to build a long-term tool for Tribal Enterprises to gain access to credit, and this will require that good loan decisions always be made, but especially in the early years before an adequate Loan Loss Reserve is established. We has also requested an extension of one additional year (through September 30, 2002) to complete the EDA portion of the loan fund.

Currently the RLF has several prospective loans in various stages of the application process. We have not been aggressive in pursuing these, or other applications, as our primary funding source

(EDA) has become tenuous with the issuance of the Draft Audit Report. Discussions are on-going with the following:

Of the five above, only the first three are likely to result in any immediate loan activity, but this totals $500,000, which exceeds our current EDA funding base. The "close date" is when we would expect the loan to close but does not mean we have approved the loan or received all of the required information. The last two are not far enough through the planning process to be able to estimate the required funding date. Contrary to the Draft Audit Report's suggestion that we may make imprudent or ill-considered loans, this situation not only allows a high degree of selectivity, it forces us to choose only the best deals.

Conclusion: Evidence Supports Continuation of Grant.

The evidence presented above indicates that all of the conditions of the grant requirements have been met, the program is operational, has operating funds available, and has competent staff. Additionally, the credit needs in Indian Country continue to be largely unmet. During the period the Corporation has made contributions to economic development on Tribal lands by providing technical assistance and education to both Tribes and Banks. The RLF is now in an excellent position to utilize the tremendous amount of work and energy spent in putting the program together by finally making loans, and leveraging this assistance in helping private banks to lend additional amounts to Tribes. The funds can easily be drawn within a one-year extended expiration, and certainly within the remaining two years allowed by law. Based upon the documented evidence, most of which was unavailable to the Inspector General's Office at the time of the audit, we respectfully request that the Recommendation of Termination be abandoned, and a Recommendation of Continued Funding be made.