



**U.S. Department of the Interior
Office of Inspector General**

AUDIT REPORT

**HEAD START PROGRAM GRANTS,
DEPARTMENT OF HUMAN SERVICES,
GOVERNMENT OF THE VIRGIN ISLANDS**

**REPORT NO. 00-I-499
JUNE 2000**

EXECUTIVE SUMMARY

**Head Start Program Grants,
Department of Human Services,
Government of the Virgin Islands
Report No. 00-I-499
June 2000**

BACKGROUND

The Head Start Program was established in 1964 to deliver comprehensive health, educational, nutritional, social, and other services to economically disadvantaged children and their families in order to help the children attain their full potential. In the Virgin Islands, the Head Start Program is administered by the Department of Human Services. The Program operates 35 centers serving approximately 1,200 children. The Program is funded by a discretionary grant from the U.S. Department of Health and Human Services, which requires a 20 percent local matching share. For fiscal year 1999, the Program received \$10.2 million, of which \$8.2 million was awarded by the U.S. Department of Health and Human Services and \$2 million was the required local matching share.

OBJECTIVE

The objective of the audit was to determine whether (1) the Department of Human Services complied with grant terms and applicable laws and regulations; (2) charges made against grant funds were reasonable, allowable, and allocable pursuant to grant agreement provisions; (3) funds received through electronic transfers were appropriately deposited to and accounted for in the Government's financial management system; and (4) drawdowns were made in accordance with the Cash Management Improvement Act of 1990.

RESULTS IN BRIEF

We found that the Department of Human Services administered the Head Start Program in accordance with grant terms and applicable laws and regulations; charges made against the grant funds generally were reasonable, allowable, and allocable pursuant to grant agreement provisions; and drawdowns were made in accordance with the Cash Management Improvement Act of 1990 and properly deposited. We could not determine whether funds drawn down were accurately accounted for in the financial management system because the information had not been recorded in the system at the time of our audit. In addition, Head Start Centers were being renovated to supply sufficient classroom space for the Head Start Program to meet its mandated enrollment level. However, the administration of the Head Start Program could be further improved by ensuring that lease agreements for administrative offices and Head Start Centers are negotiated through the Department of Property and Procurement, as required by the Virgin Islands Code, to ensure that rental rates are not in

excess of recommended rates. For example the Program paid \$14.84 per square foot for classroom space of 4,276 square feet, while the standard maximum rate established by Property and Procurement was \$6.00. This occurred because Human Services officials and potential landlords agreed on key lease terms that did not offer the most advantageous prices to the Government and because Human Services officials did not contact Property and Procurement for consideration and approval until after the lease terms had been agreed upon with potential landlords. As a result, the Head Start Program incurred excess rental costs ranging from \$73,023 to \$96,929 during fiscal year 1999.

RECOMMENDATIONS

We recommended that the Department of Human Services establish internal procedures to ensure that future lease agreements were negotiated in accordance with Virgin Islands Code requirements and provide the Federal grantor agency with documentation related to the excess rental costs for determination as to allowability. We also recommended that the Department of Property and Procurement formally establish maximum rental rates for different classes of leased property, inform Governmental agencies of those maximum rates, and establish procedures to document and provide feedback to agency heads on the status of lease negotiations.

AUDITEE COMMENTS AND OIG EVALUATION

The response from the Governor of the Virgin Islands concurred with one recommendation but did not concur with two recommendations. The response, however, was not sufficient for us to consider any of the recommendations resolved.



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

JUN 14 2000

AUDIT REPORT

Honorable Charles W. Turnbull
Governor of the U.S. Virgin Islands
No. 21 Kongens Gade
Charlotte Amalie, Virgin Islands 00802

Subject: Audit Report on Head Start Program Grants, Department of Human Services,
Government of the Virgin Islands (No. 00-I-499)

Dear Governor Turnbull:

This report presents the results of our review of Head Start Program grants administered by the Department of Human Services, Government of the Virgin Islands. The objective of the audit was to determine whether (1) Human Services complied with grant terms and applicable laws and regulations; (2) charges made against grant funds were reasonable, allowable, and allocable pursuant to grant agreement provisions; (3) funds received through electronic transfers were appropriately deposited to and accounted for in the Government's financial management system; and (4) drawdowns were made in accordance with the Cash Management Improvement Act of 1990.

BACKGROUND

The Head Start Program, which was created by Title V of the Economic Opportunity Act of 1964 (42 U.S.C. § 9801), was designed to deliver comprehensive health, educational, nutritional, social, and other services to economically disadvantaged children and their families in order to help the children attain their full potential. In the Virgin Islands, the Head Start Program is administered by the Department of Human Services Office of Preschool Services, Division of Children, Youth, and Families. The Program operates 35 centers (19 on St. Thomas/St. John and 16 on St. Croix), with a grant-mandated enrollment of 1,430 children. During fiscal year 1999, actual enrollment was 1,197 children, or 84 percent of the grant-mandated enrollment.

The Head Start Program is funded by a discretionary grant from the U.S. Department of Health and Human Services, which requires that grantees contribute a 20 percent local matching share. For fiscal year 1999, the Program received \$10.2 million, of which \$8.2 million was awarded by the U.S. Department of Health and Human Services and \$2 million was the required local matching share. As of August 31, 1999, \$7.9 million (\$6.1 million in Federal funds and \$1.8 million in local matching share funds) had been

disbursed against the grant. An unaudited balance sheet for the Head Start Program grant as of August 31, 1999 is in Appendix 2, and an unaudited statement of revenues and expenditures for the Head Start Program grant for the year ended August 31, 1999 is in Appendix 3.

SCOPE OF AUDIT

The scope of the audit initially was to review grant transactions that occurred during fiscal years 1997 and 1998. However, at the entrance conference, Human Services officials told us that financial and compliance audits of the Head Start Program had been conducted by a private accounting firm in February 1999 for fiscal year 1997 and in May 1999 for fiscal year 1998. Accordingly, the scope of our audit was changed to review grant transactions that occurred during fiscal year 1999 (September 1998 through August 1999 for grant purposes). The audit was conducted from July through November 1999 at the Departments of Human Services, Finance, and Property and Procurement and at Head Start Centers on St. Thomas.

Regarding funds received through electronic transfers, the scope of our audit was limited because the Department of Finance had not prepared Statements of Remittance (the documents used to record revenue information in the Government's financial management system) for fiscal year 1999 transactions. Accordingly, while funds received through electronic transfers were appropriately deposited into the Government's bank account, these funds were not accounted for as of November 30, 1999 in the Government's financial management system.

Our review was made, as applicable, in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances.

Our audit included an evaluation of internal controls to the extent we considered necessary to accomplish the audit objective. The internal control weaknesses identified related to the procurement of leased space for administrative offices and Head Start Centers. The internal control weaknesses are discussed in the Results of Audit section of this report. Our recommendations, if implemented, should improve the internal controls in this area.

PRIOR AUDIT COVERAGE

During the past 5 years, neither the General Accounting Office nor the Office of Inspector General has issued any audit reports on the Head Start Program in the Virgin Islands. However, related audit reports were issued as follows:

- In May 1999, a private accounting firm issued the report "Financial and Compliance Audit for the Year Ended August 31, 1998, Head Start Program, Department of Human Services, Government of the Virgin Islands." The report stated that the financial statements presented fairly, in all material respects, the financial position of the Head Start Program as of August 31, 1998. However, the report noted that the Head Start Program was

not in compliance with the mandated enrollment of 1,430 children and that accounts payable totaling \$576,195 for goods and services incurred by the Head Start Program as of August 31, 1998 had not been paid by the Department of Finance. The report did not identify any material weaknesses for the 1998 grant period.

- In February 1999, a private accounting firm issued the report "Financial and Compliance Audit for the Year Ended August 31, 1997, Head Start Program, Department of Human Services, Government of the Virgin Islands." The report stated that the financial statements presented fairly, in all material respects, the financial position of the Head Start Program as of August 31, 1997. However, the report classified as material weaknesses the lack of supporting documentation for fixed assets, the inaccurate preparation of financial status reports, and the lack of compliance with the mandated enrollment. In addition, the report stated that accounts payable totaling \$131,412 for goods and services incurred by the Head Start Program as of August 31, 1997 had not been paid by the Department of Finance. Accounts payable to vendors had increased to \$817,228 as of August 31, 1999.

- In May 1998, the Administration for Children and Families, U.S. Department of Health and Human Services, issued the report "Head Start On-Site Monitoring Review Report, Department of Human Services, Government of the Virgin Islands." The report stated that the Head Start Program's strengths and exemplary practices included a "well-written and comprehensive" Administrative Procedures Manual, a recruitment system which ensured that "families with the greatest need were selected for enrollment," and a nutrition program that presented "a diversity of foods" to the children. However, the report noted the following areas of concern: (1) the enrollment level was not at the maximum capacity, (2) all facilities were not accessible to children with disabilities, (3) copies of current lease agreements for all rental facilities were not available, (4) encumbered funds were not posted onto the accounting records but were included as obligations on the second semiannual Financial Status Report (Form SF-269), (5) the in-kind services (non-Federal cash outlays) were maintained separately from the accounting records, (6) reconciliations were not conducted with Department of Finance records on a regular basis, and (7) U.S. Department of Agriculture reimbursements were not posted as revenue in the accounting records on a timely basis. Our current review showed that Department of Human Services officials either had implemented or were in the process of implementing corrective actions to address these areas of concern.

RESULTS OF AUDIT

The Department of Human Services administered the Head Start Program in accordance with grant terms and applicable laws and regulations. Specifically, charges made against the grant funds generally were reasonable, allowable, and allocable pursuant to grant agreement provisions, and drawdowns were made in accordance with the Cash Management Improvement Act of 1990. In addition, Head Start Centers were being renovated to supply sufficient classroom space for the Head Start Program to meet its mandated enrollment level. However, we found that the administration of the Head Start Program could be further improved by ensuring that lease agreements for administrative offices and Head Start Centers are negotiated through the Virgin Islands Department of Property and Procurement to ensure

that rental rates do not exceed the maximum rates established by Property and Procurement. U.S. Office of Management and Budget Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," establishes the principles for determining the allowability of costs incurred under Federal grants, and the Virgin Islands Code contains detailed requirements to ensure that procurement actions are made on the basis of full competition and with the objective of providing the best possible contract prices, terms, and conditions for the Government. Leases were not negotiated in accordance with requirements because Human Services officials and potential landlords agreed on lease terms that did not offer the most advantageous prices to the Government and because Human Services officials did not involve Property and Procurement or the Office of the Governor in the negotiation process until after the lease terms were negotiated. As a result, the Head Start Program incurred excess rental costs ranging from \$73,023 to \$96,929 during fiscal year 1999 (see Appendix 1).

Leasing Practices

The Virgin Islands Code (31 V.I.C. § 232(3)) states that the Commissioner of Property and Procurement is responsible for leasing "all grounds, buildings, offices, or other space that may be required by government departments and agencies." Additionally, Attachment B, Section 38, of U.S. Office of Management and Budget Circular A-87 states that "rental costs are allowable [for grant purposes] to the extent that the rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in the area; alternatives available; and, the type, life expectancy, condition, and value of the property leased." In that regard, Property and Procurement, prior to commencing lease negotiations, conducts surveys of comparable properties and establishes applicable rental rates based on market conditions. Property and Procurement officials told us that during fiscal year 1999, the standard maximum rental rates they used when negotiating leases were \$12 to \$15 per square foot for office space and \$5.50 to \$6 per square foot for storage and other residential space (including day care centers).

Despite these requirements, Human Services negotiated its own lease agreements for administrative office space and Head Start Centers. Of the seven leases that we selected for review, we found four instances, initially totaling \$215,163, in which the leases were awarded noncompetitively and without the initial involvement of Property and Procurement in the negotiation process. Specifically, we found the following:

- In December 1995, the Commissioner of Human Services wrote to the Commissioner of Property and Procurement requesting assistance in negotiating the price of a lease to operate four Head Start classrooms at a local religious facility. However, the letter stated that throughout the prior 3 weeks, Human Services Deputy Commissioner of Planning and Evaluation and its Acting Pre-School Coordinator had been in contact with officials of the religious facility and had been negotiating certain items pertinent to the proposed lease, such as the location of the proposed site, a contact person at the site, the square footage of the site, and the proposed monthly rental charge. In fiscal year 1999, the Head Start Program paid about \$14.84 per square foot for 4,276 square feet of space to operate the four Head Start classrooms, for a total annual rental cost of \$63,450. If the standard maximum

allowable rates of \$5.50 to \$6 per square foot, as determined by Property and Procurement, had been used, the annual rental cost would have totaled from \$23,518 to \$25,656, or \$37,794 to \$39,932 less than the amount negotiated by Human Services. Accordingly, we took exception to the differences in costs of \$37,794 to \$39,932.

At the January 27, 2000 exit conference on the preliminary draft of this report, Human Services officials stated that Property and Procurement officials had been involved in the early phase of rental negotiations with the religious organization and that the Property and Procurement officials authorized them to finalize lease terms and conditions. However, as of February 1, 2000, the Human Services officials were unable to provide documentation to support these statements, and the Property and Procurement officials who had authorized the lease had retired.

- In November 1994, the Commissioner of Human Services wrote to the Governor, through the Commissioner of Property and Procurement, requesting the Governor's approval for the lease of 13,329 square feet of additional office space in a building that, at the time, was partially occupied by Human Services. The letter referred to an enclosed lease and asked for the Governor's "consideration and approval" of the lease. In addition, the letter outlined the major terms of the lease agreement and the applicable renewal options. The renewal options included a 5 percent increase for each annual renewal. In fiscal year 1999, Human Services paid \$20 per square foot for the office space, for a total annual rental cost of \$266,580. The Head Start Program was responsible for paying one-half of this amount, or \$133,290, and the Food Stamp Program paid the remaining \$133,290. If the standard maximum allowable rates of \$12 to \$15 per square foot, as determined by Property and Procurement, had been applied, the annual rental cost would have totaled from \$159,948 to \$199,935, or \$26,658 to \$66,645 less than the amount negotiated by Human Services. Because the office space was shared equally by the Head Start and the Food Stamp Programs, we took exception to costs of \$13,329 (one-half of \$26,658) to \$33,322 (one-half of \$66,645).

- In September 1991, the Commissioner of Human Services wrote to the Commissioner of Property and Procurement "requesting that the Government immediately enter into a lease for the rental of real property" on St. John for use as a Head Start Center. The correspondence contained the lessor's name, the physical property address, and the agreed-upon monthly rental rate. In fiscal year 1999, the Head Start Program paid about \$11.02 per square foot for 1,960 square feet of space, for a total annual rental cost of \$21,600. If the standard maximum allowable rates of \$5.50 to \$6, as determined by Property and Procurement, had been applied, the annual rental cost would have totaled from \$10,780 to \$11,760, or \$9,840 to \$10,820 less than the amount negotiated by Human Services. Accordingly, we took exception to the differences in costs of \$9,840 to \$10,820.

At the January 27, 2000 exit conference on the preliminary draft of this report, Human Services officials stated that this Head Start Center was closed in August 1999, when a Government-owned facility became available.

- In July 1991, the Commissioner of Human Services wrote to the Commissioner of Property and Procurement "requesting the immediate issuance of two leases" for Head Start Centers. The correspondence included the lessors' names, property addresses, and monthly rental rates. With regard to the first lease, the Head Start Program, in fiscal year 1999, paid about \$13.58 per square foot to operate a 1,590-square-foot private residence as a Head Start Center, for a total annual rental cost of \$21,600. If the standard maximum allowable rates of \$5.50 to \$6 per square foot, as determined by Property and Procurement, had been applied, the annual rental cost would have totaled from \$8,745 to \$9,540, or \$12,060 to \$12,855 less than the amount negotiated by Human Services. Accordingly, we took exception to the differences in costs of \$12,060 to \$12,855. The second lease referred to in the Commissioner's letter was not included in our sample.

These four leases have been renewed annually since they were first executed, and they were in effect during fiscal year 1999. For these leases, we did not find any correspondence in the files at either Property and Procurement or Human Services to indicate that Property and Procurement was contacted early enough in the process to assume its legally mandated role of initiating and negotiating the leases. Accordingly, we concluded that because the lease agreements were negotiated directly by Human Services and without the benefit of Property and Procurement's involvement, there was little assurance that the Government received the most favorable prices, terms, and conditions for these lease agreements. By applying the standard maximum rental rates used by Property and Procurement, we estimated, for the four leases, that the Head Start Program could have saved a total of from \$73,023 to \$96,929 (see Appendix 1) in rental costs during fiscal year 1999. The total savings over the life of the leases would have been considerably greater.

At the January 27, 2000 exit conference on the preliminary draft of this report, Human Services officials stated that, with regard to the four leases discussed in this finding, Property and Procurement had not informed them of the standard maximum allowable rental rates or otherwise questioned the proposed rental rates for the leased Head Start classrooms and office space. They further stated that they therefore were not aware that the actual rental rates were in excess of Property and Procurement's standard rates.

Enrollment Level

According to 45 CFR §1305.7(b), a Head Start grantee "must maintain its funded enrollment level," which in the Virgin Islands was 1,430 children. However, the actual enrollment was 1,246 children during fiscal year 1997, 1,226 children during fiscal year 1998 and 1,197 children during fiscal year 1999. The underenrollments occurred primarily because Head Start Centers were damaged by Hurricane Marilyn in September 1995. Without adequate facilities, the Head Start Program did not have sufficient classroom space for children to be enrolled at the mandated level. For the 1999-2000 school year, the Head Start Program entered into Interim Partnership Agreements with private day care providers and Department of Human Services day care centers. Per these agreements, 40 children who would have been enrolled in the Head Start Program were instead enrolled in day care programs. In the case of the private day care centers, the fees were paid by Human Services.

In July 1998, Human Services contracted with two architectural/engineering firms to prepare plans for the renovation and repair of existing Head Start Centers and office buildings on St. Thomas, St. John, and St. Croix that were damaged during Hurricane Marilyn in September 1995. We believe that once these projects are completed, the Head Start Program will have sufficient classroom space to accommodate an adequate number of children to meet the mandated enrollment level.

Recommendations

We recommend that the Governor of the Virgin Islands:

1. Direct the Commissioner of Human Services to establish internal procedures to ensure that the Head Start Program is in compliance with the requirements contained in the Virgin Islands Code (31 V.I.C. § 232) when entering into lease agreements for administrative office space and Head Start Centers. Specifically, the Division of Planning and Evaluation of the Department of Human Services should prepare specifications for space requirements, including proposed locations; forward the requests to the Department of Property and Procurement for that agency to negotiate equitable rental costs and other lease terms and conditions; and fully document the lease process, including maintaining records of lease negotiation meetings held.

2. Direct the Commissioner of Human Services to provide the U.S. Department of Health and Human Services with supporting documentation for the cost exceptions ranging from \$73,023 to \$96,929 so that the grantor agency can make a final determination as to the allowability of those costs.

3. Direct the Commissioner of Property and Procurement to formally establish standard maximum rental rates for different classes of leased property, inform all Governmental agency heads of the rates and any revisions to the rates, and establish procedures to document and provide feedback to agency heads on the status of lease negotiations.

Governor of the Virgin Islands Response and Office of Inspector General Reply

The May 9, 2000 response (Appendix 4) to the draft report from the Governor expressed nonconcurrence with Recommendations 1 and 2 and concurred with Recommendation 3. Based on the response, we consider the three recommendations unresolved (see Appendix 5).

Recommendation 1. The response expressed nonconcurrence, stating that the Department of Human Services "has in place procedures to ensure compliance with the requirements for entering into lease agreements for all types of rental spaces." Although the response indicated that procedures for entering into lease agreements exist, such procedures did not exist at the time of the audit and current procedures were not provided as part of the

response to the draft report. Accordingly, we request that information be provided on the procedures established by the Department for the leasing of office and other space.

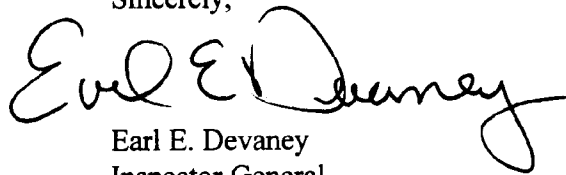
Recommendation 2. The response expressed nonconcurrency, stating that "the lease agreement identified in the Draft Audit Report was performed in conformity with the procurement provisions of the Virgin Islands Code, and under the guidance, direction and approval of the Department of Property and Procurement." As stated in the audit report, we found that existing guidelines on maximum rental rates had not been followed by the Department of Human Services, resulting in potential excess rental costs of \$73,023 to \$96,929. Therefore, we believe that the supporting documentation for the leases should be provided to the Federal grantor agency, the U.S. Department of Health and Human Services, so that the grantor agency can make the final determination as to whether the excess rental costs are allowable as charges against the Head Start Program grants.

Recommendation 3. The response stated, "The Department of Human Services concurs with recommendation number three" However, the response did not provide any information on corrective actions that had been or would be taken to establish standard maximum rental rates and to establish procedures to document and provide information to agency heads on the rates and status of lease negotiations. Additionally, the recommendation pertained to the Department of Property and Procurement, not the Department of Human Services, and we did not receive any comments from Property and Procurement.

Please provide a response to this report by July 14, 2000. The response should be addressed to our Caribbean Regional Office, Federal Building - Room 207, Charlotte Amalie, Virgin Islands 00802. The response should provide the information requested in Appendix 5.

Section 5(a) of the Inspector General Act (5 U.S.C. app. 3) requires the Office of Inspector General to list this report in its semiannual report to the U.S. Congress. In addition, the Office of Inspector General provides audit reports to the Congress.

Sincerely,

A handwritten signature in black ink, appearing to read "Earl E. Devaney", written in a cursive style.

Earl E. Devaney
Inspector General

CLASSIFICATION OF MONETARY AMOUNTS

<u>Finding Area</u>	<u>Questioned Costs (Cost Exceptions)</u>
Leasing practices	\$73,023 to \$96,929*

*Amounts represent Federal funds.

**UNAUDITED BALANCE SHEET
AS OF AUGUST 31, 1999
FOR HEAD START PROGRAM GRANTS,
DEPARTMENT OF HUMAN SERVICES,
GOVERNMENT OF THE VIRGIN ISLANDS**

Assets:

Revenues Receivable (Note 1)	<u>\$2,453,700</u>	
Total Assets		<u>\$2,453,700</u>

Liabilities:

Bank Overdraft (Note 2)	\$409,844	
Vouchers Payable (Note 3)	817,228	
Outstanding Encumbrances (Note 4)	1,129,483	
Due to Administration for Children and Families Regional Office (Note 5)	<u>97,145</u>	
Total Liabilities		<u>\$2,453,700</u>

Notes to Balance Sheet:**1. Revenues Receivable**

This amount represents monies that had not been drawn down from grant proceeds.

2. Bank Overdraft

This amount represents vouchers paid by the Department of Finance for expenditures incurred by the Head Start Program during fiscal year 1999 but for which funds had not been drawn down by the Department of Human Services.

3. Vouchers Payable

This amount represents vouchers or accounts payable for goods and services obtained by the Head Start Program during fiscal year 1999 that had not been paid by the Department of Finance.

4. Outstanding Encumbrances

This amount represents funds that were obligated but not expended during fiscal year 1999 for specific construction projects and for the purchase of buses.

5. Due to Administration for Children and Families Regional Office

This amount represents the funds remaining at the end of the Head Start Program year after all of the obligations of the Program had been met. At the end of each Program year, any excess funds are required to be returned to the grantor agency. However, the Department of Human Services may request that the funds be reprogrammed for a specific purpose of the Head Start Program. The reprogrammed funds, once approved, may be used only for the specifically approved purpose.

UNAUDITED - FOR INFORMATIONAL PURPOSES ONLY

**UNAUDITED STATEMENT OF REVENUE AND EXPENDITURES
FOR THE FISCAL YEAR ENDED AUGUST 31, 1999
FOR HEAD START PROGRAM GRANTS,
DEPARTMENT OF HUMAN SERVICES,
GOVERNMENT OF THE VIRGIN ISLANDS**

	<u>Budget</u>	<u>Actual</u>	Actual Under (Over) Budget
Revenues: (Note 1)	<u>\$8,175,167</u>	<u>\$8,175,167</u>	<u>0</u>
Expenditures and Obligations:			
Personnel	\$4,100,088	\$4,112,157	(\$12,069)
Fringe Benefits	1,745,478	1,331,138	414,340
Equipment	180,889	188,774	(7,885)
Supplies and Materials	243,466	564,542	(321,076)
Contract & Professional Services	0	995,414	(995,414)
Renovations	1,110,350	1,126,251	(15,901)
Other	<u>794,896</u>	<u>134,746</u>	<u>660,150</u>
Total Expenditures and Obligations	\$8,175,167	\$8,453,022	(\$277,855)
Less: U.S. Department of Agriculture Reimbursement (Note 2)	<u>0</u>	<u>(375,000)</u>	<u>375,000</u>
Net Expenditures and Obligations	<u>\$8,175,167</u>	<u>\$8,078,022</u>	<u>\$97,145</u>
Excess of Revenues Over Disbursements	<u>0</u>	<u>\$97,145</u>	<u>(\$97,145)</u>
Net Expenditures and Obligations	\$8,175,167	\$8,078,022	\$97,145
Less: Obligations (Note 3)	<u>(1,946,711)</u>	<u>(1,946,711)</u>	<u>0</u>
Cash Disbursements	<u>\$6,228,456</u>	<u>\$6,131,311</u>	<u>\$97,145</u>

Notes to Statement of Revenues and Expenditures:

1. Revenues

For reporting purposes, revenues include the total Federal grant award amount. However, as shown in Appendix 2 of this audit report, \$2,453,700 of the grant amount had not been drawn down as of August 31, 1999.

2. U.S. Department of Agriculture Reimbursement

The U.S. Department of Agriculture reimbursed the Head Start Program for the cost of meals provided to Program participants. Therefore, for reporting purposes, we deducted the amount reimbursed to show the net amount of expenditures and obligations.

3. Obligations

The Department of Human Services prepared its financial status reports on the cash basis of accounting. Therefore, for reporting purposes, we deducted vouchers payable of \$817,228 and outstanding encumbrances of \$1,129,483, as shown in Appendix 2, from the total expenditures and obligations to show the actual cash disbursements.

UNAUDITED - FOR INFORMATIONAL PURPOSES ONLY



THE UNITED STATES VIRGIN ISLANDS

OFFICE OF THE GOVERNOR
GOVERNMENT HOUSE
Charlotte Amalie, V.I. 00802
340-774-0001

May 9, 2000

Mr. Arnold E. van Beverhoudt, Jr.
Office of the Inspector General
Caribbean Office/Federal Building – Room 207
St. Thomas, Virgin Islands 00802

Dear Mr. van Beverhoudt:

The attached information is the Department of Human Services' response to the draft Audit Report number N-IN-VIS-008-99-M on the Head Start Program Grants. I am aware that this response was due by May 5, 2000. However, because of the shortened work week there was a delay in getting the Department's response to my office. Realizing that the response will be late, Mr. Simmonds from my office spoke to Ms. Stacy Chados, Senior Auditor, and requested an extension of the deadline to May 10, 2000.

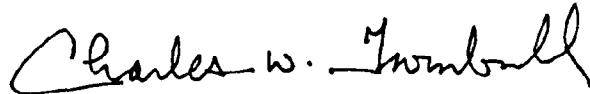
The draft audit report made three (3) recommendations for corrective action. The Department of Human Services concurs with recommendation number three (3) but does not concur with recommendations one (1) and two (2). The Department of Human Services does not concur with recommendation number one (1) because the Department currently has in place procedures to ensure compliance with the requirements for entering into lease agreements for all types of rental spaces.

The Department does not concur with recommendation number two (2). The Department has expressed that the lease agreement identified in the Draft Audit Report was performed in conformity with the procurement provisions of the Virgin Islands Code, and under the guidance, direction and approval of the Department of Property and Procurement.

Mr. Arnold E. van Beverhoudt, Jr.
May 9, 2000
Page 2

I am grateful for the assistance your office provides the Government through the audit findings. I hope that the attached responses are acceptable.

Sincerely,

A handwritten signature in cursive script that reads "Charles W. Turnbull". The signature is written in dark ink and is positioned above the printed name and title.

Charles W. Turnbull
Governor

STATUS OF AUDIT REPORT RECOMMENDATIONS

Finding/Recommendation Reference	Status	Action Required
1	Unresolved.	Provide a copy of procedures established by the Department of Human Services regarding the leasing of office and other space. A target date and title of the official responsible for implementation should also be provided.
2	Unresolved.	Provide documentation supporting that the leases and questioned costs have been referred to the grantor agency for final determination as to the allowability of excess rental costs. A target date and title of the official responsible for implementation should also be provided.
3	Unresolved.	Provide a plan indicating the actions the Department of Property and Procurement will take to establish standard maximum rental rates and to establish procedures to document and provide information to agency heads on the rates and status of lease negotiations. A target date and title of the official responsible for implementation should also be provided.

**ILLEGAL OR WASTEFUL ACTIVITIES
SHOULD BE REPORTED TO
THE OFFICE OF INSPECTOR GENERAL**

Internet Complaint Form Address

http://www.oig.doi.gov/hotline_form.html

Within the Continental United States

U.S. Department of the Interior
Office of Inspector General
1849 C Street, N.W.
Mail Stop 5341 - MIB
Washington, D.C. 20240-0001

Our 24-hour
Telephone HOTLINE
1-800-424-5081 or
(202) 208-5300

TDD for hearing impaired
(202) 208-2420

Outside the Continental United States

Caribbean Region

U.S. Department of the Interior
Office of Inspector General
Eastern Division - Investigations
4040 Fairfax Drive
Suite 303
Arlington, Virginia 22203

(703) 235-9221

Pacific Region

U.S. Department of the Interior
Office of Inspector General
Guam Field Office
415 Chalan San Antonio
Baltej Pavilion, Suite 306
Agana, Guam 96911

(671) 647-6060

HOTLINE

U.S. Department of the Interior
Office of Inspector General
1849 C Street, NW
Mail Stop 5341- MIB
Washington, D.C. 20240-0001

Toll Free Number
1-800-424-5081

FTS/Commercial Numbers
(202) 208-5300
TDD (202) 208-2420

