

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

Audit Report

Payroll Operations Department of Education Government of the Virgin Islands



**Report No. 01-I-330
May 2001**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

May 14, 2001

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

Subject: Audit Report on Payroll Operations, Department of Education, Government of
the Virgin Islands (No. 01-I-330)

Dear Governor Turnbull:

This report presents the results of our audit of payroll operations at the Virgin Islands Department of Education.

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.

Because the recommendations in this report are considered resolved and implemented, no response is required.

Sincerely,

Roger La Rouche
Assistant Inspector General
for Audits

cc: Commissioner of Education, Government of the Virgin Islands

EXECUTIVE SUMMARY

BACKGROUND

The Department of Education used \$107.21 million (91 percent of General Fund appropriations) in fiscal year 1999 and \$105.70 million (88 percent of General Fund appropriations) in fiscal year 2000 to pay salaries and fringe benefits for about 2,700 teachers, administrators, and support personnel. In addition, Education used \$11.64 million (39 percent of Federal funds) in fiscal year 1999 and \$13.71 million (45 percent of Federal funds) in fiscal year 2000 to pay salaries and fringe benefits for about 600 teachers, administrators, and support personnel.

OBJECTIVE

The objective of the audit was to determine whether Education had adequate controls over its payroll and time and attendance functions to ensure that amounts paid to employees were accurate and were charged to the proper accounts.

RESULTS IN BRIEF

We concluded that Education had adequate internal controls over the preparation of time and attendance records and the distribution of payroll checks and direct deposit statements. We also concluded that Education generally paid employees from the correct Government accounts. We found, however, for 292 employees in our sample, that in 9 instances totaling \$163,000 employees had been incorrectly paid from Federal instead of local funds. At the time of our review, Education had already found and corrected three of these errors and had partially corrected one error, but it had not corrected the remaining five errors. As a result, we took exception to charges against Federal funds totaling \$120,000 that related to the six payroll errors that had not been fully corrected (see Appendix 1).

RECOMMENDATIONS

We made three recommendations to the Governor of the Virgin Islands to address the internal control weaknesses that allowed employees to be paid from the incorrect Government accounts.

AUDITEE COMMENTS AND OFFICE OF INSPECTOR GENERAL EVALUATION

The Governor concurred with the three recommendations and indicated that corrective actions had been or were being taken. Based on the response, the three recommendations were considered resolved and implemented.

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INTRODUCTION

BACKGROUND

The Department of Education is responsible for administering and operating all Virgin Islands public elementary and secondary schools; vocational, adult, and special education programs; and support services such as curriculum centers and libraries for both public and nonpublic schools. Education received General Fund appropriations of \$118.15 million in fiscal year 1999 and \$120.24 million in fiscal year 2000. Of those amounts, \$107.21 million (91 percent) in fiscal year 1999 and \$105.70 million (88 percent) in fiscal year 2000 were used to pay salaries and fringe benefits for about 2,700 teachers, administrators, and support personnel. In addition, Education received Federal grant funds of \$29.72 million in fiscal year 1999 and \$20.32 million in fiscal year 2000. Of those amounts, \$11.64 million (39 percent) in fiscal year 1999 and \$13.71 million (45 percent) in fiscal year 2000 were used to pay salaries and fringe benefits for about 600 teachers, administrators, and support personnel.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department of Education had adequate controls over its payroll and time and attendance functions to ensure that amounts paid to employees were accurate and were charged to the proper accounts.

To accomplish our audit objective, we reviewed payroll operations for fiscal years 1999 and 2000 (through May 2000). The records reviewed included time and attendance records for 3,000 employees at selected public schools and operating divisions of the Department of Education on St. Thomas and St. Croix, payroll and supplemental payroll registers at the Department of Finance for a sample of 10 pay periods, and Notices of Personnel Action at the Division of Personnel. With auditors from the U.S. Department of Education, we also jointly observed the distribution of payroll checks and direct deposit statements. However, to avoid duplication of effort, we did not review payroll operations and records for the Special Education Program, which were reviewed by U.S. Department of Education auditors.

Our audit was conducted 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. The "Standards" requires that we obtain

sufficient, competent, and relevant evidence to provide a reasonable basis for our findings and conclusions.

As part of our audit, we evaluated the internal controls over payroll operations at the Department of Education to the extent we considered necessary to accomplish the audit objective. We identified an internal control weakness related to ensuring that payroll expenses were charged to the correct Government accounts. This internal control weakness is discussed in the Results of Audit section of this report. The recommendations, if implemented, should improve the internal controls in this area.

**PRIOR AUDIT
COVERAGE**

In September 1999, the Office of Inspector General issued the audit report "Selected Federal Grant Programs, Department of Education, Government of the Virgin Islands" (No. 99-I-956). The report stated, with respect to payroll operations, that Education did not ensure that personal services costs were properly supported and were charged to the correct accounts. As a result, we took exception to payroll charges totaling \$61,800 and classified additional payroll charges totaling \$8,340 as unsupported costs.

RESULTS OF AUDIT

OVERVIEW

The Department of Education had adequate internal controls over the preparation of time and attendance records and the distribution of payroll checks and direct deposit statements. In order to conclude that adequate internal controls existed, we reviewed individual time sheets prepared by Education employees and maintained at the employees' respective schools or operating divisions, reviewed payroll and supplemental payroll registers at the Department of Finance to ensure that payroll withholdings were accurately and consistently deducted from employee earnings, observed the physical distribution of payroll checks and direct deposit statements at a sample of schools and operating divisions, corroborated the status of dual employees and corroborated the cancellation of any duplicate payments, and verified that each employee who was included in the payroll at Education had a duly executed Notice of Personnel Action on file at the Division of Personnel.

We also concluded that Education generally paid employees from the correct Government accounts. We found, however, for 292 employees in our sample, that in 9 instances totaling \$163,000 employees had been incorrectly paid from Federal instead of local funds. At the time of our review, Education had already found and corrected three of these errors and partially corrected one error, but it had not corrected the remaining five errors. As a result, we took exception to charges against Federal funds totaling \$120,000 that related to the six payroll errors that had not been fully corrected (see Appendix 1).

SOURCES OF PAYROLL FUNDING

Although Education paid its employees from the correct accounts in most instances (283 of 292 employees in our sample), we found nine instances totaling \$163,000 in which employees were incorrectly paid from Federal grant accounts instead of from the appropriate General Fund accounts. We identified these errors by comparing, for all employees who should have been paid from Federal funds during two selected pay periods, the funding sources as indicated on the employees' Notices of Personnel Action with the funding sources shown on the payroll registers. Education was aware of four of the errors and had processed three miscellaneous disbursement vouchers totaling \$43,000 to reimburse the Federal accounts. However, in one of the cases, Education had not reimbursed the entire improper amount. Additionally, at the time of our review, Education had not processed reimbursements to the Federal accounts for the other five cases of incorrect payments that

we identified. Therefore, we estimated that Federal grant accounts were owed about \$120,000 for payroll charges that should have been made against General Fund accounts.

The Education accountant responsible for processing Federal drawdowns for employee payrolls said that Education acknowledged that Federal funds were sometimes inadvertently used to pay the salary costs of General Fund employees. The accountant also said that sometimes the General Fund was also inadvertently used to pay the salary costs of Federal fund employees. The accountant explained that the process used to determine the source of funding for employees' salaries is driven by the Notices of Personnel Action. Therefore, a change cannot be made in the payroll system unless a new Notice of Personnel Action is prepared by Education and keypunched into the computer system at the Division of Personnel and transmitted to the Department of Finance for updating of the data in the Government's financial management system.

The accountant further explained that because of delays in keypunching the data at the Department of Finance, errors on the Notices of Personnel Action were not always corrected timely. At the February 2, 2001, exit meeting on the preliminary draft of this report, the Commissioner of Education stated that Education maintained accurate in-house records regarding the sources of payroll funding but that delays by the Department of Finance in keypunching updated information from Notices of Personnel Action may have resulted in incorrect information being used by Finance when it processed payroll transactions. In addition, we noted that undetected keypunch errors could result in the wrong funding sources being charged for an employee's salary costs.

We found that Education did not assign an employee to periodically review the funding source designations for its employees to ensure that they were being paid from the correct accounts. We provided the accountant with the information on the six cases of incorrect payments so that he could ensure that necessary corrections and reimbursements were made. In our opinion, in order to determine whether there are additional instances of employees being paid from the wrong funding sources, Education should conduct a more in-depth analysis of the fiscal year 1999 and 2000 payroll records and correct inaccurate payroll records and reimburse funds as appropriate.

RECOMMENDATIONS

TO THE GOVERNOR OF THE VIRGIN ISLANDS

We recommend that the Governor of the Virgin Islands direct the Commissioner of Education to:

1. Process the necessary adjustments to reimburse the Federal grant accounts for the \$120,000 in payroll charges that should have been paid from General Fund accounts.
2. Conduct an analysis of employee payroll records for fiscal years 1999 and 2000 to determine whether payroll charges were made to incorrect accounts for additional Education employees. If any additional errors are identified, payroll records should be corrected and funds reimbursed as appropriate.
3. Establish procedures to conduct, on at least a semiannual basis, a review of employee payroll records to ensure that the correct funding sources are indicated in each employee's record.

GOVERNOR OF THE VIRGIN ISLANDS RESPONSE

The March 27, 2001 response (Appendix 2) to the draft report from the Governor of the Virgin Islands concurred with the three recommendations and indicated that corrective actions had been or were being taken.

OFFICE OF INSPECTOR GENERAL REPLY

Based on the response, we consider the three recommendations resolved and implemented. Therefore, no further response to this report is required (see Appendix 3).

APPENDIX 1 - MONETARY IMPACT

FINDING AREAS

Questioned Costs
(Cost Exception)*

Sources of Payroll Funding

\$120,000

* Amount represents Federal funds.

APPENDIX 2 - RESPONSE TO DRAFT REPORT



THE UNITED STATES VIRGIN ISLANDS

OFFICE OF THE GOVERNOR
GOVERNMENT HOUSE

Charlotte Amalie, V.I. 00802
340-774-0001

March 27, 2001

Mr. Arnold van Beverhoudt, Jr.
Office of the Inspector General
Caribbean Regional Office
Federal Building, Room 207
St. Thomas, V.I. 00802

Dear Mr. van Beverhoudt:

Attached is the Department of Education's response to the Draft Audit Report AM-08-30-01 entitled "Limited Review of Erroneous Payroll Payments".

This report indicated three (3) specific findings or recommendations. The Department of Education (DOE) concurs with all three findings, and has indicated specific corrective actions in an effort to resolve these issues. Please note that recommendation number 1 requests that the DOE reimburse Federal grants accounts for \$120,000.00 in erroneous payroll charges. Attached are copies of Miscellaneous Disbursement Vouchers, (MDV) for adjustment payments to Federal funds for each affected employee. The response to recommendations numbers 2 and 3 indicates a responsible official with target dates that are ongoing.

In an effort to comply with the schedule deadline, Mr. Alric Simmonds of my staff faxed a copy of this report to Ms. Stacy Chados of your office on 3/26/01. No changes have been made to the faxed copy.

Again, we appreciate the efforts your office has made in providing information which assists this Government in operating more efficiently. Please contact Mr. Alric Simmonds at (340) 693-4315 if you have any questions or require additional information.

Sincerely,


Charles W. Turnbull
Governor

**Virgin Islands Department of Education
Management Response & Corrective Action Plan
Payroll Operations, Department of Education, Government of the Virgin Islands**

Recommendation 1

Process the necessary adjustments to reimburse the Federal grant accounts for the \$120,000 in payroll charges that should have been paid from General Fund accounts.

Response: We concur. Adjustments have been made to correct payments made to employees from incorrect funding sources. Please see copies of MDV's correcting payments to employees on the attached list. (See Attachment 1 and 1A).

Recommendation 2

Conduct an analysis of employee payroll records for fiscal year 1999 and 2000 to determine whether payroll charges were made to correct accounts for additional Education employees. If any additional errors are identified payroll records should be corrected and funds reimbursed as appropriate.

Response: We concur. The analysis is on-going. The accountant in the Business Office who handles payroll expenditures checks all expenditures for payroll against the budgets. This information, if it is correct, remains as is. However, if the information is not accurate, the accountant obtains a copy of the Notification of Personnel Action (NOPA). He then checks to see if the NOPA is correct; if the NOPA is correct he informs the Director of Payroll, VIDOE, that an error occurred in the funding source when the NOPA was entered into the system. The Director of Payroll then calls the Division of Personnel to have the necessary correction(s) made in the system. If the NOPA is incorrect, the accountant checks with the respective program officials to obtain clarification and refers the information for correction to the Division of Human Resources, VIDOE. He also informs VIDOE's Director of Payroll so that the Division of Personnel can correct the system file. The accountant then makes adjustments to the account as needed after the correction has been made in the payroll module on the FMS. The information reported to USDOE for cash drawdowns is based on corrected information as reflected on the budgets.

Person(s) Responsible: Sonia Clendinen, Director of Business Office

Targeted Completion Date: On-going

Page 2 Management Response & Corrective Action Plan

Recommendation 3

Establish procedures to conduct, on at least a semiannual basis, a review of employee payroll records to ensure that the correct funding sources are indicated in each employee's record.

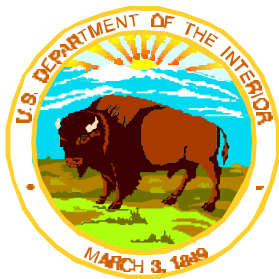
Response: We concur. The payroll division will analyze payroll records on an on-going basis to ensure that payments are made from the correct source of funds. When there is a change in an employee's salary requiring that a NOPA accompany the time and attendance document to the Department of Finance, VIDOE's Payroll Division will verify that the information on the NOPA is correct before submitting the NOPA to the VIDOE's Certifying Officer. The Business office will conduct at least three checks of Activity Center Budgets vs. Department of Finance Financial Management System information for accuracy per year. Any discrepancies noted will be reported and corrected promptly.

*Person(s) Responsible: Acting Director of Payroll, Tomas
Alejandro; Director of Business Office STT/STJ, Ms. Sonia
Clendinen*

Targeted Completion Date: On-going

APPENDIX 3 - STATUS OF RECOMMENDATIONS

Finding/Recommendation Reference	Status	Action Required
1, 2, and 3	Implemented.	No further action is required.



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