



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

Audit Report

**Grants for the Construction
of Health Care Facilities
Department of Health
Government of the Virgin Islands**



No. 2002-I-0043

SEPTEMBER 2002



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

Caribbean Regional Office
Federal Building, Room 207
St. Thomas, Virgin Islands 00802

September 20, 2002

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

Subject: Audit Report "Grants for the Construction of Health Care Facilities, Department of Health, Government of the Virgin Islands" (No. 2002-I-0043)

Dear Governor Turnbull:

This report presents the results of our audit of Office of Insular Affairs grants for the construction of health care facilities in the Virgin Islands.

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.

Please provide a response to this report by October 24, 2002. The response should provide the information requested in Appendix 5 and should be addressed to our Caribbean Regional Office, Federal Building - Room 207, Charlotte Amalie, Virgin Islands 00802.

Sincerely,

Arnold E. van Beverhoudt, Jr.
Regional Audit Manager

cc: Commissioner of Health
Commissioner of Property and Procurement
Commissioner of Finance



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

Caribbean Regional Office
Federal Building, Room 207
St. Thomas, Virgin Islands 00802

October 2, 2002

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

Subject: Audit Report "Grants for the Construction of Health Care Facilities, Department of Health, Government of the Virgin Islands" (No. 2002-I-0043)

Dear Governor Turnbull:

Subsequent to our submission of the subject final audit report for printing, we received a response (copy attached) to the draft of the report from the Commissioner of Health. The response was dated August 2, 2002, but was not delivered to our office on St. Thomas until August 27, 2002.

Based on the Commissioner's response, we consider Recommendation 4 to be resolved but not implemented and Recommendations 5, 6, and 7 to be resolved and implemented. The response did not address Recommendation 8 and, therefore, we consider that recommendation to be unresolved. Recommendations 1, 2, and 3 (addressed to the Commissioner of Property and Procurement) and Recommendation 9 (addressed to the Commissioner of Finance) are also considered to be unresolved.

Please provide a response, by the October 24, 2002 due date cited in the transmittal letter of the final audit report, that includes the information requested in Appendix 4 of the report for Recommendations 1, 2, 3, 8, and 9. For Recommendation 4, please provide to the Office of Insular Affairs, U.S. Department of the Interior supporting documentation for the \$1,082,290 classified as unsupported costs in Appendix 1 of the report.

If you have any questions concerning this letter, please contact me or Mr. Hannibal Ware, Deputy Audit Manager, at (340) 774-8300.

Sincerely,

Arnold E. van Beverhoudt, Jr.
Arnold E. van Beverhoudt, Jr.
Regional Audit Manager

cc: Commissioner of Health
Commissioner of Property and Procurement
Commissioner of Finance



DEPARTMENT OF HEALTH

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Commissioner of Health**

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August 2, 2002

Mr. Arnold Van Beverhoudt
Inspector General
U.S. Department of the Interior
Federal Building, Room 207
St. Thomas, Virgin Islands 00802

Dear Mr. Van Beverhoudt:

Our response to the audit report on "The Grants for Construction of the Health Care Facilities" is as follows:

1. While the first finding and the first three recommendations are addressed to the Department of Property and Procurement the Department of Health has initiated measures to insure these findings do not reoccur.
 - A. All procurements of construction contracts are initiated through the Department of Property and Procurement in compliance with the V.I. Code and DPP's internal procedures.
 - B. Attachments to contracts are examined to verify the licenses are current and valid.

On your second area of review, we again concur with your findings and have already initiated some aspects of your recommendations. They are as follows:

1. Supporting documentation for expenditures are being maintained in the Financial Services and Renovations Offices of the Department of Health.
2. Drawdown requests are being initiated at the pre-audit point within The Department of Health and are transmitted to the Office of Management and Budget simultaneously with the documents being transmitted to Finance. This is done to insure timely draw downs.
3. Communications between all Department of Health Units have improved.

4. Efforts are being made to ensure the accuracy and timeliness of Financial Status Reports and Federal Cash Transactions Report.

As a sub-grantee of the Office of Management and Budget the Department of Health's role remains one of preparing documents for submission by the Office of Management and Budget (this includes draw down). Nonetheless the Department of Health will continue to do its part to avoid future audit exceptions.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mavis L. Matthew'.

Mavis L. Matthew, MD, M.P.H.
Commissioner of Health

EXECUTIVE SUMMARY

Health Care Facilities Construction Grants Were Not Administered Effectively by the Department of Health

In fiscal years 1991 and 1992, the U.S. Department of the Interior's Office of Insular Affairs awarded to the Virgin Islands Department of Health two grants totaling \$30.5 million for the construction of eight health care facilities on the islands of St. Thomas, St. Croix, and St. John. As of February 2002, \$26.6 million of the \$30.5 million grants had been expended on the projects. Some grant projects were not well managed.

Noncompetitive procurement and the failure to follow established land acquisition procedures contributed to the expenditure of \$870,700 on the construction of a health clinic on St. Croix that was never completed. In our opinion, the handling of the transactions related to this health clinic serve as a case study on the inefficiencies and waste of public funds that can occur when established procurement regulations and procedures are circumvented in the name of expediency. On other projects, we found that contracts were awarded to individuals who did not have the appropriate business licenses and that contract files were incomplete.

Financial management for the construction grants was not adequate. The Department of Health could not furnish supporting documentation for a reimbursement claim of about \$1.1 million. On the other hand, we identified expenditures of \$772,832 that were not claimed for reimbursement. We also found that required grant financial and progress reports were either not prepared or not submitted on time. Finally, we were not able to trace 13 letter-of-credit drawdowns totaling \$7.6 million to the Government of the Virgin Islands financial management system because of poor record keeping.

Recommendations and Response from the Government of the Virgin Islands

We made nine recommendations to the Governor of the Virgin Islands to address the internal control deficiencies discussed in the report. We received a response from the Department of Property and Procurement to three recommendations that were addressed to that agency. However, despite several follow-up inquiries to the Department of Health, we did not receive a response to the other six recommendations. We consider the nine recommendations unresolved.

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INTRODUCTION

BACKGROUND

The Virgin Islands Code (3 V.I.C. § 418) gives the Department of Health "the general authority and jurisdiction to provide general medical and surgical care of acceptable standards for the people of the Virgin Islands." In order to carry out this mandate, renovation work had commenced on several health care facilities in the Virgin Islands prior to Hurricane Hugo in September 1989. The hurricane destroyed much of the new work and demolished other existing health care facilities. Therefore, in response to the Department's special needs and the destruction of facilities caused by the hurricane, in April 1991, the Department, in conjunction with a stateside consulting firm, developed a Comprehensive Health Facilities Construction Plan.

In fiscal years 1991 and 1992, the U.S. Department of the Interior's Office of Insular Affairs (then the Office of Territorial and International Affairs) awarded to the Department of Health, through the Virgin Islands Office of Management and Budget, two grants totaling \$30.5 million for construction projects related to health care facilities in the Virgin Islands. The grants funded the eight construction projects included in the Comprehensive Health Facilities Construction Plan: (1) St. Thomas Hospital, (2) Knud Hansen Complex, (3) St. Thomas Community Rehabilitation Center, (4) St. Croix Hospital, (5) Charles Harwood Complex, (6) Ingeborg Nesbitt Clinic, (7) St. Croix Community Rehabilitation Center, and (8) Myrah Keating Smith Clinic. As of February 2002, \$26.6 million of the \$30.5 million grants had been expended, although only \$25.8 million had been drawdown through December 3, 2001.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether (1) contracts for the construction of health care facilities were awarded competitively and administered in accordance with applicable laws and regulations, and (2) grant funds were expended in accordance with applicable laws and regulations. The scope of the audit included a review of grant transactions that occurred during fiscal years 1996 through 2001 and other periods as appropriate.

To accomplish our audit objective, we interviewed officials and reviewed grant-related records at the Department of Health on St. Thomas and St. Croix, the Office of Management and Budget and the Department of Finance on St. Thomas and the Departments of Property and Procurement and Licensing and Consumer Affairs on St. Thomas and St. Croix. We also made site visits to health care facilities on St. Thomas, St. Croix, and St. John.

The scope of our review was limited because Department of Health personnel were unable to provide us with supporting documents for expenditures totaling \$1.1 million that were included in Financial Status Reports submitted to the Office of Insular Affairs. As a result, we were unable to review specific charges made against the grants to determine whether grant funds were expended in accordance with applicable laws and regulations. We therefore classified these expenditures as unsupported costs. (See Appendix 1 for the monetary impacts of this audit.)

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 require that we obtain sufficient, competent, and relevant evidence to afford a reasonable basis for our findings and conclusions.

As part of our audit, we evaluated the internal controls related to the awarding of contracts and the accountability for grant funds to the extent we considered necessary to accomplish the audit objective. Internal control weaknesses identified in these areas are discussed in the Results of Audit section of this report. The recommendations, if implemented, should improve the internal controls in these areas.

PRIOR AUDIT COVERAGE

In May 1996, the Office of Inspector General issued the audit report "Grants for the Construction of Health Care Facilities, Government of the Virgin Islands" (see Appendix 2).

RESULTS OF AUDIT

OVERVIEW

The Government of the Virgin Islands (V.I. Government) did not effectively administer contracts for the construction of health care facilities and did not maintain adequate financial accountability for the Office of Insular Affairs grants. Specifically, we found that:

- " Established competitive procurement procedures were not followed in the award of the contract for construction of a new Christiansted Health Clinic. By the time the project was terminated, the V.I. Government had already paid the contractor \$449,400 for work on the uncompleted facility. In addition, the V.I. Government was required to reimburse the Office of Insular Affairs for \$421,300 spent on the previously abandoned project to renovate the Charles Harwood Complex.
- " Contracts were awarded to two contractors (out of nine reviewed) who did not have the appropriate business licenses, and required documents were missing from nine of ten contract files reviewed.
- " Supporting documentation was not available for expenditures totaling \$1.1 million that were reported on Financial Status Reports submitted to the Office of Insular Affairs.
- " Grant drawdowns had not been requested to reimburse local funds for expenditures totaling \$772,832 that were applicable to grant-funded projects, and drawdowns that were made were not timely recorded to the appropriate accounts in the V.I. Government's Financial Management System.
- " Financial and narrative reports either were not submitted to the Office of Insular Affairs or were submitted late.

CONTRACT ADMINISTRATION

The V.I. Government did not effectively administer contracts for the construction of health care facilities because (1) established competitive procurement procedures were circumvented for at least one major construction contract, resulting in payments totaling \$870,700 for facilities that were not completed; (2) contracts were awarded to individuals who did not have appropriate business licenses; and (3) contract files were incomplete.

**\$870,700 Was Spent on
Construction Projects
That Were Not Completed**

In 1997, renovations to the Charles Harwood Complex on St. Croix were suspended by the then-Governor and a project was initiated to build a new health clinic on a 4½ acre site east of the Charles Harwood Complex. In March 1998, the Department of Property and Procurement issued a "Request for Proposal-Negotiation (Professional Services)" to provide land for, design, and build a health clinic on St. Croix. In July 1998, the then-Governor signed a \$4.25 million contract with a St. Croix company to construct the new health clinic on land owned by the company. In August 1998, the Department of Health entered into a lease-purchase agreement with the company to acquire the land at a cost of \$173,988 (\$57,996 per year over 3 years). Also in August 1998, the Office of Insular Affairs approved reprogramming of \$4.62 million initially earmarked for renovation of the Charles Harwood Complex to build the new health clinic. At that time, \$421,300 had already been expended on architectural designs and construction work for the Charles Harwood Complex renovation project. Additionally, by November 1998, the company contracted to build the new health clinic had already been paid \$449,400 for work on that project. In June 1999, the Department of Property and Procurement terminated the contract for the new health clinic.

The handling of the projects to provide an adequate health clinic for the residents of St. Croix had several problems. First, the process used to procure the construction services for the proposed new health clinic circumvented several key aspects of the established procurement procedures, as follows:

- In a January 27, 1999 memorandum to the Commissioner of Property and Procurement, the Department of Property and Procurement's General Counsel stated, "This procurement [for the new clinic] was solicited under guidelines set forth in a Request for Professional Services contrary to the fact that it was a construction project. The appropriate solicitation of this project should have been as a Request for Proposal-Negotiation (Construction)." In the memorandum, the General Counsel also stated, "The procurement of land should not have been solicited in the Request for Proposal, along with the design/build segments of the procurement."

- In an October 19, 2000 letter to the Governor, the Commissioner of Property and Procurement stated that "the Evaluation/Negotiation Committee established by the Department of Property and Procurement [in 1998], in accordance with the provisions of Title 31 of the Virgin Islands Code, was not given an opportunity to complete its negotiation tasks with the company. Instead, the Committee was allowed to become dormant and a contract awarded without any recommendation from its members."

- Further, the formal process of submitting a contract first to the user department for signature, then to the Commissioner of Property and Procurement for signature, then to the Department of Justice for review, and last to the Governor for final approval was bypassed. Instead, the contract was signed first by the Governor on July 20, 1998, then by the Commissioner of Property and Procurement on August 17, 1998, and last by the Department of Justice on August 20, 1998. The contract was never signed by Department of Health officials.

Second, the purchase of the land on which the new health clinic was to be built also circumvented established land acquisition procedures, as follows:

- A ground-breaking ceremony was held on August 21, 1998 and the new health clinic was being built on land that was still owned by the contractor.

- Although the Department of Health entered into a lease-purchase agreement with the contractor to acquire the land at a total cost of \$173,988 (\$57,996 per year over 3 years), funds for acquisition of the land had not been appropriated by the Legislature. The Virgin Islands Code (31 V.I.C. § 248(a)) states, "No contract or purchase on behalf of the government shall be made unless the same is authorized by law or is under an appropriation adequate to its fulfillment."

- The lease-purchase agreement for the land was entered into prior to obtaining the necessary appraisals. The Virgin Islands Code (31 V.I.C. § 231a) states, "In all cases where the Government of the United States Virgin Islands is authorized to acquire real property by purchase or exchange for any public use, . . . the Commissioner of Property and Procurement shall appoint three appraisers . . . to severally or jointly make a careful inspection of the land and submit . . . a written statement of the value of the real estate."

Third, there were unresolved issues related to building permits. In a May 14, 1999 letter to the Commissioner of Property and Procurement, a former Health Commissioner stated, "Before a health facility is constructed, the occupants must make a needs assessment with the assistance of qualified architects and engineers." Additionally, the Virgin Islands Code (29 V.I.C. § 294(e)) states, "Plans are required to make possible the checking of the proposed work for structural soundness and stability." The Department of Planning and Natural Resources issued a temporary building permit only for construction of the slab for the new clinic, pending approval of a complete set of drawings. However, this requirement was not met prior to the contractor commencing work on the project.

The Department of Property and Procurement issued two Notices of Suspension of Work, dated March 9, 1999 and June 7, 1999, to the contractor in order to resolve several issues pertaining to the project. The construction contract was effectively terminated by Property and Procurement on June 15, 1999 because permit and inspection problems existed, funds were not available to purchase the land on which the clinic was being constructed, and the proposed floor space of the new clinic was inadequate for the needs of the Department of Health. At the time, the project was considered 22 percent complete (see Figures 1 and 2) and the contractor had already received payments totaling \$449,400, \$105,100 from the 1992 Office of Insular Affairs grant and \$344,300 from the local Asset Recovery Fund.



Figure 1. Concrete slab and some of the pre-fabricated wall units for the proposed Christiansted Health Clinic. (Office of Inspector General photo)



Figure 2. *Partially assembled pre-fabricated wall units for the proposed Christiansted Health Clinic. (Office of Inspector General photo)*

In July 2000, the construction company submitted a letter to the Virgin Islands Attorney General proposing that a resolution to its terminated contract be reached by the V.I. Government paying the company \$642,800 for five outstanding payment requests and interest on its line of credit. The company also proposed that the V.I. Government purchase the site of the proposed new health clinic, along with seven surrounding plots of land, for \$388,000. At the time of our audit, the merits of this proposal were being considered by officials of the Attorney General's Office and the Department of Property and Procurement.

With regard to the renovation project for the Charles Harwood Complex, in August 1998, the Office of Insular Affairs approved the reprogramming of \$4.62 million initially earmarked for renovations of Charles Harwood to build the new health clinic. A local architectural firm had already completed four design options for Charles Harwood and had been paid \$380,000 by May 1996. Also, a construction company had already renovated the third floor, north wing of Charles Harwood and had been paid \$41,300 by September 1997. Because this project was terminated in favor of constructing a new health clinic, the Office of Insular Affairs requested that the V.I. Government reimburse the grant account for the \$421,300 already spent on Charles Harwood. The reimbursement transaction was processed in September 2001.

In our opinion, the handling of the transactions related the proposed Christiansted Health Clinic serve as a case study on the inefficiencies and waste of public funds that can occur when established procurement regulations and procedures are circumvented in the name of expediency.

Contracts Were Awarded to Individuals Who Did Not Have the Appropriate Business Licenses

Although the Virgin Islands Code (27 V.I.C. Chapter 9) contains the requirements for business licenses, the Department of Property and Procurement awarded contracts to individuals who were not properly licensed for the services they provided to the Department of Health. We reviewed business licenses at the Department of Licensing and Consumer Affairs for a sample of nine contractors who were awarded contracts for the Department of Health during fiscal years 1996 through 2001. This review disclosed that one contractor, who installed six air conditioning units at the Charles Harwood Complex (at a cost of \$43,200), was only licensed to do business as an "Appliance Repair Shop." Another contractor, who performed renovation work at the Charles Harwood Complex (at a cost of \$41,300), was only licensed for "Development and Sale of Own Property."

Contract Files Were Incomplete

The Virgin Islands Code (31 V.I.C. Chapter 23) and the Property and Procurement Manual contain the requirements for documenting the acquisition of contractual services. Despite these requirements, we found that contract files were not sufficiently complete to document procurement actions taken. We reviewed a sample of ten contract files at the Department of Property and Procurement and found that eight notices of award, three notices to proceed, seven progress reports, and four periodical inspection reports were missing. Additionally, we could not determine the type of request for proposal used to select four contractors.

We believe that the Department of Property and Procurement should take the necessary steps to ensure that the procurement laws and regulations are adhered to, contractors are properly licensed, and contract files are sufficient to document all procurement actions taken.

FINANCIAL ACCOUNTABILITY

The V.I. Government did not maintain adequate financial accountability for grants awarded for the construction of health care facilities because (1) supporting documentation was not maintained for expenditures totaling \$1.1 million that were included in Financial Status Reports, (2) drawdowns had not been requested for reimbursement of expenditures totaling \$772,832 that had been made from local funds, (3) drawdowns that were made were not timely recorded in the V.I. Government's Financial Management System, and (4) financial and progress reports were not submitted or were not timely.

**Supporting
Documentation Was
Not Maintained for
Expenditures Totaling
\$1.1 Million**

During fiscal years 1996 through 2001, the Department of Health reported to the Office of Insular Affairs that it had expended \$1.8 million from the 1991 and 1992 grants. To test the validity of these expenditures and the accuracy of Financial Status Reports, we attempted to match expenditures to supporting documents. However, we found that supporting documents had not been maintained for expenditures totaling \$1.1 million. Although the Office of Insular Affairs did not require supporting documents to be submitted with the Financial Status Reports, the Code of Federal Regulations (43 CFR § 12.953(b)) states that "supporting documents and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report." Because the grants have not yet been closed out and final expenditure reports submitted, the V.I. Government should have continued to maintain the related supporting documents. Since Department of Health officials could not provide us with supporting documents to verify amounts included in the financial status reports, we classified the \$1.1 million as unsupported costs. During our review, we also were told by an official of the Virgin Islands Office of Management and Budget that the financial status reports might not have been accurate because no one knew how to complete them and the instructions were unclear.

**Drawdowns Had Not
Been Requested for
Expenditures Totaling
\$772,832**

The Cash Management Improvement Act of 1990 (31 CFR § 205.7(b)) requires that a "state shall minimize the time elapsing between the transfer of funds from the United States Treasury and the payout of funds for program purposes by a State, whether the transfer occurs before or after the payout." Despite this requirement, because of a breakdown in communication between the Financial Services Office and the Federal Grants Management Office of the Department of Health, drawdowns of grant funds were not always made to reimburse the V.I. Government for expenditures related to the health care facilities projects. We found that although the Department expended local funds totaling \$26,566,778 on the health care projects, drawdowns from the Office of Insular Affairs grants totaled only \$25,793,946. Therefore, drawdowns totaling \$772,832 had not been made to reimburse the local accounts. Additionally, an official of the Office of Insular Affairs told us that when drawdowns were made, they were done as long as 6 months after the local funds had been expended.

We further found that, because the Office of Insular Affairs was not always informed of the unreimbursed expenditures, its records of the available grant balances were sometimes inaccurate. For example, although Office of Insular Affairs records showed that the unobligated balance of grant funds allocated for the community rehabilitation centers and Ingeborg Nesbitt Clinic projects was shown as \$603,726 as of June 2000, the correct balance, after pending drawdowns, should have been \$187,700. Similarly, although the unobligated balance of grant funds allocated for the purchase of equipment for the St. Thomas Hospital and the Myrah Keating Smith Clinic was shown as \$639,819 as of December 2000, the correct balance, after pending drawdowns, should have been \$195,359.

Financial Reports Were Missing or Untimely

The Code of Federal Regulations (43 CFR § 12.952(a)(1)(iv)) and the Notifications of Grant Award state that financial reports are to be prepared quarterly and submitted to the Federal awarding agency within 30 days after the end of the quarter to which they apply. Despite this requirement, we found that, for the 1991 grant, eight Financial Status Reports and eight Federal Cash Transaction Reports (for the quarters ending September 30, 1998 and March 31, 2000 through September 30, 2001) were missing. For the 1992 grant, seven Financial Status Reports (for the quarters ending September 30, 1998 and June 30, 2000 through September 30, 2001) and ten Federal Cash Transaction Reports (for the quarters ending December 31, 1995, September 30, 1998, December 31, 1998, and March 31, 2000 through September 30, 2001) were missing.

An official of the Virgin Islands Office of Management and Budget stated that Financial Status Reports were not prepared for the period of July 1999 to December 2001 because there was no activity during that time. However, the official was not aware that quarterly Federal Cash Transaction Reports were also required. In December 2001, the Office of Insular Affairs refused to approve further grant drawdowns until the missing reports were submitted and, in February 2002, agreed to accept cumulative financial reports for each year (1999, 2000, and 2001) to bring financial reporting up-to-date. The Office of Management and Budget agreed to prepare the cumulative financial reports, but the responsibility for preparing future financial reports for the Office of Insular Affairs grants was given to the Department of Health's Federal Grants Management Office.

We also found that 14 financial reports for the 1991 grant were submitted from 1 to 99 days beyond the required due dates, and 11 financial reports for the 1992 grant were submitted from 1 to 71 days beyond the required due dates.

**Narrative Progress
Reports Were Missing
or Untimely**

The Notifications of Grant Award state that a narrative progress report should be submitted with each quarter's financial reports. The Department of Health's Renovations Office was responsible for preparing the quarterly narrative progress reports, and the activities for both grants were included in one report. However, we found that narrative progress reports were missing or were submitted untimely. For fiscal years 1996 through 2001, the narrative progress reports for the quarters ending March 31, 1997 and September 30, 1999 were missing, and 12 progress reports were submitted from 1 to 356 days beyond the required due dates.

We believe that the Department of Health should take the necessary steps to enhance internal controls related to maintaining supporting documentation for expenditures, timely processing of drawdown requests, and timely submission of required financial and progress reports.

**Drawdowns Were Not
Recorded Timely in the
V.I. Government's
Financial Management
System**

We attempted to trace, to the official financial records at the Department of Finance, 37 drawdowns totaling \$25.7 million that were made during the period of June 4, 1991 to September 4, 2001. We were unable to determine if 13 of the drawdowns totaling \$7.6 million were recorded in the V.I. Government's Financial Management System because the Statement of Remittance forms used to record electronic fund transfers could not be located at the Department of Finance. For 22 other drawdowns, we determined that it took Finance from 6 to 807 days (2 years 3 weeks) to record them in the System. For the remaining 2 drawdowns, we could not determine when they were recorded in the system because the dates on the Statement of Remittance forms were not legible. The Department of Finance should take the steps necessary to ensure that drawdowns are recorded promptly in the appropriate accounts in the Financial Management System.

RECOMMENDATIONS

TO THE GOVERNOR OF THE VIRGIN ISLANDS

We recommend that the Governor of the Virgin Islands direct the Commissioner of Property and Procurement to:

1. Monitor compliance with the requirements of the Virgin Islands Code and the Department's internal procedures with regard to the procurement of construction contracts. Additionally, the Department should return, without approval, proposed contracts that have not been awarded in accordance with the legal requirements.

2. Ensure that contractors are properly licensed for the types of services being provided before approving any contracts awarded to those contractors.

3. Ensure compliance with the Department's internal procedures with regards to maintaining contract files.

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

4. Require that supporting documentation be maintained for expenditures included in the Financial Status Reports. Specifically, for each Financial Status Report, the supporting payment requests and corresponding paid disbursement vouchers should be attached and filed with the Financial Status Reports.

5. Ensure that copies of documents processed for payment are submitted to the Federal Grants Management Office for monitoring of payments and timely preparation of drawdown requests to reimburse the respective local funds from which the expenditures were made.

6. Ensure that better communication exists between the Renovations Office, the Financial Services Office, and the Federal Grants Management Office to enhance internal controls over expenditures and drawdowns.

7. Ensure that Financial Status Reports and Federal Cash Transactions Reports are prepared accurately and submitted timely to the Office of Insular Affairs until all grant funds have been expended and the grants have been closed out.

8. Ensure that narrative progress reports are prepared and submitted timely to the Office of Insular Affairs.

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

9. Take the necessary actions to ensure that electronic fund transfers related to the drawdown of Federal grant funds are promptly recorded in the V.I. Government's Financial Management System.

AUDITEE RESPONSE

The draft of this report was submitted to the Governor of the Virgin Islands and the Department of Health on May 14, 2002 and a response was requested by July 1, 2002. At the Department of Health's request, on July 23, 2002 we provided another copy of the draft report and requested a response by August 2, 2002. Despite several followup inquiries to the Department, as of August 6, 2002 we had not received a response. However, the Department of Property and Procurement provided a June 5, 2002 response (Appendix 3) to Recommendations 1, 2, and 3. Property and Procurement's response stated that its policies and procedures were revised in 1996 and that contracts issued during fiscal years 1991 and 1992 met the then-existing requirements. The response also stated that a new Policy and Procedure Manual was implemented by the current Commissioner of Property and Procurement and that a training seminar for agency representatives was held in June 2001. However, the response did not specifically indicate concurrence or nonconcurrence with Recommendations 1, 2, and 3.

OFFICE OF INSPECTOR GENERAL REPLY

Based on the response from the Department of Property and Procurement, we consider Recommendations 1, 2, and 3 to be unresolved. Because we did not receive a response to Recommendations 4 through 9, those recommendations are also considered to be unresolved (see Appendix 4).

It appears that the Department of Property and Procurement misinterpreted the scope of our audit, because the response suggests that the contracts discussed in this report dated from fiscal years 1991 and 1992. However, that was not the case. Although the Interior grants that were the subject of the audit were awarded to the Department of Health during fiscal years 1991 and 1992, grant funds were available and being used at least through February 2002. Because a prior audit (No. 96-I-722, issued May 1996) had reviewed grant expenditures during fiscal years 1991 through 1995, the scope of the current audit was fiscal years 1996 through 2001.

APPENDIX 1 - MONETARY IMPACT

FINDING AREAS	<u>Unsupported Costs*</u>	<u>Funds To Be Put To Better Use*</u>
Contract Administration:		
Reimbursement to Grant		\$421,300
Payments to Contractor		449,400**
Financial Accountability:		
Unsupported Expenditures	\$1,082,290	
Drawdowns Not Requested		<u>772,832</u>
Totals	<u>\$1,082,290</u>	<u>\$1,643,532</u>

*Amounts represent Federal funds unless otherwise noted.

**Of the \$449,400, \$105,100 represents Federal funds and \$344,300 represents local funds.

APPENDIX 2 - PRIOR AUDIT REPORT

OFFICE OF INSPECTOR GENERAL REPORT

The May 1996 report "Grants for the Construction of Health Care Facilities, Government of the Virgin Islands" (No. 96-I-722) stated that (1) adequate contract files were not maintained to document procurement actions; (2) there was no assurance that competitive procurement procedures were used to the maximum extent practicable; (3) plans and specifications were not sufficiently detailed to minimize the need for contract change orders; (4) the receipt and recording of drawdowns against Federal grants could not be verified; (5) oversight of construction projects for health care facilities was not adequate; (6) project budgets were inadequate for the equipment and staff needed to make full use of newly constructed health care facilities; (7) sufficient funds were not available to refurbish the Charles Harwood Complex to the extent needed to meet health care needs; (8) there was no assurance that a contractor and its subcontractors, who were given advance payments for refurbishment at the St. Thomas Hospital, completed all required work; and (9) there was no assurance that construction projects were completed expeditiously and closed out.

The report included nine recommendations to improve contract administration and construction oversight. However, based on our review, we concluded that internal control weaknesses still existed with regard to compliance with procurement procedures, the adequacy of contract files, and the receipt and recording of drawdowns.

APPENDIX 3 - RESPONSE TO DRAFT REPORT

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

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DEPARTMENT OF PROPERTY AND PROCUREMENT



OFFICE OF
THE COMMISSIONER



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June 5, 2002

The Honorable Charles W. Turnbull
Governor of the Virgin Islands
Government House - 21-22 Kongens Gade
Charlotte Amalia
St. Thomas, Virgin Islands 00802

Dear Governor Turnbull:

In response to the preliminary "Draft Audit Report" submitted in May 2002 by the U. S. Department of the Interior Office of the Inspector General, I respectfully submit the following.

I would comment first on the recommendations made by the Inspector General Office after the conclusion of the audit of the **Department of Health** during fiscal years 1991 and 1992. The objective of this audit was to determine whether (1) contracts for the construction of health care facilities were awarded competitively, and administered in accordance with applicable laws and regulations and (2) grant funds were expended in accordance with applicable laws and regulations.

Recommendations/Response

Monitor compliance with requirements of the Virgin Islands Code and the Department's internal procedures with regard to the procurement of construction contracts. Additionally, the Department should return, without approval, proposed contracts that have not been awarded in accordance with the legal requirements.

The Department of Property & Procurement is solely responsible for the processing of construction contracts. During Fiscal Years 1991 - 1992 (time period of the audit) contracts were prepared by the Division of Procurement and approved by the Commissioner. Construction contracts were not required to go thru the Department of Justice or the Office of the Governor for approval. All construction contracts were done thru the "Competitive Bidding" process (RFP/IFB).

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Response to Draft Audit Report (of May 2002)
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Policy changes were made in 1996, and it is now a requirement to forward contracts to the Department of Justice for legal sufficiency review prior to final approval by the Governor. This includes verification of all requirements (i.e. tax letter, current business license, certificate of good standing, and certified MED), which is also verified and signed off by the Attorney General.

All contracts were awarded in compliance with the applicable laws relative to the Procurement Process during Fiscal Years 1991 - 1992.

Ensure that contractors are properly licensed for the types of services being provided before approving any contracts awarded to those contractors.

During 1991 – 1992 it was not a requirement to provide a copy of a current license or documentation of proof of good standing. The Evaluation Committee via verification license form verifies a license with the Department of Licensing & Consumer Affairs.

Currently, prior to the awarding of a contract (during the evaluation process) the license verification is due, along with all pertinent documentation (i.e. certificate of good standing /tax letter). The User Agency has the opportunity to make inquiries relative to the qualifications of the contractors involved, based on their full involvement in the evaluation process and subsequent award. The Virgin Islands Code specifically states that all contracts must be placed on the “Competitive Bidding” so as to obtain fair and open competition to the **maximum practicable extent**. There are occasions when, for the lack of qualified applicants, the territory/User Agency is without much choice, particularly when a project has a time certain for completion utilizing federal funds.

Contractors were eligible for contract award based on the non-requirement to provide proof of a valid license or any other pertinent documentation during Fiscal Years 1991 - 1992.

Ensure compliance with the Department's internal procedures with regard to maintaining contract files.

Again, during Fiscal Years 1991 – 1992 no written policy was in place that required file retention, the Division of Procurement kept records of 2 previous years and current year files; there were no written internal procedures for file management.

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The Division currently maintains a checklist to ensure all requirements are met. A file retention policy is currently in place to ensure compliance. The User Agency may not keep an adequate account of the files, which in this scenario, was discovered during an audit, however it is the duty of the Department of Property & Procurement to maintain contract files. All files are kept in accordance with the procedures for accurate maintenance of contract files within the Department of Property & Procurement.

Compliance with the Departments procedures with regard to maintaining contract files were done in compliance with the applicable laws during Fiscal Years 1991-1992.

Secondly, I would like to offer comments, and suggestions that will benefit the territory if implemented.

Comments

As outlined in previous and current audit reports there were ambiguities in the procurement process. Since my appointment as Commissioner of Property & Procurement, I have implemented and distributed the Policy and Procedure Manual on "How to do Business with the Division of Procurement". The Department of Property & Procurement held a seminar in June of 2001; and representatives from all the Departments/Agencies were in attendance. Information is also provided on our Website www.ppusvi.org, for those who missed the opportunity to attend the seminar. The respective Divisions update the Manual, and Website as policy changes occur. I am pleased to report a great improvement in the procurement process as a result of this seminar, and the website access.

Suggestions

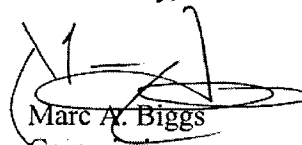
Mandate that the User Agency draft all proposals in conjunction with DPP, prior to it being advertised as a valid RFP or IFB. Also, the retention (by the User Agency) of all necessary paperwork/information generated and accumulated during the process should be mandatory.

The territory should mandate that companies from outside of the territory with the ability to secure adequate bonding and/or equipment, submitting bids and proposals; include training for existing local personnel. This will increase the local pool of skilled specialized workers; thereby decreasing the practice of awarding bids without proper license for the types of services being provided.

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I hope the information provided in this letter will assist you in your understanding of, and response to the Office of the Inspector General Draft Audit Report.

Sincerely,



Marc A. Biggs
Commissioner

MAB/WTC/wtc

xc:

Arnold van Beverhoudt, Jr. – Office of the Inspector General
Olga Meyers, Deputy Commissioner Procurement

APPENDIX 4 - STATUS OF RECOMMENDATIONS

Finding/Recommendation Reference	Status	Action Required
1 to 9	Unresolved.	Consider the recommendations and provide a response that states concurrence or nonconcurrence with each recommendation. If concurrence is stated, provide a corrective action plan that includes the target date and title of the official responsible for implementation of each recommendation.

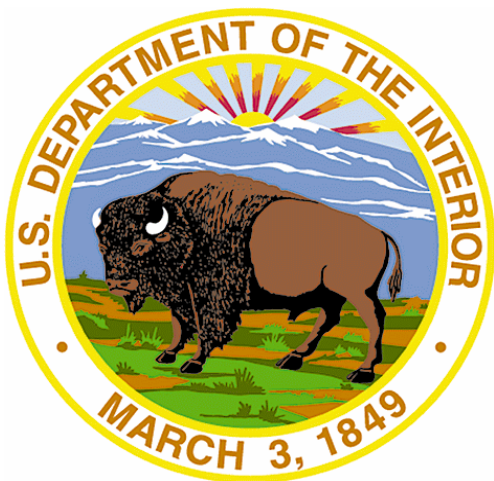
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