



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

Audit Report

Grants for Waste Disposal Projects, Department of Public Works, Government of the Virgin Islands





United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
1849 C Street, NW – MS 5341
Washington, DC 20240

May 11, 2005

Memorandum

To: David Cohen
Deputy Assistant Secretary for Insular Affairs

From: Roger La Rouché *Roger LaRouché*
Acting Assistant Inspector General for Audits

Subject: Final Audit Report “Grants for Waste Disposal Projects, Department of Public Works, Government of the Virgin Islands” (Report No. V-IN-VIS-0072-2004)

The attached report presents the result of our audit of Office of Insular Affairs grants to the Government of the Virgin Islands for various waste disposal projects in the Virgin Islands. The objective of the audit was to determine whether the Government of the Virgin Islands administered the grants in accordance with the terms and conditions of the grant awards.

The legislation, as amended (5 U.S.C. app. 3), creating the Office of Inspector General requires that we report to Congress semiannually on all reports issued, actions taken to implement our recommendations, and recommendations that have not been implemented. Therefore, this report will be included in the next semiannual report.

Please provide a response to this report by June 27, 2005. The response should provide the information requested in Appendix 4 and should be addressed to me at the above address, with a copy to our Caribbean Field Office, Ron deLugo Federal Building – Room 207, St. Thomas, VI 00802.

cc: Audit Liaison Office, Office of Insular Affairs
Governor of the Virgin Islands
Commissioner, Department of Public Works
Executive Director, Virgin Islands Waste Management Authority
Director, Virgin Islands Office of Management and Budget

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INTRODUCTION

BACKGROUND

During the 17-year period of 1984 through 2001, the U.S. District Court for the Virgin Islands, on behalf of the U.S. Environmental Protection Agency (EPA), filed four orders of consent and two civil action orders against the Government of the Virgin Islands for several violations of EPA requirements regarding solid waste and wastewater systems. To help the Virgin Islands address some of its solid waste and wastewater problems, the Office of Insular Affairs, U.S. Department of the Interior, awarded three grants totaling \$11.4 million to the Government of the Virgin Islands. As of August 30, 2004, expenditures against the grants totaled about \$4 million. Details follow:

<u>Grant Number</u>	<u>Award Date</u>	<u>Award Amount</u>	<u>Expended</u>
GR000046	12/16/1999	\$5,420,000	\$2,604,272
GR370087	04/16/2003	993,000	742,768
GR470070	12/01/2003	<u>5,000,000</u>	<u>659,043</u>
Totals		<u>\$11,413,000</u>	<u>\$4,006,083</u>

Through October 2004, the grants were administered by the Department of Public Works, which was responsible for (1) repairing, maintaining, and operating the sewage disposal system in the Virgin Islands; (2) enforcing and administering all regulations and laws covering the use of the sewage disposal system; (3) collecting and disposing of solid waste; and (4) managing public sanitary landfill sites.

On January 23, 2004, the Virgin Islands Waste Management Authority was created by Act No. 6638.¹ This autonomous entity, governed by a seven member Board of Directors, assumed all the powers, duties, and responsibilities pertaining to solid waste and wastewater management services in the Virgin Islands. As of October 2004, the Waste Management Authority's solid waste and wastewater units were being staffed by employees from the Department of Public Works and by new hires.

¹ Because the Department of Public Works had responsibility for waste disposal programs during most of the time period covered by our audit, we refer to the Department of Public Works, instead of the Waste Management Authority, throughout the body of this report.

**OBJECTIVE, SCOPE
AND METHODOLOGY**

The objective of the audit was to determine whether the Government of the Virgin Islands administered the grants in accordance with the terms and conditions of the grant awards.

To accomplish the audit objective, we reviewed grant-related documents located at the Departments of Public Works, Property and Procurement, and Finance, and the Virgin Islands Office of Management and Budget. We also interviewed appropriate officials at these organizations. The scope of the audit included grant-related transactions that occurred during fiscal years 2002 through 2004.

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 a part of our audit, we evaluated the internal controls related to procurement practices, grant administration, inventory control, and drawdown (reimbursement) processing. Internal control weaknesses in these areas are discussed in the Results of Audit section of the report. The recommendations, if implemented, should improve the internal controls in these areas.

**PRIOR AUDIT
COVERAGE**

In March 2003, the Office of Inspector General issued an audit report on grants for solid waste and wastewater disposal projects. Although all six recommendations contained in the prior report were considered to be implemented as a result of supplemental information provided by Public Works, our current audit disclosed problems similar to those included in the prior audit (see Appendix 1).

RESULTS OF AUDIT

OVERVIEW

We found that expenditures by the Department of Public Works (Public Works), totaling approximately \$4 million, were generally made for authorized purposes as specified in the grant agreements. We also found:

- salary costs of \$4,401 which were improperly charged to grant no. GR000046,
- inadequately documented procurement actions,
- minor weaknesses in controls over equipment purchased with grant funds,
- untimely processing of grant drawdown requests to the Office of Insular Affairs, and
- untimely recording of grant reimbursements to the appropriate Government Financial Management System accounts.

Salary Overcharges

The terms and conditions of grant number GR000046 allowed Public Works to request drawdowns for reimbursement of actual or accrued expenditures. These expenditures included the purchase of equipment and supplies, contractual project costs, and partial or total compensation and benefits of eight employees. A Notice of Personnel Action (NOPA) for each employee specified the percentage of total compensation that should be charged to the Office of Insular Affairs grant. Each biweekly pay period, each employee prepared a timesheet, which was processed for the Department of Finance to prepare the biweekly payroll registers and payroll checks. However, Public Works used these documents to prepare and process grant reimbursements for salary costs without reviewing the employees' NOPAs to determine the proper percentage that should be reimbursed from the grants. As a result, for the pay periods ended May 18, June 29, October 19, November 20, 2002, and January 25, 2003, salary costs for one employee were reimbursed from grant funds at the rate of 100 percent, although the employee's NOPA stated that reimbursement should be at 64 percent of salary costs. Therefore, a total of \$4,401 in payroll charges were incorrectly reimbursed from grant funds.

Subsequent to the February 16, 2005 exit conference, the Commissioner of Public Works provided documentation which

acknowledged the \$4,401 salary overpayment and stated that an appropriate adjustment would be processed to reverse the overcharge to the Office of Insular Affairs grant.

Procurement

The grants partially funded ten contracts totaling \$54.9 million. The contracts were awarded for wastewater and solid waste projects that included scrap metal processing, Anguilla landfill studies, architectural and engineering plans for new wastewater treatment plants, and maintenance of treatment plants.



Figure 1. Scrap metal processor at work at Bovoni Landfill, St. Thomas.
(Office of Inspector General Photo)

We reviewed six contracts totaling approximately \$54.4 million which were awarded during a period when Public Works was operating under emergency procurement procedures. For purchases under emergency conditions, the Department of Property and Procurement's Procurement Manual states that the user agency must (1) provide a minimum of three independent quotes to justify that competition was obtained, (2) submit a justification letter signed by the commissioner or agency head describing the selection process and, (3) furnish a copy of all pertinent documentation to Property and Procurement's Division of Procurement.

While the six contracts we reviewed were awarded during a period when Public Works was operating under emergency procurement procedures, the Department of Property and Procurement, which executed the procurements, used normal procurement procedures.

In that regard, we found that four contracts totaling \$54.2 million were awarded in accordance to the requirements. However, for two contracts totaling \$395,000, we were unable to determine whether proper procurement procedures were used because either the contract file was incomplete (HTA Caribbean contract no. 1) or the contract file was not available during our audit (Landfill Technologies Corp. contract). Our review results were as follows:

Contractor	Scope of Work	Amount	Competitive Bidding?	Supporting Documents?
HTA Caribbean (no. 1)	Provide negotiation assistance	\$195,000	UTD *	No
HTA Caribbean (no. 2)	Amendment to prior contract	\$193,000	NA **	Yes
Landfill Technologies Corp.	Environmental studies	\$200,000	UTD *	No
V.I. Recycling Company	Scrap metal processing	\$1,723,960	Yes	Yes
VWNA Caribbean (no. 1)	Design, build, operate plant	\$26,644,253	Yes	Yes
VWNA Caribbean (no. 2)	Design, build, operate plant	\$25,640,753	Yes	Yes
Notes: * UTD – Unable to Determine: Supporting procurement documents were incomplete or unavailable. ** NA – Not Applicable: This was a contract amendment to extend the original contract term.				

Subsequent to the February 16, 2005 exit conference, the Commissioner of Public Works provided us with copies of the two contracts as additional support. However, we had already obtained copies of the contracts during our audit. What was lacking was evidence of the basis for selecting the contractors.

Equipment Controls

During the period of February 2001 through November 2003, Public Works purchased 99 equipment items at a cost of approximately \$1 million. During our review and physical inspection of 48 items costing a total of \$156,763, we were unable to locate 4 items valued at \$8,765. The Department of Property and Procurement's Property Manual states that each department or agency shall conduct a complete physical inventory of all capitalized equipment² at least once biennially. Although Public Works personnel updated the last inventory list and tagged all newly-purchased items, they did not perform a complete physical inventory of all equipment. Our review disclosed that a computer printer listed as being located in St. Thomas had been moved to Public Works' St. Croix office, and another printer included on the list without location information could not be located at the St. Thomas office. We also could not specifically identify two garbage collection bins on St. Thomas because required Government property tags had not been affixed to the bins and the bins' serial numbers were not listed on the inventory list.

² Equipment is considered to be capitalized if it has a purchase price of \$5,000 or more or consists of sensitive items, such as computer equipment.

Subsequent to the February 16, 2005 exit conference, the Commissioner of Public Works provided us with information indicating that the unit costs of the two garbage collection bins were below the \$5,000 capitalization threshold and that the bins had been acquired prior to the issuance of the updated property capitalization guidelines. The Commissioner stated that Public Works would follow-up on the property control issues we identified.

Drawdowns

To receive reimbursement for approved grant expenditures, Public Works must drawdown funds from the Office of Insular Affairs grants. Public Works officials prepared the drawdown requests and submitted them to Management and Budget for transmittal to the Office of Insular Affairs. During the period of July 2002 through July 2004, Public Works prepared and submitted to Management and Budget a total of 31 drawdown requests. However, Management and Budget did not transmit all requests to the Office of Insular Affairs in a timely manner. As a result, drawdown requests were delayed from 5 to 201 days, or an average of 64 days. For example, Public Works prepared a drawdown request for \$30,488 on October 24, 2003, but Management and Budget did not submit the request to the Office of Insular Affairs until August 30, 2004.

Recording Grant Reimbursements

Based on approved drawdown requests, the Office of Insular Affairs electronically transfers grant funds to the Government's Federal Funds Depository Account at a St. Thomas bank. Office of Insular Affairs personnel also inform Public Works when the transfers occur. Using this information, Public Works personnel are suppose to prepare Statements of Remittance³ and submit them to the Department of Finance. The Statements of Remittance are used to record the deposit of grant funds in the appropriate cost center accounts in the Government's Financial Management System.

Despite this process, we found that grant funds totaling \$2.5 million transferred to the bank account during the period of January 2002 to August 2004, had not been recorded in the appropriate Financial Management System accounts. This occurred because the Department of Finance had not communicated all of the required account codes and other pertinent information to Management and Budget when it transferred the function to Management and Budget. This delayed the processing

³ A Statement of Remittance is a form used as the source document for recording the receipt and deposit of revenues into the appropriate account in the Government of the Virgin Islands' Financial Management System.

of Statements of Remittance until September 22, 2004, when Office of Management and Budget personnel tried to input the information from six Statements of Remittance totaling \$501,451. The System accepted only two transactions, totaling \$77,618. As a result, grant drawdowns totaling about \$2.5 million still had not been recorded in the Financial Management System as of September 2004, and local funds used for waste disposal projects had not been reimbursed from the approved grant funds.

RECOMMENDATIONS

TO THE DEPUTY ASSISTANT SECRETARY FOR INSULAR AFFAIRS

We recommend that the Deputy Assistant Secretary for Insular Affairs ensure that the Government of the Virgin Islands:

1. Follows appropriate procurement requirements when using Office of Insular Affairs (OIA) grant funds.
2. Institutes adequate controls over payroll charges before requesting reimbursement for such charges from OIA grant funds.
3. Reimburses the OIA for \$4,401 that was over-reimbursed for payroll charges of a Public Works employee.
4. Follows requirements for biennial physical inventories of equipment purchased with OIA grant funds and reconciles the results with the property control records.
5. Institutes adequate controls to ensure that OIA grant drawdown requests are promptly processed, submitted, and recorded.

OIA AND PUBLIC WORKS RESPONSES

We received responses (see Appendix 3) to the draft report from OIA and Public Works. The April 18, 2005 response from OIA concurred with the recommendations and stated that OIA would require the Government of the Virgin Islands to provide supporting documentation regarding the apparent overcharge of \$4,401 in salary costs to OIA grant funds. The response also indicated that OIA would ensure that grant funds “are being used in compliance with applicable laws and regulations.” The April 15, 2005 response from Public Works included the following information regarding the five recommendations:

- Recommendation 1: Public Works stated that the completeness of procurement files and documentation of compliance with procurement requirements was the responsibility of the Department of Property and Procurement.
- Recommendations 2 and 3: Public Works concurred that an overcharge of \$4,401 was made, but countered that its review also disclosed an undercharge of \$14,710 related to another employee. Therefore, Public Works would request a drawdown from OIA of the \$10,309 difference. Public Works also stated that it would ensure that proper controls were in place for future requests for reimbursement of payroll charges.

- Recommendation 4: Public Works concurred that some OIA-funded equipment was not properly recorded in the property control records and stated that corrective actions would be taken during the next physical inventory cycle.
- Recommendation 5: Public Works stated that the timeliness of the processing and recording of grant drawdowns was the responsibility of the Virgin Islands Office of Management and Budget.

Based on the OIA response, we classified Recommendations 1, 2, 4, and 5 as management concurs, additional information needed, and Recommendation 3 as resolved but not implemented. Appendix 4 describes the information needed to close out the recommendations.

APPENDIX 1 - PRIOR AUDIT COVERAGE

OFFICE OF INSPECTOR GENERAL REPORTS

The March 2003 audit report “Grants for Solid Waste and Wastewater Disposal Projects, Department of Public Works, Government of the Virgin Islands” (No. 2003-I-0012) stated that Public Works did not (1) always submit required financial and progress reports to the Office of Insular Affairs and those that were submitted were late, (2) adequately document the applicability of public exigency exemptions to contracts that were awarded non-competitively, (3) ensure that property management records were sufficient to account for and safeguard equipment purchased with grant funds, and (4) promptly submit drawdown requests to the grantor agency and record all drawdown requests to the appropriate project accounts.

Although all six recommendations contained in the prior report were considered to be implemented as a result of supplemental information provided by Public Works, our current audit found problems similar to those disclosed in the prior audit.

APPENDIX 2 - MONETARY IMPACT

FINDING AREA

Cost Exception

Over-Reimbursement of
Payroll Costs

\$4,401*

* Amount represents Federal funds.

APPENDIX 3 - RESPONSES TO DRAFT REPORT



United States Department of the Interior

OFFICE OF INSULAR AFFAIRS

1849 C Street, NW
Washington, DC 20240



Deputy Assistant Secretary

April 18, 2005

MEMORANDUM

To: Roger LaRouche
Assistant Inspector General for Audits

From: David B. Cohen 
Deputy Assistant Secretary – Insular Affairs

Subject: Draft Audit Report “Grants for Waste Disposal Projects, Department of Public Works, Government of the Virgin Islands” (Assignment No. V-IN-VIS-0072-2004)

The Office of Insular Affairs (OIA) has reviewed the draft audit report completed by the Office of Inspector General (OIG) and concurs that the Government of the Virgin Islands (the Government) must take corrective actions as identified in recommendations 1 through 5. Regarding the questioned cost of \$4,401, OIA will require the Government to provide supporting documentation that verifies the corrective action to reverse the overpayment was completed, or OIA will take necessary actions to recoup the funds. OIA is also currently reviewing appropriate control measures and will implement additional measures, as necessary, in order to provide greater assurances that OIA funds are being used in compliance with applicable laws and regulations.

Thank you for the opportunity to respond to this draft report. If you have any questions or need additional information, please do not hesitate to contact me or Nikolao Pula, Director of OIA, at (202) 208-4736.



OFFICE OF
THE COMMISSIONER

GOVERNMENT OF
THE VIRGIN ISLANDS OF THE UNITED STATES

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April 15, 2005

Mr. Roger LaRouche, Assistant Inspector General for Audits
United States Department of the Interior
Office of the Inspector General
1849 C. Street, NW-MS 5341
Washington, DC 20240


Re: Response to Draft Audit Report No. V-IN-VIS-0072-2004 on Grants to
the Virgin Islands Government for Waste Disposal Projects

Dear Mr. LaRouche:

Attached is the Department of Public Works' (PWD) and the Virgin Islands Waste Management Authority's (VIWMA) two (2) page response to the above referenced draft audit report. Also attached are 16 pages of documentation in support of our response.

Please let me know if we can be of further assistance in this matter, or you may contact Eva E. Richardson, Grants Manager, at (340) 776-4844.

Sincerely,


George W. Phillips
Acting Commissioner

pc: Governor of the Virgin Islands
Executive Director, V.I Waste Management Authority
OIG Caribbean Field Office Supervisor
Director, V.I. Office of Management and Budget
Grants Manager, V.I. Public Works Department.

GOVERNMENT OF THE U.S. VIRGIN ISLANDS
PUBLIC WORKS DEPARTMENT
Response to OIG Draft Audit Report No. V-IN-VIS-0072-2004
On DOI/OIA Grants for Waste Disposal Projects

1. Procurement – Audit Finding/Recommendation: Of contracts totaling about \$54.6 million, the auditors were unable to determine whether proper procurement procedures were used for two contracts totaling \$395,000 because in one instance the contract file was incomplete and in the other instance the contract file was not available during the audit.

Response - Public Works Department/V.I. Waste Management Authority (PWD/VIWMA): Other than to the information and documentation submitted to the OIG, Caribbean Field Office Supervisor with our response to the preliminary findings dated 2/22/05, **PWD/VIWMA cannot effectively respond to this finding as it relates to the availability and completeness of procurement files which are the responsibility of the V.I. Department of Property and Procurement (DP&P).** In our preliminary response it was requested that this finding be directed to the DP&P.

2 & 3. Payroll Overcharge & Reimbursement – Audit Finding/Recommendation: PWD requested draw downs for employee payroll costs based on biweekly timesheet records rather than calculating draw downs based on the percentages stated on the Notice of Personnel Action (NOPA). This resulted in requested draw downs from the grant of \$4,401 in excess of the 64% stated on the NOPA, for the pay periods May 18, June 29, October 19, November 30, 2002 and January 25, 2003. The amount should be reimbursed to the Office of Insular Affairs (OIA).

Response: PWD/VIWMA concur with this finding. However, a more extensive analysis the payroll records for the period 6/10/02 through 3/6/04 revealed that one employee who should have been paid 100% from DOI/OIA grant funds was paid from other funds. As a result, an adjustment voucher # 60-10WMA-04 was prepared by PWD for the period June 14 thru September 20, 2003 to charge the grant for the amount of \$14,710. This was processed by Department of Finance Voucher # 817398. See attached documentation - 13 pages.

Based on the above information, PWD will deduct the \$4,401, owed to DOI, from the amount of \$14,710 and the balance of \$10,309 will be requested as a drawdown from the DOI/OIA.

Official Responsible: Senior Accounts Analyst, V.I. Waste Management Authority. The drawdown request should be submitted to V.I. Office of Management and Budget by 4/29/05. The said employee will also ensure that the controls in place are followed regarding requests for draw downs.

IG/DOI Grants Audit
Documentation/Info. Exit Conference
Page 2

4. Control Over Equipment – Audit Finding/Recommendation: One computer printer listed as being located on St. Thomas was moved to PWD's St. Croix office and another printer included on the list without location information could not be located at the St. Thomas office. Two of four garbage collection bins could not be specifically identified because their property tags and bins serial numbers were not available.

Response: PWD/VIWMA concur with the finding. The New Waste Management Authority is researching the matter regarding the HP 1200 Laser Jet Printer: Serial # CNBB122833, Tag #56560, which was questioned by the auditor. This will be submitted as soon as the research is completed. Regarding the 2 garbage collection bins: **The garbage bins were included on the most recent equipment inventory listing in error.** The attached invoice indicate that 4 bins were purchased at a unit price of \$3,783.50 each – including freight, see attached copies of purchase order and invoice – **2 pages.** Under the inventory management procedures issued by DP&P, non-computer and non-electronic items must meet the price threshold of \$5,000 to be included on the equipment inventory list. These bins do not meet that threshold and should not have been included on the 8/17/04 property inventory list. While all 4 bins were tagged at the time of purchase and are still located at the originally designated areas, some tags may have been washed off in the heavy rains. Further, none of the garbage bins came with serial numbers. The bins will be re-tagged and the property inventory list will be revised to exclude them within the current biannual period, 8/17/04 thru 8/16/06.

Official Responsible: The Director of Procurement, V.I. Waste Management Authority.
Deadline for Action: Not later than 8/16/06.

5. Delayed Drawdown Requests – Finding/Recommendation: Office of Management and Budget did not transmit all requests to Office of Insular Affairs in a timely manner, as a result, drawdown requests were delayed for an average of 64 days.

PWD/VIWMA Response: The V.I. Office of Management and Budget (OMB) is responsible for processing draw down requests submitted by PWD for reimbursement from DOI/OLA and it is expected that OMB will respond to this finding.

APPENDIX 4 - STATUS OF RECOMMENDATIONS

Finding/Recommendation Reference	Status	Action Required
1, 2, 4, and 5	Management concurs, additional information needed.	Provide specific information regarding the steps to be taken to ensure compliance by the Government of the Virgin Islands with grant administrative requirements.
3	Resolved, not implemented.	Provide documentation showing the final disposition of the \$4,401 in apparent payroll overcharges.

Report Fraud, Waste, Abuse, and Mismanagement



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