



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

AUDIT REPORT

**CHILD SUPPORT ENFORCEMENT PROGRAM,
DIVISION OF PATERNITY AND CHILD SUPPORT,
DEPARTMENT OF JUSTICE,
GOVERNMENT OF THE VIRGIN ISLANDS**

**REPORT NO. 99-I-921
SEPTEMBER 1999**



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United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

SEP 30 1999

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

Subject: Audit Report on the Child Support Enforcement Program, Division of Paternity and Child Support, Department of Justice, Government of the Virgin Islands
(No. 99-I-921)

Dear Governor Turnbull:

This report presents the results of our review of the management of Child Support Enforcement Program grants by the Division of Paternity and Child Support, Virgin Islands Department of Justice. The objective of the audit was to determine whether (1) the Division complied with grant terms and applicable laws and regulations; (2) charges made against grant funds were reasonable, allowable, and allocable in accordance with the grant agreement provisions; (3) funds received through electronic transfers were deposited to appropriate accounts and accounted for in the Government's Financial Management System; and (4) drawdowns were made in accordance with the Cash Management Improvement Act of 1990. The scope of the audit initially included fiscal years 1997 and 1998 but, at the request of Division officials, was expanded to include fiscal year 1996.

Based on our audit, we concluded that although the Division of Paternity and Child Support generally expended grant funds for purposes which were allowable under the grants, the Division did not ensure that (1) costs claimed against grant accounts were reasonable and adequately supported, (2) the grants were administered in accordance with grant terms and applicable laws and regulations, and (3) drawdowns of grant funds were made and documented in accordance with the Cash Management Improvement Act. Specifically, we found that the Division of Paternity and Child Support:

- Expended \$78,884 for office space that was not used and an additional \$87,468 for office space construction work for which it should not have been responsible, did not ensure that competitive procurement practices were used, and did not ensure that payroll costs were supported by valid time and attendance records.

- Did not maintain adequate property control records or perform periodic physical inventories of equipment, did not properly record and safeguard collections, and did not correctly calculate indirect costs chargeable to the grants.

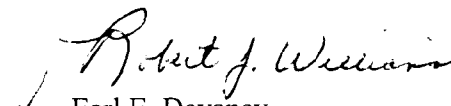
- Did not request drawdowns of Federal grant funds until after payment checks had been prepared for issuance and did not maintain adequate supporting documents for drawdowns made prior to June 1998.

We made 10 recommendations to you, as the Governor of the Virgin Islands, to address the deficiencies identified by the audit. Based on the August 31, 1999, response to the draft report received from your office, we consider Recommendations A.3, A.4, B.1, B.2, B.3, C.1, and C.2 resolved and implemented and Recommendation B.4 unresolved and request additional information for Recommendations A.1 and A.2 (see Appendix 3).

Section 5(a) of the Inspector General Act (Public Law 95-452, as amended) requires the Office of Inspector General to list this report in its semiannual report to the Congress. Therefore, please provide a response to this report by January 21, 2000. The response should be addressed to our Caribbean Office, Federal Building - Room 207, Charlotte Amalie, Virgin Islands 00802. The response should provide the information requested in Appendix 3.

We appreciate the assistance provided by the Division of Paternity and Child Support in the conduct of our audit.

Sincerely,


Earl E. Devaney
Inspector General

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INTRODUCTION

BACKGROUND

The Division of Paternity and Child Support was established within the Virgin Islands Department of Justice by Title 3, Section 119, of the Virgin Islands Code to administer Title IV-D of the Social Security Act in the Virgin Islands. The purpose of the Title IV-D (or Child Support Enforcement) Program is to provide for the coordination and oversight of state efforts to collect child support payments from absentee parents and distribute such funds to the custodial parents.

The Child Support Enforcement Program is funded through entitlement grants awarded by the U.S. Department of Health and Human Services, which provide 66 percent of the Program's personal services and other operating costs and 90 percent of necessary data processing support costs. The remaining costs of the Program (34 percent of personal services and other operating costs and 10 percent of data processing support costs) are to be matched by the Division of Paternity and Child Support from local funds. The Division received Federal grants of \$2.5 million during fiscal year 1996, \$2.2 million during fiscal year 1997, and \$1.5 million during fiscal year 1998. Under the terms of the entitlement grants, grant funds do not have to be expended in the year during which the funds are awarded.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether (1) the Division of Paternity and Child Support complied with grant terms and applicable laws and regulations; (2) charges made against grant funds were reasonable, allowable, and allocable in accordance with the grant agreement provisions; (3) funds received through electronic transfers were deposited to appropriate accounts and accounted for in the Government's Financial Management System; and (4) drawdowns were made in accordance with the Cash Management Improvement Act of 1990.

The scope of the audit initially included a review of Child Support Enforcement Program transactions that occurred during fiscal years 1997 and 1998 but was expanded, at the request of Division officials, to include fiscal year 1996. The scope of our review was limited to the extent that the Division of Paternity and Child Support did not maintain complete and up-to-date grant files; therefore, we were not able to reconcile all drawdowns of grant funds to the related grant expenditures.

To accomplish the audit objective, we reviewed grant award documents, supporting documentation for expenditures claimed against the grants, supporting documentation for electronic transfers of Federal funds, and the operating procedures used by the Division of Paternity and Child Support. The audit was conducted at the Division of Paternity and Child Support and at the Departments of Justice, Finance, and Property and Procurement.

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

As part of our audit, we included an evaluation of internal controls over the Division's operations to the extent we considered necessary to accomplish the audit objective. Internal control weaknesses were identified in the areas of grant expenditures, grant administration, and grant drawdowns. These weaknesses are discussed in the Findings and Recommendations section of this report. The recommendations, if implemented, should improve the internal controls in these areas.

PRIOR AUDIT COVERAGE

In 1989, the Office of Inspector General issued the audit report "Review of the Child Support Enforcement Program, Division of Paternity and Child Support, Department of Justice, Government of the Virgin Islands" (No. 89-78). The report stated that (1) funds were adequately accounted for and that the Division was in the process of implementing new operating procedures designed to bring it into full compliance with program requirements, (2) internal control weaknesses should be corrected to ensure that cash and checks are adequately safeguarded and disbursements to custodial parents are made timely, and (3) a contract was awarded noncompetitively. To address these issues, the report made two recommendations. The Governor concurred with the recommendations, which were considered resolved and implemented. The issues discussed in the prior audit report were similar to those disclosed by our current audit.

In February 1998, the Administration for Children and Families, U.S. Department of Health and Human Services, issued an audit report (No. VI-97-RSR) on the Division of Paternity and Child Support, Virgin Islands Department of Justice. Although the report stated that "the systems used to accumulate, record and report collection, expenditure and statistical data were generally accurate and reliable," the report identified deficiencies which required improvements to be made to the reporting systems. The report contained 15 recommendations, which the Division sufficiently addressed in its response to the report.

FINDINGS AND RECOMMENDATIONS

A. GRANT EXPENDITURES

The Division of Paternity and Child Support did not ensure that costs claimed against Child Support Enforcement Program grants were reasonable and adequately supported. Specifically, the Division (1) incurred costs for the rental of unused office space and for office space construction work that was performed for a prior occupant, (2) did not ensure that competitive procurement practices were used, and (3) did not ensure that payroll costs were supported by valid time and attendance records. U.S. Office of Management and Budget Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments," defines the types of costs that are allowable under Federal grant programs and the types of documentation that should be maintained to support allowable costs. Additionally, Title 31, Chapter 23, of the Virgin Islands Code contains the Government's basic procurement requirements. However, deficiencies existed because the Division entered into its existing office space rental agreements without negotiating with the landlord to secure office space that it believed would be needed and did not comply with existing rules and regulations regarding competitive procurements and the documentation of payroll costs. As a result, the Division (1) expended \$78,884 for office space that was not used and could expend an additional \$147,108 for the unused office space during the remaining life of its rental agreement, (2) expended more than \$87,468 for construction work that it did not request and for which it should not have been responsible and could expend an additional \$163,116 for work during the remaining life of its rental agreement, (3) had little assurance that it received the best price for contract services that were not competitively procured, and (4) had little assurance that employees worked all hours for which they were paid (see Appendix 1).

Rental Agreements

In April 1996, the Division entered into rental agreements for two adjacent office spaces on St. Thomas at monthly rental costs of \$2,132 and \$2,548, for a monthly total of \$4,680. About the same time, a third adjacent office space that was used by one of the Division's contractors became available. Division officials said that because they believed they would eventually need additional office space, the Division assumed the rental lease of the contractor at an additional monthly rental cost of \$2,948, for a new monthly total of \$7,628. The Division occupied this third office space and paid the additional monthly rental cost of \$2,948 for 3 months before the rental agreement was formally executed through the Office of the Governor.

In addition, the Division assumed a further monthly cost of \$2,364, which represented the amortized construction costs incurred by the landlord to set up the third office space to the specifications of the contractor that had previously occupied the space. Although Division officials told us that they did not believe the Division should have been held liable for these construction costs, they agreed to pay the costs to rent the additional office space. Therefore, the Division was paying total monthly rental costs of \$9,992 for office space on St. Thomas.

Unused Office Space. We found that the Division had never occupied or used one of the two office spaces which it initially rented in April 1996. Because the monthly rental cost for this office space was \$2,132, the Division, through April 1999 (37 months), incurred rental costs totaling \$78,884 for this office space. Circular A-87 states that the cost of "idle facilities" is not allowable as a claim against Federal grants and defines idle facilities as "completely unused facilities that are excess to the governmental unit's current needs." Division officials told us that they had not been able to use the space because the Federal grantor agency had denied their request for construction money to prepare the space for occupancy and that the Virgin Islands Government did not have funds to pay for the construction work. These rental costs were disallowed by the U.S. Department of Health and Human Services, which concluded in its February 1998 audit report (see Prior Audit Coverage) that "it is unreasonable to continue to claim costs for unoccupied office space." As a result, local funds were used to pay for the disallowed rental costs. We estimate that if the Division continues to pay the \$2,132 monthly rental cost for the unoccupied office space, it will incur additional unnecessary costs of \$147,108 over the remaining term of the rental agreement (69 months). Therefore, the Division should assess its space needs and either make arrangements to begin using the vacant office space or negotiate with the landlord to terminate the lease for the unused space. In our opinion, payment of a reasonable termination penalty would be preferable to paying an additional \$147,108 for unused office space.

Amortized Construction Costs. With regard to the \$2,364 monthly amount paid by the Division to liquidate the cost of construction work performed by the landlord in the third office space at the request of the former occupant, the Division, through April 1999 (37 months), had incurred related costs totaling \$87,468. Although Circular A-87 states that "[c]osts incurred for ordinary and normal rearrangement and alteration of facilities are allowable," we believe that because the construction work had been performed at the request and specification of a prior occupant, the Division should not have assumed responsibility for reimbursing the landlord for the construction costs. Division officials said that they should not have assumed the construction costs of the prior occupant but that they accepted the landlord's terms without question to avoid losing the opportunity to obtain the vacated office space. We estimate that if the Division continues to pay the \$2,364 monthly amount for the prior construction costs, it will incur additional unnecessary costs of \$163,116 over the remaining term of the rental agreement (69 months).

During the July 12, 1999, exit conference on a preliminary draft of this report, the Director of Paternity and Child Support stated that the unused office space was being used temporarily for storage but that the Division was planning to terminate the lease for its present space and move to the Government Employees Retirement System Building.

Procurement Practices

Title 31, Chapter 23, Section 236(a), of the Virgin Islands Code states that "[a]ll purchases of, and contracts for, supplies, materials, equipment, and contractual services, . . . shall be based on competitive bids." Title 31, Chapter 23, of the Virgin Islands Rules and Regulations further states that "all purchases and contracts, . . . whether by formal advertising

or by negotiation, shall be made on a competitive basis to the maximum practicable extent." Federal grant management regulations, which are contained in the Code of Federal Regulations (45 CFR 92, the "Common Rule") and U.S. Office of Management and Budget Circular A-102, "Grants and Cooperative Agreements with State and Local Governments," also require that competitive procurement practices be used for Federally funded programs.

The Division of Paternity and Child Support had six contracts, each for more than \$5,000 and totaling \$8.3 million, in effect during the period of audit. However, we did not find any documentation in the procurement files at the Division or at the Department of Property and Procurement that competitive procurement practices were used or that any of the exemptions from competition specified in the Virgin Islands Code were applicable. As a result, the Division had little assurance that it obtained the most favorable prices and the highest quality products or services. The Division's Computer Manager, who was responsible for supervising procurement activities for the Division, told us that based on prior experience, the Division was "comfortable" with certain contractors (satisfied with their performance) and awarded subsequent contracts to those contractors.

Payroll Costs

The payroll section of the Virgin Islands Department of Justice was responsible for processing payroll transactions for employees of the Division of Paternity and Child Support based on biweekly time cards and time sheets prepared at the Division and then transmitted to the Department for processing. To test the accuracy of payroll transactions, we reviewed the supporting documents for a random sample of five pay periods from each of the 3 fiscal years during the period of audit (1996, 1997, and 1998). We traced the work hours shown on the original entry document (Division of Paternity and Child Support employee time sheets) through each level of records (time and attendance records and payroll registers) to ensure that the payroll costs claimed for grant purposes were accurate.

Circular A-87 states, "Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit." However, the Division of Paternity and Child Support and the payroll section of the Department of Justice did not ensure that payrolls for the Division's employees were adequately supported. For example, of the 324 employee payroll records reviewed, we found 41 instances where differences existed between the hours worked as shown on the employees' time sheets and those shown on the payroll registers and 14 instances where the payroll registers were not supported by time sheets.

Department of Justice payroll personnel told us that because they had a deadline for submitting employee payroll documents to the Department of Finance for processing and payment, they processed the payroll as though the employee had worked a regular 80-hour shift, even though an employee may not have submitted a time sheet for a biweekly pay period. According to the personnel, they would then make necessary adjustments in the next pay period if the employee subsequently submitted a time sheet. However, neither Department of Justice nor Division of Paternity and Child Support personnel followed up to

obtain the necessary document from the employee or adjusted the employee's pay based on the hours worked if the employee did not submit the overdue time sheet. As such, we concluded that there was little assurance that employees of the Division of Paternity and Child Support worked the number of hours for which they were paid or were charged for the number of hours of leave used.

We noted that in its February 1998 audit report (see Prior Audit Coverage), the U.S. Department of Health and Human Services also found that "prior period payroll registers were utilized to prepare current monthly payroll summaries because the current payroll registers were not available."

Recommendations

We recommend that the Governor of the Virgin Islands instruct the Director of Paternity and Child Support to:

1. Assess its office space needs and either make arrangements to begin using the vacant office space on St. Thomas for which the Division is making monthly rental payments or negotiate with the landlord to terminate the lease on the unused space.
2. Negotiate with the landlord to reduce or eliminate the monthly amount paid for construction work which was requested by and performed for a prior occupant of office space currently rented by the Division.
3. Implement internal policies and procedures to ensure that the Division complies with the competitive procurement requirements of the Virgin Islands Code, the Virgin Islands Rules and Regulations, and the Common Rule (45 CFR 92).
4. Implement internal policies and procedures to ensure that all employees submit required time sheets in sufficient time to allow for the processing of biweekly payrolls and that payroll costs are supported by documentation that complies with the requirements of Circular A-87.

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

The August 31, 1999, response to the draft report (Appendix 2) from the Governor of the Virgin Islands stated concurrence with Recommendations 1 and 2, indicated concurrence with Recommendation 4, and indicated nonconcurrence with Recommendation 3. Based on the response, we consider Recommendations 3 and 4 resolved and implemented and we request additional information for Recommendations 1 and 2 (see Appendix 3).

Recommendation 3. Nonconcurrency indicated.

Governor of the Virgin Islands Response. The response stated that the Paternity and Child Support Division did not concur with the finding that "six contracts totaling \$8.3 million . . . had not been procured pursuant to the competitive procurement practices prescribed by the Virgin Islands Code." The response also stated, "During the period covered by the Draft Audit Report, a competitive bid process was not required because the 'contracts' reviewed by the Auditors were in fact **amendments** to contracts executed during the [previous] Administration." Despite the nonconcurrency, the response stated that the competitive procurement requirements of the Virgin Islands Code and the Code of Federal Regulations "will be adhered to strictly."

Office of Inspector General Reply. Contrary to the statement made in the response, we found that only three of the six contracts included in our review had originally been awarded prior to the period covered by the scope of our audit (fiscal years 1997 and 1998) and that, even in those three cases, the original contract periods ran through the period covered by our review. The amendments to those three contracts were for (1) additional enhancements and support for a software system, (2) training on child support procedures, and (3) additional office rental space. The other three contracts were originally issued during fiscal years 1997 or 1998. Therefore, as part of our audit, we reviewed the method of procurement used for all six original contracts and any subsequent amendments. Our review of the contract files at the Paternity and Child Support Division and at the Department of Property and Procurement did not disclose any evidence that competitive procurement procedures had been used for the six original contracts or any subsequent amendments. Therefore, we believe that the finding and related recommendation are valid. However, based on the statement in the response that the competitive procurement requirements "will be adhered to strictly," we consider the recommendation resolved and implemented.

B. GRANT ADMINISTRATION

The Division of Paternity and Child Support did not ensure that Child Support Enforcement Program grants were administered in accordance with grant terms and applicable laws and regulations. Specifically, the Division did not (1) maintain adequate property control records or perform periodic physical inventories of equipment, (2) ensure that Program income collections were properly recorded and safeguarded, and (3) correctly calculate indirect costs chargeable to the grants. The Common Rule (45 CFR 92) contains the general administrative requirements related to property management and Program income, and Circular A-87 contains the general principles for determining indirect costs. Additionally, the Government Accounting Manual, issued by the Virgin Islands Department of Finance, establishes the procedures for safeguarding collections. The deficiencies occurred because the Division did not assign personnel to perform the required property management functions and did not monitor the collection and recording of Program income and the computation of indirect costs. As a result, Federally funded equipment valued at about \$22,800 and Child Support Enforcement Program fee collections of approximately \$23,000 were subject to loss, and the Government did not recover indirect costs of \$16,183 (see Appendix 1).

Property Management

The Common Rule (45 CFR 92.32) requires that grantees maintain property records which include specific information on equipment purchased with Federal funds and conduct physical inventories of such equipment at least every 2 years. To determine whether the Division of Paternity and Child Support complied with these requirements, we selected for review 12 property items, valued at \$22,800, that were purchased with grant funds during the period of audit. However, we were unable to physically locate any of the 12 items or trace them to property management records because the Division did not maintain property control records, affix property identification tags, or perform periodic physical inventories of the property. The lack of property control procedures occurred because the Division's Director had not delegated these duties to any Division personnel. As a result, the 12 items included in our review were subject to loss or misuse.

Controls Over Collections

The Common Rule (45 CFR 92.25) states that "[g]rantees are encouraged to earn income to defray program costs" and that "[o]rdinarily program income shall be deducted from total allowable costs to determine net allowable costs." Accordingly, the Division charged an application fee of \$20 to parents who established child support cases. The revenues from these fees were deposited into the Attorney General's Trustee Account. However, we found that revenue collections were incorrectly reported on the quarterly report forms because Division officials did not adequately monitor the collection of revenues, the reconciliation of collections and deposits, and the preparation of the quarterly report forms. For example, we found that the Division, in fiscal year 1996, underreported application fee collections by \$2,270; in fiscal year 1997, overreported collections by \$100; and in fiscal year 1998, underreported collections by \$240.

We also found that the Division did not adequately safeguard collections of approximately \$23,000. The Division had one collector on St. Thomas, who was responsible for collecting Program application fees and child support payments and preparing cashier receipts to record the collections. However, we observed individuals, including two Division employees and a contract security guard who were not bonded or authorized as cashiers, making collections on behalf of the Division. The security guard received a payment of \$350 from an absentee parent during a time when Division employees were participating in a staff meeting. He placed the cash in an envelope in his unlocked desk and later gave it to the Division's authorized collector. However, the individual who made the payment did not receive a receipt as evidence of having made the \$350 payment. The Government Accounting Manual requires that cash collections be accepted only by collectors and assistant collectors who are approved by the Commissioner of Finance. In our opinion, these collection officers should be bonded to safeguard the interests of the Government if funds collected are lost.

In March 1999, near the completion of our audit, the Division had the two unauthorized employees who had made collections bonded and authorized to receive collections.

Indirect Costs

U.S. Office of Management and Budget Circular A-87 contains general guidelines under which state and local government agencies that receive Federal grants can recover a proportionate share of the administrative overhead or "indirect costs" associated with managing the grant programs. These indirect costs are computed on the basis of an indirect cost rate negotiated between the state or local government agency and the cognizant Federal agency.¹ The specific procedures used by Government of the Virgin Islands agencies to prepare indirect cost proposals for Federal review and approval are prescribed by the Virgin Islands Office of Management and Budget. For most Government agencies, including the Division of Paternity and Child Support, the indirect cost rates are computed on the basis of direct salaries and wages, excluding fringe benefits. For example, if an agency had an approved indirect cost rate of 10 percent, it could claim \$10 of indirect costs against its Federal grant programs for every \$100 of direct salaries paid to employees of those grant programs.

Within the Division of Paternity and Child Support, the Assistant Budget Control Officer prepared a quarterly summary of expenditures that categorized expenditures as "payroll expenses" and "other operating expenses." The reported payroll expenses were based on a computerized spreadsheet that was prepared for each pay period. The spreadsheets were based on information obtained from the official payroll registers. We reviewed these documents for the period of audit and found that indirect costs were incorrectly calculated because (1) the totals shown for gross salaries on the computerized spreadsheets were not computed correctly, (2) employees' gross salaries were incorrectly stated, and (3) employees' gross salaries were omitted from the payroll spreadsheets and payroll registers. Because of

¹The cognizant Federal agency for the Virgin Islands is the Office of Inspector General, U.S. Department of the Interior.

the incorrect computations, indirect costs were initially underreported by \$9,474 in fiscal year 1996 and \$16,183 in fiscal year 1998. We found that additional underreporting of indirect costs occurred because the Division incorrectly used the fiscal year 1996 indirect cost rate of 18.07 percent to calculate indirect costs for the first quarter of fiscal year 1997. The approved fiscal year 1997 indirect cost rate was 37.04 percent.

At the time of the audit, the Assistant Budget Control Officer told us that expenditure adjustment reports had been prepared to correct the errors, but she could not provide documentation to support these corrections. As part of the response to the draft report, the Division provided documentation to show that the underreporting of indirect costs for fiscal years 1996 and 1997 had been corrected. However, the Division did not provide documentation regarding the \$16,183 underreporting of indirect costs for fiscal year 1998. We believe that the Division should establish procedures to ensure that indirect cost calculations are reviewed for accuracy and are based on the applicable rates for each fiscal year.

Recommendations

We recommend that the Governor of the Virgin Islands instruct the Director of Paternity and Child Support to:

1. Implement internal property management procedures and delegate property management responsibility to specific Division employees to ensure that complete and accurate property control records are maintained, property identification tags are affixed to all Government-owned property, and physical inventories of equipment and other personal property are conducted at least biennially.
2. Implement internal policies and procedures to ensure that collections and deposits are reconciled and that program income is correctly recorded on the Child Support Enforcement Program Financial Report - Quarterly Report of Expenditures and Estimates (OCSE-131).
3. Enforce the provisions of the Government Accounting Manual which require that only collectors and assistant collectors approved by the Commissioner of Finance be allowed to make collections and that receipts be issued to customers immediately upon collection. These collection officers should be bonded to safeguard the interests of the Government if funds collected are lost.
4. Implement internal policies and procedures to ensure that indirect cost calculations are reviewed for accuracy and are based on the approved indirect cost rates applicable to each fiscal year before requests for reimbursement are submitted to the grantor agency.

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

The August 31, 1999, response to the draft report (Appendix 2) from the Governor of the Virgin Islands stated concurrence with Recommendations 2 and 3, stated nonconcurrence with Recommendation 1, and indicated nonconcurrence with Recommendation 4. Based on the response, we consider Recommendations 1, 2, and 3 resolved and implemented and Recommendation 4 unresolved (see Appendix 3).

Recommendation 1. Nonconcurrence stated.

Governor of the Virgin Islands Response. The response stated, "Although our property control records were not up to date at the time of the Auditors visit, we do not concur with the Auditors' determination that [the Paternity and Child Support Division] did not maintain any property control records, affix property tags to any equipment or perform periodic physical inventories. . . . Furthermore, we do not concur with the Auditors' finding that [Division] equipment was subject to loss and misuse." The response further stated that 10 of the 18 items cited in the draft report as not having been found "were in fact maintenance agreements for the computer system" and that the remaining 8 items "were installed in computers on St. Thomas and St. Croix." Despite the nonconcurrence, the response stated that the Division's Interim Director "has implemented internal property management procedures and delegated property management responsibilities to the Clerical Support Assistant on St. Thomas and the Administrative Officer on St. Croix. As a result of the Draft Audit Report, these employees have conducted an inventory to ensure that our property control records are accurate and up-to-date and that property identification tags are affixed to all government-owned property."

Office of Inspector General Reply. The property items discussed in the finding were selected on the basis of purchases made during the period of the audit. The procurement documents listed the items in such a way that they appeared to be software packages and electronic components for the Division's Unix-based² computers. Although we discussed our preliminary findings with Division officials during the audit, the officials did not tell us that the procurement documents actually referred to "maintenance agreements" for 7 (not 10, as stated in the response) software packages. We were informed of the agreements after the draft report was issued, and at that time, we told the Interim Director that we would revise the finding in the final report. With regard to the 12 (not 8, as stated in the response) electronic components that were installed inside the Division's computers, each item had a value of from \$900 to \$4,120. While we agree that it would not have been practical to affix property identification tags to those items, the Division should have maintained property control records that, at a minimum, listed the description of each item, its serial number, and the serial number and location of the computer into which it was installed. We believe that without adequate property controls, those electronic components

²Unix is a computer operating system for mainframe computers that serves the same purpose that Microsoft Windows serves on most desktop and laptop computers.

could have been subject to loss or misuse. However, based on the statement in the response that the Division has implemented property management procedures and delegated the property management responsibilities to specific employees, we consider the recommendation resolved and implemented.

Recommendation 4. Nonconcurrence indicated.

Governor of the Virgin Islands Response. The response stated, "We have implemented policies and procedures to ensure that indirect cost calculations are reviewed for accuracy and are based on the approved indirect cost rates applicable to each fiscal year Although the indirect cost reimbursements were incorrectly calculated for FY [fiscal year] 1996 and FY 1998, expenditure adjustment reports were prepared and accepted by the Grantor to correct the errors. Hence, these amounts were paid by the Grantor and not lost as stated in the Draft Audit Report."

Office of Inspector General Reply. Although the response stated that adjustments had been submitted to correct the underreporting of indirect costs for fiscal years 1996 and 1998, the additional documents included with the response support only the adjustments processed for fiscal years 1996 and 1997. Therefore, the Paternity and Child Support Division should submit to the grantor agency an adjustment to correct the \$16,183 underreporting of indirect costs for fiscal year 1998.

C. GRANT DRAWDOWNS

The Division of Paternity and Child Support did not ensure that drawdowns were made and documented in accordance with applicable requirements. Specifically, fund transfers were not requested until after checks were prepared for payment by the Department of Finance, and supporting documentation was not maintained for drawdown requests made prior to June 1998. Both the Cash Management Improvement Act of 1990 and the Code of Federal Regulations (45 CFR 92.20(a)) establish procedures applicable to the processing and documentation of grant drawdowns. However, Division officials said that they were not aware of the Federal requirements related to the drawdown of grant funds. As a result, grant funds of about \$400,000 were not available in a timely manner to pay grant-related expenses.

Cash Management Improvement Act

The Cash Management Improvement Act of 1990 requires funds between Federal and state/local government agencies to be transferred timely. This requirement was designed to encourage the development of efficient cash management systems and to ensure equity in the transfer of funds from Federal grantor agencies to state/local governments and ultimately to grant program participants.

Supporting Documentation. The Code of Federal Regulations (45 CFR 92.20 (a)) states that "[f]iscal control and accounting procedures of the State, as well as its subgrantees . . . must be sufficient to . . . [p]ermit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes." The Code also states that "records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures and income."

We reviewed 96 invoices for payments, along with the corresponding miscellaneous disbursement vouchers, that were included in the contract files at the Division for fiscal years 1996, 1997, and 1998. We also attempted to trace the expenditures to the corresponding drawdowns but found that the Division did not maintain supporting documentation for any drawdown requests made prior to June 1998. The Division's Assistant Budget Control Officer, who prepared and maintained fund drawdown requests, said that she was not aware of the need to maintain supporting documents for the drawdowns until she was informed by grant program officials at the U.S. Department of Health and Human Services. As a result, we were unable to reconcile 69 of the 96 vendor payments to the related drawdowns.

Fund Transfers. For the 27 invoices (96 minus 69) for which related drawdown documentation was available, we determined that the drawdowns were not requested by the Division until after the vendor payment checks had been prepared³ by the Department of

³Records at the Department of Finance did not provide sufficient information for us to determine the dates on which payment checks were transmitted to the vendors for payment. However, we were able to determine the dates on which the checks were prepared.

Finance. This practice was contrary to Title 31, Section 205(e), of the Code of Federal Regulations, which states, "Reimbursable funding is a method of transferring Federal funds to a State after the State has paid out its own funds for program purposes. After June 30, 1994, reimbursable funding is prohibited, except where mandated by Federal law." We are not aware of any Federal laws related to the Paternity and Child Support Program that mandate the use of the reimbursable funding method. Despite this restriction on the use of the reimbursable method, the Division's Assistant Budget Control Officer said that she believed that drawdown requests were not necessary prior to vendor payments. However, the Acting Director of Accounting at the Department of Finance told us that checks cannot "technically" be released for payment until the corresponding drawdown has been received by the Department of Finance. The Acting Director, however, stated that payments were sometimes processed prior to the receipt of the grant drawdowns and, in such cases, the Department of Finance had to use other funds in the Special and Other Funds bank account to pay the vendor pending receipt of the Federal funds.

To determine the extent to which the late drawdown of grant funds affected the Government's ability to pay Division of Paternity and Child Support expenses, we attempted to compare the dates on which drawdowns were made and the dates on which the payment checks were mailed to the vendors. However, we could not determine the check release dates because the handwritten registers at the Department of Finance were not up to date or did not contain sufficient details to identify individual checks. Nevertheless, based on the Department's automated check registers, we were able to determine that 27 checks, totaling about \$400,000, for payment of Division of Paternity and Child Support vendors were prepared an average of 69 days before the grant funds to cover those checks were drawn down by the Division.

Recommendations

We recommend that the Governor of the Virgin Islands instruct the Director of Paternity and Child Support to:

1. Implement internal policies and procedures to ensure that supporting documentation, as required by the Code of Federal Regulations (45 CFR 92.20(a)), is maintained for each grant drawdown received. Such documentation should be sufficient to reconcile the amount of drawdown requests to the related expenditures and to show that grant funds were used in accordance with grant terms and applicable laws and regulations.

2. Implement internal policies and procedures to ensure that, in accordance with the Cash Management Act of 1990 and implementing regulations contained in the Code of Federal Regulations, drawdowns of grant funds are made on the same day that vouchers for payments to vendors are submitted to the Department of Finance for processing.

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

The August 31, 1999, response to the draft report (Appendix 2) from the Governor of the Virgin Islands indicated concurrence with Recommendation 2 and nonconcurrence with Recommendation 1. Based on the response, we consider Recommendations 1 and 2 resolved and implemented (see Appendix 3).

Recommendation 1. Nonconcurrence indicated.

Governor of the Virgin Islands Response. The response stated that it did "not concur with" our finding "that supporting documentation was not maintained for drawdown requests made prior to June 1998." The response further stated, "Although not all of the supporting documentation for drawdown requests was detailed enough to be matched with a specific drawdown at the time of the Auditors' review, PCSD [the Paternity and Child Support Division] now follows policies and procedures requiring documentation sufficient to reconcile the amount of the drawdown requests to the related expenditures."

Office of Inspector General Reply. Despite the nonconcurrence, the response agreed that supporting documentation was not detailed enough to trace expenditures to the corresponding drawdowns. Based on the statement in the response that the Division "now follows policies and procedures requiring documentation sufficient to reconcile the amount of the drawdown requests to the related expenditures," we consider the recommendation resolved and implemented.

CLASSIFICATION OF MONETARY AMOUNTS

<u>Finding Area</u>	<u>Funds To Be Put To Better Use</u>
A. Grant Expenditures	
Unused Office Space	\$78,884 *
Office Space Construction Work	<u>87,468 **</u>
Subtotal	<u>166,352</u>
B. Grant Administration	<u>16,183 **</u>
Total	<u>\$182,535</u>

*Amount represents local funds.

**Amount represents Federal funds.



THE UNITED STATES VIRGIN ISLANDS

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

August 31, 1999

Mr. Robert J. Williams
Acting Inspector General
United States Department of Interior
Office of Inspector General
Washington, D. C. 20240

Dear Mr. Williams:

Enclosed is the position of the Virgin Islands Government with respect to the Department of Interior's draft audit report. I would like to thank your office for its efforts in identifying concerns regarding the management and practices at the V.I. Paternity and Child Support Division (PCSD). As a result of the PCSD audit, there will be significant improvements in the delivery of programs and services.

Regarding our differences in findings, dialogue and clarifications may be necessary. Mr. Iver Stridiron, Esq., who is the Virgin Islands Attorney General, will take the lead in this effort. Mr. Stridiron may be reached at (340)776-0687 or (340)774-5666.

Thank you for your assistance in this matter. Should you need to contact me, I may be reached at (340) 774-0001.

Sincerely,

A handwritten signature in black ink that reads "Charles W. Turnbull". The signature is fluid and cursive.

Charles W. Turnbull
Governor

DEPARTMENT OF JUSTICE
PATERNITY AND CHILD SUPPORT DIVISION

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#7 CHARLOTTE AMALIE, TIME CENTER 2nd Floor
ST. THOMAS, VI 00802


Cisselon S. Nichols
Interim Director

Tel: (340) 775-3070
Fax: (340) 775-3808

MEMORANDUM

To: The Honorable Charles W. Turnbull
Governor

Thru: Iver A. Stridiron
Attorney General

From: Cisselon S. Nichols 
Interim Director, PCSD

Date: August 24, 1999

RE: Response to U.S. Department of Interior, Office of Inspector General
Draft Audit Report on the Virgin Islands Child Support Enforcement Program

A. GRANT EXPENDITURES

Findings

1. Rental Agreements—We concur with the Auditors' findings that the prior administration inappropriately incurred costs for the rental of unused office space and for office space construction work that was performed for a prior occupant.
2. Procurement Practices—We do not concur with the Auditors' finding that PCSD had six contracts totaling \$8.3 million in effect during the period of the audit that had not been procured pursuant to the competitive procurement practices prescribed by the Virgin Islands Code.
3. Payroll Costs--We concur with the Auditors' findings that in certain instances differences existed between the hours worked as shown on the employees' time sheets and those shown on the payroll registers.

Recommendations

1. We concur with the Auditors' recommendation to assess our office space needs on St. Thomas and have formed a committee of employees to do so. In addition to the auditors concerns, we must assess our office space due to the addition of twenty (20) new employees on the St. Thomas staff as of August 23, 1999. We plan to schedule a meeting with our landlord to negotiate a favorable termination of the lease once we have secured a new location. To date, we have toured two (2) potential properties for relocation.

Although the vacant office space was unused at the time of the Auditors' visit, it is now being used as much needed records storage space in order to make room for the twenty (20) new employees. As discussed in the preceding paragraph, we plan to begin discussions with the landlord to terminate the lease on all or part of our Time Center space in the near future.

2. We concur with the recommendation to negotiate with the landlord to reduce or eliminate the monthly amount paid for construction work which was requested by and performed for a prior tenant. Such negotiation will be a part of our overall negotiations to terminate the lease agreement discussed above.

3. Our internal policies and procedures already require that PCSD comply with the competitive procurement requirements of the Virgin Islands and the Code of the Federal Register. Under this administration, those requirements will be adhered to strictly.

During the period covered by the Draft Audit Report, a competitive bid process was not required because the "contracts" reviewed by the Auditors were in fact **amendments** to contracts executed during the Farrelly Administration.

4. As a result of the Draft Audit Report, new procedures are in place to ensure that all PCSD employees submit their time sheets on time in order to ensure payment. Under the new procedures, the PCSD Executive Officer is charged with collecting time sheets from each employee and submitting them to the Financial Control Officer at the GERS Building for processing of the biweekly payroll.

The Department of Justice is discontinuing the practice of processing the payroll as if an employee had worked a regular 80-hour shift where the employee has not submitted a time sheet. If an employee fails to submit a time sheet, that employee will not receive a pay check for the particular time period until such time that a time sheet is submitted.

With respect to the instances pointed out in the Draft Audit Report where differences existed between the hours worked on the time sheets and the hours shown on the payroll register as well as where the payroll registers were not

supported by time sheets, we plan to make all the necessary adjustments to ensure that employees worked all hours for which they were paid.

B. GRANT ADMINISTRATION

Findings

1. Property Management—We do not concur with the finding that PCSD did not maintain property control records or perform periodic physical inventories of equipment.
2. Controls Over Collections—We concur with the Auditors' findings that the prior Administration did not adequately monitor the collection of support payments, the reconciliation of collections and deposits and the preparation of the quarterly report forms.
3. Indirect Costs—We do not concur with the Auditors' finding that PCSD lost indirect cost reimbursements from the Child Support Enforcement grants due to incorrect computations.

Recommendations

1. Although our property records were not up to date at the time of the Auditors visit, we do not concur with the Auditors' determination that PCSD did not maintain any property control records, affix property tags to any equipment or perform periodic physical inventories. In fact, at the time of the Auditors' visit, most of the PCSD property was properly inventoried and tagged. Furthermore, we do not concur with the Auditors' finding that PCSD equipment was subject to loss and misuse.

The Auditors based these findings upon a review of "18 equipment items, valued at \$33,881" which they were unable to physically locate. This is a gross mischaracterization on the part of the Auditors. These "items" were not found and properly tagged because **ten (10) of them were in fact maintenance agreements** for the computer system, and the remaining eight (8) items were installed in computers on St. Thomas and St. Croix. Significantly, at the time of the Auditors' visit, all computer equipment was inventoried.

With respect to all other PCSD property, the Interim Director has implemented internal property management procedures and delegated property management responsibilities to the Clerical Support Assistant on St. Thomas and the Administrative Officer on St. Croix. As a result of the Draft Audit Report, these employees have conducted an inventory to ensure that our property control

records are accurate and up-to-date and that property identification tags are affixed to all government-owned property.

2. We have implemented policies and procedures to ensure that collections and deposits are reconciled and that program income is correctly recorded on the Child Support Enforcement Program Financial Report. In May 1999, the PCSD Financial Control Officer began the process of reconciling the Attorney General's Trustee Account from 1995 to present. This is a tedious task since this account was not reconciled at all during the entire term of the prior administration.

3. We are strictly adhering to the Government Accounting Manual provisions requiring that only bonded collectors be allowed to make collections and that receipts be issued to customers immediately upon collection. To assist in this regard, we have hired an additional collector and are in the process of hiring an Account II to oversee the collections. Additionally, the District Manager, Assistant Budget Control Officer and the Financial Control Officer on St. Thomas as well as the Supervisor of Accounts on St. Croix are all bonded employees. Therefore, at all times there should be at least one bonded employee to accept collections from absent parents on each Island.

4. We have implemented policies and procedures to ensure that indirect cost calculations are reviewed for accuracy and are based on the approved indirect cost rates applicable to each fiscal year before requests for reimbursement are submitted to the U.S. Department of Health and Human Services.

Although the indirect cost reimbursements were incorrectly calculated for FY 1996 and FY 1998, expenditure adjustment reports were prepared and accepted by the Grantor to correct the errors. Hence, these amounts were paid by the Grantor and not lost as stated in the Draft Audit Report. These adjustment reports are attached hereto as Exhibit A.

C. GRANT DRAWDOWNS

Findings

1. Supporting Documentation—We do not concur with the Auditors' finding that supporting documentation was not maintained for drawdown requests made prior to June 1998.

2. Fund Transfers—We concur with the Auditors' finding that drawdowns were not requested by PCSD until after the vendor payment checks had been prepared.

Recommendations

1. Although not all of the supporting documentation for drawdown requests was detailed enough to be matched with a specific drawdown at the time of the Auditors' review, PCSD now follows policies and procedures requiring documentation sufficient to reconcile the amount of the drawdown requests to the related expenditures. This documentation also is sufficient to show that grant funds were used in accordance with grant terms and applicable laws and regulations.

2. As a result of the Draft Audit Report, the Assistant Budget Control Officer and the PCSD Financial Control Officer have been relocated to our main offices at the GERS Building so that they may have access to the Financial Management System to ensure that drawdowns of grant funds are made on the same day that vouchers for payments to vendors are submitted to the Department of Finance for processing. Moreover, under our new procedures, the PCSD Financial Control Officer serves as the liason to the Department of Finance and hand carries all documentation for vendor payments through Finance to ensure that vendors are paid in a timely fashion.

[NOTE: Exhibit A not included by Office of Inspector General.]

STATUS OF AUDIT REPORT RECOMMENDATIONS

Finding/Recommendation Reference	Status	Action Required
A.1 and A.2	Management concurs; additional information needed.	Provide target dates and titles of officials responsible for implementation.
A.3 and A.4	Implemented.	No further action is required.
B.1, B.2, and B.3	Implemented.	No further action is required.
B.4	Unresolved.	Provide a plan of action that includes the target date and the title of the official responsible for submitting to the grantor agency an adjustment for the underreporting of indirect costs for fiscal year 1998.
C.1 and C.2	Implemented.	No further action is required.

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

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