



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

AUDIT REPORT

**SELECTED FEDERAL GRANT PROGRAMS,
DEPARTMENT OF EDUCATION,
GOVERNMENT OF THE VIRGIN ISLANDS**

**REPORT NO. 99-I-956
SEPTEMBER 1999**



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 Selected Federal Grant Programs, Department of Education,
Government of the Virgin Islands (No. 99-I-956)

Dear Governor Turnbull:

This report presents the results of our review of the management of selected Federal grant programs at the Virgin Islands Department of Education. The objective of the audit was to determine whether (1) the Department complied with grant terms and applicable laws and regulations; (2) charges made against grant funds were reasonable, allowable, and allocable pursuant to the grant agreement provisions; (3) funds received through electronic transfers were appropriately deposited to and accounted for in the Government's Financial Management System; and (4) drawdowns were made in accordance with the Cash Management Improvement Act of 1990. The scope of the audit included Education Consolidated Grant transactions and School Lunch Program warehouse activities that occurred during fiscal years 1997 and 1998.

Based on our audit, we concluded that the Department of Education generally expended grant funds for purposes that were allowable under the grants. However, the Department did not effectively carry out some of the administrative functions related to the Consolidated Grant and the School Lunch Program. Specifically, we found that:

- The Department did not (1) ensure that personal services costs were properly supported and were charged to the correct accounts and (2) prepare and submit accurate grant financial reports within the required time frames. As a result, we took exception to payroll charges of \$61,800 and classified as unsupported additional payroll charges of \$8,340. Additionally, the Department was at risk of losing Federal grant funds because it had not complied with grant program requirements, particularly as they related to the Special Education program.

- The Department did not (1) effectively expend Consolidated Grant funds when making purchases and (2) have adequate control over equipment purchased with Federal funds. As a result, there was little assurance that the Department received the best prices for goods and services totaling \$2.1 million in fiscal year 1997 and \$4.1 million in fiscal year 1998 that were purchased noncompetitively. Also, equipment costing at least \$1 million was not adequately safeguarded and was therefore subject to loss, damage, or theft.

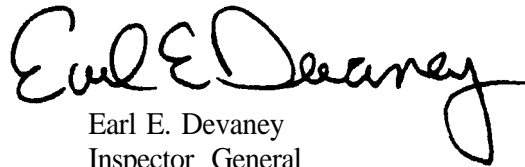
- The Department did not ensure that the School Lunch Program warehouses had adequate controls over food and other commodities that included (1) accurately recording incoming shipments and distributions of items, (2) accurately and continuously updating perpetual inventory records, (3) periodically performing physical inventories of items on hand, (4) reconciling the results of the physical inventories to the inventory records, (5) submitting required inventory reports within established time frames, and (6) ensuring adequate separation of duties among warehouse personnel. As a result, food and other commodities of undeterminable value were subject to loss, pilferage, and spoilage.

We made 11 recommendations to you, as the Governor of the Virgin Islands, to address the deficiencies identified by the audit. However although a response was due by September 3, 1999, we had not received a response to that draft as of September 22, 1999. Therefore, the report is being issued without the benefits of your comments, and the 11 recommendations are unresolved (see Appendix 2).

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 November 12, 1999. 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 2.

We appreciate the assistance provided by Department of Education personnel during the conduct of our audit.

Sincerely,

A handwritten signature in black ink, reading "Earl E. Devaney". The signature is fluid and cursive, with the first letters of each word being capitalized and prominent.

Earl E. Devaney
Inspector General

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INTRODUCTION

BACKGROUND

The Virgin Islands Department of Education is responsible for administering and operating all public elementary and secondary schools; vocational, adult, and special education programs; and support services such as curriculum centers and libraries for both public and nonpublic schools. The Department received annual Consolidated Grant awards from the U.S. Department of Education under authority of the Elementary and Secondary Education Act of 1965. The Consolidated Grant permits the consolidation of two or more authorized programs under one application to provide for simplified reporting procedures and flexibility in allocating funds to meet educational needs. The Virgin Islands Department of Education managed 29 individual programs under the Consolidated Grant, and grant funds were distributed between the districts of St. Thomas/St. John and St. Croix.

Funds provided through the Consolidated Grant awards were available for overlapping 2-year periods. Accordingly, in fiscal year 1997, the Department received \$17.2 million for the period of October 1, 1996, to September 30, 1998, and in fiscal year 1998, the Department received \$19.7 million for the period of October 1, 1997, to September 30, 1999. As of November 5, 1998, drawdowns totaled \$15.1 million from the fiscal year 1997 award and \$11 million from the fiscal year 1998 award.

The Virgin Islands Department of Education also participated in the National School Lunch Program, which is funded by the U.S. Department of Agriculture. The Virgin Islands Department of Education received \$5.4 million in fiscal year 1997 and \$6.1 million in fiscal year 1998 for School Lunch Program operations.

OBJECTIVE AND SCOPE

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

The scope of the audit included a review of Education Consolidated Grant and School Lunch Program warehouse activities that occurred during fiscal years 1997 and 1998. The audit was conducted at the offices of the Department of Education and the Department of Finance and at the School Lunch Program warehouses on St. Thomas and St. Croix.

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 evaluated the internal controls over grant management, personnel costs, procurement, property management, and School Lunch Program warehouse operations to the extent that we considered necessary to achieve the audit objective. Internal control weaknesses were identified in the areas of personnel costs, financial accounting and reporting, procurement, property management, and School Lunch warehouse operations. These weaknesses are discussed in the Findings and Recommendations section of this report. Our recommendations, if implemented, should improve the internal controls in these areas. Internal control weaknesses related to the drawdown process at the Department of Finance will be addressed in a separate audit report.

PRIOR AUDIT COVERAGE

The Office of Inspector General has not conducted any audits of the Consolidated Grant during the past 5 years. However, four reports on related topics have been issued as follows:

- In September 1998, the Office of Inspector General issued the audit report "Interfund Loans and Federal Grant Balances, Government of the Virgin Islands" (No. 98-I-670). The report stated that complete, current, and reliable information on the balances of Federal grants awarded to the Government was not readily available and that the Government had not taken adequate actions to correct long-standing financial management problems that had an adverse impact on its financial condition. Federal grant management within the Virgin Islands Department of Education was included in the scope of that audit, and we found, during our current review, that the reported conditions relating to the untimely submission of grant financial reports, the untimely liquidation of encumbrances, and the untimely processing of requisitions still existed.

- In December 1996, an independent public accounting firm completed the single audit of the Government of the Virgin Islands for fiscal year 1994. The report stated that for two of the Virgin Islands Department of Education's major grant programs, the Department (1) prepared the Federal Financial Reports and Claims for Advances and Reimbursements based on information contained in internal accounting records rather than in the Government's centralized Financial Management System, (2) did not reconcile its internal accounting records to the Financial Management System, and (3) did not comply with the requirement for monitoring subrecipients. The single audit report included 14 findings and questioned costs totaling \$272,034 that were specifically related to Department of Education grants. The findings relating to property management, financial reporting, and supporting documentation for payroll and procurement transactions were similar to the findings discussed in this report.

- In September 1995, the Office of Inspector General issued the audit report "School Lunch Program, Department of Education, Government of the Virgin Islands" (No. 95-I-1258). The report stated that improvements were needed in the administration of the School Lunch Program and in the level of control over inventories of food and other commodities. Specifically, reimbursement claims for meals served to students were not always complete, accurate, or timely, and food and other commodities in School Lunch Program warehouses were subject to loss and theft because perpetual inventory records were incomplete and

inaccurate and physical inventories were not conducted of all items in stock. Additionally, large quantities of food items spoiled because of malfunctioning refrigeration equipment, and items could not be distributed efficiently to individual schools because of the lack of adequate transportation. We found, during our current audit, that the conditions related to warehouse operations still existed.

- In February 1991, the Office of Inspector General issued the audit report "Consolidated Grant Program, Department of Education, Government of the Virgin Islands" (No. 91-E-389). The report stated that payroll costs of \$127,400 were questioned for individuals who did not perform duties directly related to the Consolidated Grant programs and that a duplicate payment of \$2,200 to a vendor was also questioned. The report also stated that there was a possible conflict of interest involving a payment of \$800 to a Virgin Islands Government employee for the removal of asbestos from schools. In addition, the report stated that the procedures for preparing drawdown requests, monitoring program activities, and coordinating overall grant management needed to be strengthened. We considered three of the report's eight recommendations unresolved and five recommendations resolved and implemented. Based on our current audit, we found that the deficiencies related to overall grant management still existed.

FINDINGS AND RECOMMENDATIONS

A. GRANT MANAGEMENT

The Virgin Islands Department of Education did not ensure that personal services costs were properly supported and were charged to the correct accounts and did not prepare and submit accurate grant financial reports within the required time frames. U.S. Office of Management and Budget Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," contains the standards for the allowability of grant costs, and the Code of Federal Regulations (34 CFR SO), "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments," contains the administrative requirements for grant programs. However, the Department did not (1) establish procedures to verify that correct account codes for employees' payroll costs were entered into the Financial Management System, (2) ensure that personnel files were complete and accurate, and (3) enforce compliance with the financial reporting requirements for the Consolidated Grant. As a result, we questioned costs of \$70,140: cost exceptions of \$61,800 for payroll charges and unsupported costs of \$8,340 for additional payroll charges (see Appendix 1). In addition, the Department was at risk of losing future Federal funding because of noncompliance with grant program requirements.

Personal Services Costs

Circular A-87, Attachment B, paragraph 1 l(h)(1), 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." Circular A-87 also requires that the payroll costs for employees who are expected to work for only one activity be supported at least by semiannual certifications that the employees' work activities are for the specific program. When employees are expected to work for more than one activity, detailed personnel activity reports or other time distribution records are required to be maintained to record the number of hours worked by the employees on each activity, and those records are required to be used to distribute the related payroll costs among the various activities. To determine the extent of compliance with Circular A-87, we reviewed the payroll documents for a sample of 10 pay periods from fiscal years 1997 and 1998, which had salaries and fringe benefits totaling \$2.7 million. Based on our review, we took exception to payroll costs of \$61,800 and classified costs of \$8,100 as unsupported for the 10 pay periods reviewed as follows:

- We took exception to payroll costs of \$37,200 for 22 Consolidated Grant employees whose salaries were incorrectly charged to account codes for work that was not for the Consolidated Grant. Under established procedures, Notices of Personnel Action are prepared and the appropriate information is entered into the centralized payroll system by the Division of Personnel. The Department of Education then receives preprinted biweekly Time and Attendance Records for the preparation of payroll for submission to the Department of Finance for processing and payment. Department of Education officials told us that Division

of Personnel employees may have inadvertently entered the incorrect account codes but that the Department of Education's Payroll Office had not detected the incorrect codes.

- We took exception to payroll costs of \$24,600 for five employees who did not work directly for Consolidated Grant programs. Three employees were paid \$3,700 from Consolidated Grant funds, although they worked for the School Lunch Program. One employee was paid \$13,700 from Consolidated Grant funds, although the individual worked for a separate Education grant, and one employee was paid \$7,200 from Consolidated Grant funds, although the employee worked for General Fund activities. We brought the \$7,200 error to the attention of Department of Education officials, who notified the Department's Payroll Office to make the necessary corrections.

At the July 28, 1999, exit conference on the preliminary draft of this report, the Department's payroll officer stated that the correction had been made.

- We classified as unsupported payroll costs of \$8,100, which represented unreconciled variances between the Time and Attendance Reports submitted by the Department's Payroll Office for processing and the Payroll Registers that documented the payrolls. We initially identified 85 variances, totaling 1,497.5 hours, but Department of Education officials were able to explain 77 of the variances. The remaining eight variances accounted for 95 hours and payroll costs of \$8,100.

The Department of Education should process the necessary documents to correct the erroneous payroll charges we identified. In addition, we believe that the Department of Education should establish written procedures to require the initial salaries and subsequent salary changes for all Consolidated Grant employees to be verified between the Notices of Personnel Action and the first payroll register on which the new or revised salary appears. For subsequent pay periods, the current payroll totals should be compared with the totals on the prior payroll register to identify variances for more detailed followup review.

At the July 28, 1999, exit conference on the preliminary draft of this report, Department of Education officials said that although they reviewed payroll records to identify incorrect account codes or salaries for new employees, they may not have always followed through to request that the Division of Personnel make the necessary corrections to the master payroll file in the Government's Financial Management System. They also stated that when they submit adjustments to the Department of Finance to have payroll errors corrected, the Department of Finance does not always enter the adjustments into the Financial Management System in a timely manner.

Personnel Files. As an additional test of the accuracy of personal services costs charged to the Consolidated Grant, we attempted to review the personnel files for a judgmental sample of 56 employees. We found that the personnel files were not adequately maintained. The Department's Personnel and Labor Relations Office could not verify that 11 individuals listed in the Time and Attendance Records but not on personnel listings of the Consolidated Grant program worked at the Department of Education. Initially, St. Thomas officials told us that 7 of the 11 personnel files were located at the Department's St. Croix

office. However, that office also did not have the missing personnel files. Although only 1 of the 11 individuals incurred payroll costs totaling \$240, Department employees could not explain how the 11 individuals' names were included on the preprinted Time and Attendance Records without supporting personnel files. Therefore, we classified the \$240 as unsupported.

We also found that 18 of the 56 employees in our sample were listed more than once on the personnel listing for the Consolidated Grant. Department of Education officials said that these 18 employees had dual employment status, in that they worked for more than one program activity. However, there were no Notices of Personnel Action on file to document the dual employment status of 5 of the 18 individuals. The dual employment status for the other 13 employees was satisfactorily documented.

We believe that the Department should require its Personnel and Labor Relations Office to review the personnel files for all Consolidated Grant employees and take actions to ensure that all appropriate Notices of Personnel Action are prepared and placed in the files. In addition, the Department should establish written procedures to require that the personnel files are promptly updated with copies of Notices of Personnel Action and other supporting documents for all future personnel actions involving Consolidated Grant employees.

At the July 28, 1999, exit conference on the preliminary draft of this report, the Department's personnel officer stated that her office was reviewing and updating the personnel files for all Department of Education employees.

Grant Compliance Issues

The Code of Federal Regulations (34 CFR 80.20(a)) requires that fiscal controls and accountability procedures of entities that receive Education grants be sufficient to permit the following:

- (1) ... preparation of reports required by this part [of the Code] and the statutes authorizing the grant, and
- (2) ... 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.

However, the Virgin Islands Department of Education did not always comply with these requirements. Specifically, the Department's internal financial management system did not provide accounting records that were supported by source documents. During our review, we requested the supporting documents used to prepare the Financial Status Reports for fiscal years 1997 and 1998. We found that the appropriations, obligations, and unobligated balances on the Department's Internal Balances Report for fiscal year 1997 did not match the amounts shown on the Department's Financial Status Report that was submitted to the U.S. Department of Education for the same fiscal year. Further, the Department did not provide us the supporting documents for the Financial Status Report for fiscal year 1998.

Although we selected 45 vendor files for our review of procurement activities, the Department was unable to provide 19 of those vendors' files, which would have included supporting documents for purchases from those 19 vendors.

We also found that the Department did not submit the Financial Status Report for fiscal year 1998 to the grantor agency. The Code of Federal Regulations (34 CFR 80.41(b)) requires that grantees submit an annual report on the status of funds (the Financial Status Report) for all nonconstruction projects within 90 days after the grant year. Although the Department's Financial Status Report for the Consolidated Grant for fiscal year 1998 was signed by the Commissioner of Education and dated December 18, 1998, an official of the U.S. Department of Education told us, on May 19, 1999, that the report had not been received. An official of the Virgin Islands Department of Education subsequently confirmed that the Financial Status Report for fiscal year 1998 had not been submitted to the U.S. Department of Education.

We further noted that programs which received funding under Title VI of the Elementary and Secondary Education Act were not in compliance with the terms of the Consolidated Grant applicable to Title VI programs. Specifically, education agencies receiving Title VI funds are required to monitor all programs receiving such funds. In the Virgin Islands, Title VI funds were monitored by the Department of Education's Planning, Research, and Evaluation Office, which issued compliance alerts' as follows:

- In February 1999, the Planning, Research, and Evaluation Office wrote to the Administrative Assistant stating that future Federal funds were being withheld from the Special Education Program until compliance issues were satisfactorily addressed. We determined from our review of expenditure records that about 4 months earlier (September 27, 1998, to October 1, 1998), the Special Education Program held a State Plan Retreat Forum on St. John at a cost of \$39,500 (see Appendix 1), excluding the salary costs of participants, to develop a plan for the Special Education Program. In our opinion, these funds could have been used in correcting the compliance deficiencies that put the Program at risk of losing Federal funds. In early 1999, the Special Education Program was the subject of 16 lawsuits brought against the program by parents of children with special needs. Also, a notice was published in the May 10, 1999, edition of a local newspaper to announce that public hearings had been scheduled to discuss whether the U.S. Department of Education should enter into a compliance agreement with the Virgin Islands Department of Education for continued funding under Part B of the Individuals with Disabilities Education Act while the Virgin Islands Department of Education worked to achieve compliance with the requirements of that statute. Under the compliance agreement, the U.S. Department of Education could impose strict conditions on the Virgin Islands Department of Education as a prerequisite for receiving additional Federal funds. In July 1999, U.S. Department of Education Special Education Program officials told us that they had made on-site visits to Special Education classrooms in the Virgin Islands and had found the conditions for children

¹A "compliance alert" is a notice that a grant compliance problem exists.

with special needs to be of such "poor quality" that they had recommended the immediate execution of the proposed compliance agreement.

- In February 1999, the Planning, Research, and Evaluation Office issued a compliance alert to the Commissioner of Education addressing the problem of the untimely receipt of materials and equipment needed for the Vocational Education Program.

- In January 1999, the Planning, Research, and Evaluation Office issued a compliance alert to the Acting Commissioner of Education to address delays in initiating the Marine and Aviation Programs.

We believe that the Virgin Islands Department of Education should ensure that it has grant management procedures in place to ensure that (1) source documents are prepared and maintained to support that costs charged against Consolidated Grant funds are allowable, (2) Financial Status Reports are submitted within required time frames and are reconciled to the official accounting records, and (3) compliance deficiencies reported by the Department's Planning, Research, and Evaluation Office are corrected by the appropriate program officials.

Recommendations

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

1. Process the necessary documents to correct the erroneous payroll charges totaling \$70,140 that were identified by our review and provide copies of all related supporting documents to grant program officials of the U.S. Department of Education.

2. Establish and implement procedures to require that the initial salaries and subsequent salary changes for all Consolidated Grant employees be verified between the Notices of Personnel Action and the first payroll register on which the new or revised salary appears and that the current payroll totals be compared with the totals of the prior payroll register for subsequent pay periods to identify variances between the two pay periods that require more detailed followup review.

3. Require the Personnel and Labor Relations Office of the Department of Education to review the personnel files for all Consolidated Grant employees and take actions to ensure that all appropriate Notices of Personnel Actions are prepared and placed in the files.

4. Establish and implement procedures which require that the personnel files be promptly updated with copies of Notices of Personnel Action and other supporting documents for all future personnel actions involving Consolidated Grant employees.

5. Establish and implement grant management procedures which ensure that source documents are prepared and maintained to support that costs charged against Consolidated Grant funds are allowable; required Financial Status Reports are submitted within required

time frames and are reconciled to the official accounting records; and compliance deficiencies reported by the Department's Planning, Research, and Evaluation Office are corrected by the appropriate program officials.

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

The Governor of the Virgin Islands did not provide a response to the report. Therefore, the recommendations are unresolved (see Appendix 2).

B. PROCUREMENT AND PROPERTY MANAGEMENT

The Virgin Islands Department of Education did not effectively expend Consolidated Grant funds when making purchases and did not have adequate controls over equipment purchased with Federal funds. Specifically, (1) purchases were made on the open market without the benefit of competition, consolidated orders, or formal purchase contracts and (2) the receipt of purchased items was not centralized, equipment was not adequately safeguarded, and disposals of equipment were not adequately documented. Title 31, Chapter 23, of the Virgin Islands Code and the Virgin Islands Rules and Regulations contain the procurement requirements for the Government of the Virgin Islands, and the Code of Federal Regulations (34 CFR 80, "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments") contains the administrative requirements related to procurement and property management for grant programs. However, the Department did not comply with the required procurement regulations and did not establish adequate procedures for the control of equipment. As a result, there was little assurance that the Department received the best prices for goods and services totaling \$2.1 million in fiscal year 1997 and \$4.1 million in fiscal year 1998 that were purchased noncompetitively, and equipment costing at least \$1 million was not adequately safeguarded and therefore was subject to loss, damage, or theft.

Procurement Activities

The Code of Federal Regulations (34 CFR 80.36(a)) states, "When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds." Title 31, Chapter 23, of the Virgin Islands Code and the Virgin Islands Rules and Regulations require that all purchases be made on a competitive basis to the maximum extent practicable. However, the Department routinely made purchases without competition and did not consolidate purchases from the same vendors.

The established procurement process begins when a school requests the necessary items from the District Superintendent's Office. The District Superintendent's Office prepares the purchase order/requisition and submits it to the Department's Property and Procurement Auxiliary Services Office for review of compliance with the procurement requirements and then forwards it to the Department's Business Office for verification of the availability of funds. The purchase order/requisition is then forwarded for additional processing by the Department of Property and Procurement, the Department of Finance, and the Department of Education's Business Office. The purchase order/requisition is returned to the Department of Education's Property and Procurement Auxiliary Services Office for mailing to the vendor. In our opinion, the procurement process within the Department of Education was unnecessarily complex and cumbersome, which resulted in orders taking an average of 5 months (and as long as 13 months) to be filled. A Department of Education official agreed with our assessment, stating that the procurement process was "too drawn out" and that funds sometimes expired before ordered items were received.

We reviewed a judgmental sample of 97 purchase orders for equipment, totaling \$959,060, that were processed during fiscal years 1997 and 1998 for public schools on St. Thomas and St. Croix. We found that the schools contacted vendors directly and made purchases without the benefit of competition or formal purchase contracts. We also found that the Department of Education made multiple purchases of equipment from the same vendor within a 30-day period, although Title 3 1, Section 239(a)(3), of the Virgin Islands Code states that “no more than one such purchase of the same supplies, material, or equipment or contract for the same professional service shall be made by any agency of the Government from any person, firm, partnership, or corporation in any 30-day period.” For example, during the period of February 18 through July 9, 1997, the Department processed 11 purchase orders, totaling \$204,633, with the same vendor for computer equipment, as shown in Table 1.

Table 1. Multiple Purchases From the Same Vendor

<u>Requisition Date</u>	<u>Amount</u>	<u>Delivery Date</u>
February 18, 1997	\$51,019	March 10, 1998
February 26, 1997	38,320	February 27, 1998
March 7, 1997	30,304	February 27, 1998
April 14, 1997	13,628	February 25, 1998
May 12, 1997	14,724	February 25, 1998
June 6, 1997	5,674	March 31, 1998
June 6, 1997	9,336	April 6, 1998
June 6, 1997	10,167	May 7, 1998
June 17, 1997	15,312	March 7, 1998
July 9, 1997	7,053	March 10, 1998
July 9, 1997	<u>9,096</u>	March 18, 1998
Total Cost	<u>\$204,633</u>	

Because multiple purchases were made within various 30-day periods (including three on June 6, 1997) and the computer equipment acquired through this series of purchases was all delivered within the relatively short period of about 2 1/2 months, we believe that the purchases should have been combined and competitive bids solicited to ensure that the Department obtained the most advantageous prices. In our opinion, these purchases were not in compliance with the open market restriction contained in Title 3 1, Section 239(a)(3), of the Virgin Islands Code and the intent of the requirement of the Code of Federal Regulations (34 CFR 80.36(a)) which states that entities should use their normal procurement policies and procedures for Federally funded procurements.

The Department of Education should conduct a review of its internal procurement process to identify opportunities to streamline and expedite the process and establish internal procedures that ensure compliance with Federal and local competitive procurement requirements and consolidation of supply and equipment needs of schools and other Departmental units to allow for the more cost-effective procurement of such items.

Control of Equipment

The Code of Federal Regulations (34 CFR 80.32(b)) states, "A State will use, manage and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures." Accordingly, the Government Property Manual, issued by the Department of Property and Procurement, requires that (1) records be maintained for capitalized equipment that adequately identify the units of equipment, including their cost, and "provide a permanent record of the acquisition and disposition of all capitalized property and provide information needed for inventory control and management purposes"; (2) a complete physical inventory of all capitalized equipment be performed at least once biennially and at more frequent intervals "whenever experience at any given location or with any given item indicates that this action is necessary"; and (3) "prescribed physical inventories of property, except that which is exempted shall be reconciled with the responsibility, accountability, stores, and such other records as may be maintained for inventory control purposes." The Department of Education did not effectively comply with these requirements with regard to equipment purchased with Consolidated Grant funds.

We found that the Department's warehouse personnel did not have adequate controls to safeguard equipment from theft, loss, or damage. Although the Department's central warehouse on St. Thomas maintained property control records and performed periodic physical inventories of equipment, the warehouse did not have adequate measures to safeguard equipment. For example, the roof of the building leaked, requiring warehouse staff to move supplies and equipment to prevent them from getting wet when it rained. Although a warehouse official told us that a cage where sensitive equipment was stored was kept locked, we noticed, during our site visit to the warehouse in December 1998, that the cage was unlocked.

At the July 28, 1999, exit conference on the preliminary draft of this report, Department officials stated that the security cage for sensitive items was sometimes kept unlocked during working hours but was always locked at other times.

On St. Croix, there was no central location for receiving equipment delivered by vendors. Equipment was received at the Department's warehouse; the Maintenance Division; and the Media, Library and Technology Office. In addition, equipment was sometimes delivered directly to the schools. Although the warehouse had a logbook for recording incoming shipments, warehouse personnel did not place Government property tags on incoming equipment. According to a warehouse official, warehouse personnel left that task to school personnel because of insufficient staffing at the warehouse. As a result, there was little assurance that all incoming equipment at the warehouse was properly tagged. Additionally, the Maintenance Division also did not tag incoming equipment and did not maintain property control records other than acknowledgment receipts showing the dates and the persons to whom equipment items were assigned. The Media, Library and Technology Office had an internal inventory system specifically for computers, which documented the descriptions and serial numbers of the items and the programs for which the items were purchased. None of the three facilities had property control procedures and records that were adequate to

safeguard equipment and to ensure compliance with the Federal property management requirements.

During a site visit to a St. Croix school in April 1999, we attempted to locate 11 items of equipment (4 computers, 3 monitors, 3 printers, and 1 digital camera) that were delivered to the school in May 1998. We found that the items were stored in a leaky closet at the school and that no one in authority was aware of the stored equipment, although an instructor informed us that he had been inquiring about the requisitioned items. This situation was brought to the attention of the District Superintendent, who directed a school official to use the equipment immediately. At another St. Croix school, five computers were delivered directly to the school in July 1998, but the computers had not been tagged and the vendor's invoice did not show the serial numbers. Therefore, the items were at risk of loss or theft. Additionally, four of the five computers were stored in a room with roof leaks that was undergoing construction work.

Disposal of Equipment. In accordance with procedures in the Government Property Manual, when property is deemed obsolete, a Report of Survey is prepared by the school and submitted to the Department of Property and Procurement, along with the item to be disposed of. However, we found that the Department of Education's warehouse facilities were not provided with copies of the Reports of Survey and were not involved in the disposition process.

We believe that the Department of Education should establish internal property management procedures to ensure that it meets the requirements of the Government Property Manual and provides an adequate level of safeguards to protect equipment purchased with Consolidated Grant funds. Based on our limited review of procurement transactions, we estimate that equipment costing at least \$1 million was purchased with Consolidated Grant funds during fiscal years 1997 and 1998.

Recommendations

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

1. Perform a review of the Department of Education's internal procurement process to identify opportunities for streamlining and expediting the process.
2. Establish and implement internal procedures to ensure that Federal and local competitive procurement requirements are complied with and that supply and equipment needs of schools and other Department of Education units are consolidated to allow for more cost-effective procurements of such items.
3. Establish and implement internal property management procedures to ensure that the Department of Education meets the property management requirements of the Government Property Manual and provides an adequate level of safeguards to protect equipment purchased with Consolidated Grant funds from loss or theft.

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

The Governor of the Virgin Islands did not provide a response to the report. Therefore, the recommendations are unresolved (see Appendix 2).

C. SCHOOL LUNCH WAREHOUSE OPERATIONS

The Virgin Islands Department of Education did not have adequate control over food and other commodities in the Department's School Lunch Program warehouses. Specifically, perpetual inventory records were inaccurate and were not reconciled to computerized inventory reports, physical inventory counts were inaccurate and were not performed for locally purchased commodities, and inventory reports were not submitted timely. The Code of Federal Regulations contains the administrative requirements (7 CFR 210) for the National School Lunch Program and requirements (7 CFR 250) for the Donated Food Program. However, the School Lunch Program warehouses did not have complete and consistent inventory control procedures, adequate segregation of duties, and adequate facilities for the storage of food items needing refrigeration. As a result, food and other commodities of an undeterminable value were subject to loss, pilferage, and spoilage.

Federal Food Commodities

The Code of Federal Regulations (7 CFR 250.16) requires that accurate and complete records be maintained with respect to the receipt, distribution, and inventory of donated foods. During March and April 1999, we performed a limited review of School Lunch Program warehouse activities on St. Thomas and St. Croix to determine compliance with these requirements. During fiscal years 1997 and 1998, the School Lunch Program warehouses on St. Thomas and St. Croix received 46,540 cases of donated food and other commodities from the U.S. Department of Agriculture for the School Lunch Program and the Temporary Emergency Food Assistance Program. These donated commodities were referred to as "Federal commodities." All of the commodities were shipped to the St. Thomas warehouse, and part of the commodities were then transshipped to the St. Croix warehouse.

On St. Thomas, a manual log was kept of each shipment received, whereas on St. Croix a computerized shipment log was maintained. Perpetual inventory records were kept on blue inventory cards at both warehouses. When commodities were delivered to schools or nonprofit organizations, a "card check" was prepared by warehouse officials to show the quantity of each item shipped, received, and signed for by the recipient. The St. Thomas warehouse used prenumbered card check forms, which were filed by school. The St. Croix warehouse used unnumbered card check forms, which were filed by month. Despite these established procedures, we found errors in the inventory records as follows:

- Perpetual inventory records were not accurate and were not routinely reconciled to monthly computerized physical inventory reports. At the St. Thomas warehouse, based on our comparison of the balances for 21 food commodities as shown on the perpetual inventory cards and the computerized physical inventory report as of February 26, 1999, we found that the balances for 15 items were not in agreement. At the St. Croix warehouse, we similarly compared the balances for 26 food commodities as shown on the perpetual inventory cards and the computerized physical inventory report as of April 20, 1999, and found that the balances were not in agreement for 23 items.

- Physical inventory counts were not accurate. For example, on November 27, 1998, the St. Croix warehouse did not have any meatballs in stock but received a shipment of 2,122 cases of meatballs later that day. A physical inventory performed on April 20, 1999, showed that 1,922 cases were in stock, meaning that 200 cases should have been distributed during the period of November 27, 1998, to April 20, 1999. However, distribution records and perpetual inventory records showed that 827 cases of meatballs were distributed during that period and that the quantities on hand should have been 1,295 (2,122 minus 827). A warehouse official stated that the physical inventory count could not have been correct, but an official of the School Lunch Program State Office stated that about 700 cases of meatballs had been unaccounted for when the latest shipment (as of April 20, 1999) was received. Therefore the quantity of meatballs received at the warehouse and the quantity distributed during the time period involved were uncertain.

Based on our review of warehouse operations for Federal commodities, we found that physical inventory reports were not submitted timely to the State Office. Warehouse managers are required to submit monthly inventory reports within 15 days after the end of each month. However, we found that for fiscal year 1998, the St. Thomas warehouse submitted 10 of 12 inventory reports from 1 to 4 months late and that the St. Croix warehouse did not submit 4 of the 12 inventory reports and did submit 3 of the remaining 8 reports from 1 to 2 months late. We also noted that the St. Croix warehouse did not have a refrigerated storage unit and that food commodities requiring refrigeration were stored at various schools, which made it difficult to safeguard the food commodities.

Food Commodities From Local Vendors

In addition to items provided by the U.S. Department of Agriculture, the School Lunch Program purchased food and other commodities from local vendors for distribution to schools. These locally purchased items were referred to as "insular commodities." The inventory control procedures used for insular commodities were different from those used for the Federal commodities. On St. Thomas, a manual logbook was maintained to record all incoming shipments, and "card checks" were used to record distributions. The St. Croix warehouse maintained perpetual inventory records on white inventory cards (to differentiate them from Federal commodities, which were on blue inventory cards), but the St. Thomas warehouse did not maintain perpetual inventory records for insular commodities. Additionally, neither warehouse was required to submit monthly physical inventory reports to the School Lunch Program State Office for local commodities, and the St. Croix warehouse did not perform periodic physical inventories for such items. As a result, we found discrepancies in the inventory records for insular commodities as follows:

- Although the St. Thomas warehouse prepared computerized physical inventory reports, the reports were not accurate. On March 29, 1999, we performed a physical inventory count for a judgmental sample of 50 items. For 32 items, the quantities on hand did not agree with the quantities shown on the warehouse's physical inventory report for the same date. For example, we counted 444 cases of apple juice, but the inventory report listed 677 cases. We did not find any cases of chicken drumsticks, but the inventory report listed

141 cases. We also did not find any cases of sausage patties, but the inventory report listed 277 cases.

- For the same sample of 50 items on St. Thomas, we found discrepancies in the quantities recorded as received from the vendor for 7 items. For example, the vendor's invoice showed that 76 cases of chicken breasts were shipped, but only 51 cases were recorded in the manual logbook as received.

- Prior to April 1999, the St. Croix warehouse had not performed a physical inventory since August 1988. Additionally, the perpetual inventory cards had not been reconciled to the results of the April 1999 inventory. For example, for a judgmental sample of 25 items, we found differences between the physical inventory and the perpetual inventory cards for 18 items.

- Shipments received by the St. Croix warehouse were not accurately recorded on the perpetual inventory cards. Our review of a judgmental sample of 52 shipments, representing 18 different items, disclosed that 4 shipments, totaling 131 cases of food commodities, were not recorded in the perpetual inventory cards and that the quantities recorded for 2 items were incorrect.

- A log was not maintained of shipments received at the St. Croix warehouse. Instead, vendor invoices were placed in a folder in reverse chronological order. Although a warehouse official had created a computer log to record incoming shipments, the log had not been updated since April 1998.

The Department of Education should require the School Lunch Program to develop standardized inventory control procedures for all Federal and local commodities that include (1) establishing and regularly updating perpetual inventory records; (2) maintaining a log of incoming shipments of commodities; (3) preparing card checks to record acknowledgment of receipt of all commodities distributed to the schools; (4) performing physical inventories at least every other month; and (5) reconciling the results of the physical inventories to the perpetual inventory records, the incoming shipment logs, and the distribution card checks. We believe that compliance with a comprehensive system of inventory controls is needed because food commodities are items that are at high risk for pilferage in the distribution system.

We also found that there was a lack of adequate segregation of duties at the School Lunch Program warehouses. For example, the same individuals received shipments of food commodities, made distributions, performed physical inventories, and prepared the monthly physical inventory reports for submission to the State Office. These conditions occurred because the tasks were not specifically assigned to different warehouse personnel. This internal control weakness further increased the potential for the pilferage of food and other commodities.

Recommendations

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

1. Require the School Lunch Program to develop and implement standardized inventory control procedures for all warehouses that store Federal and local commodities. These procedures should include establishing and continuously updating perpetual inventory records; maintaining logs of incoming shipments of commodities; preparing card checks to record acknowledgment of receipt of all commodities distributed to the schools; performing monthly physical inventories; reconciling the results of the physical inventories to the perpetual inventory records, the incoming shipment logs, and the distribution card checks; and submitting monthly physical inventory reports to the State Office within the established 15-day time frame.

2. Require the School Lunch Program to assign tasks to warehouse personnel in such a manner as to segregate the primary duties and responsibilities of receiving, distributing, accounting for, and reporting on food and other commodities.

3. Provide the School Lunch Program with refrigerated storage units and other storage facilities necessary to safely maintain food items at the centralized warehouses.

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

The Governor of the Virgin Islands did not provide a response to the report. Therefore, the recommendations are unresolved (see Appendix 2).

OTHER MATTERS

Our audit of selected Federal grant programs at the Department of Education disclosed several deficiencies related to the processing of Department of Education transactions by the Virgin Islands Department of Finance. Specifically, we found that (1) drawdowns of Federal grant funds were not timely posted to the appropriate accounts in the Government's Financial Management System, (2) provisions of the Cash Management Improvement Act of 1990 had not been adequately implemented, (3) payroll deductions (such as income taxes and Social Security taxes) were not timely paid to the appropriate agencies, and (4) indirect costs were charged to the Federal grants without the existence of executed indirect cost proposals. However, because similar problems have been disclosed in other audits of Federal grant programs that were in progress as of August 1999, we will report on these issues and provide specific recommendations in a separate audit report to be issued after completion of the ongoing grant audits.

CLASSIFICATION OF MONETARY AMOUNTS

<u>Finding</u>	<u>Questioned Costs</u>		<u>Funds To Be Put To Better Use*</u>
	<u>cost Exceptions*</u>	<u>Unsupported costs*</u>	
A. Grant Management			
Personal Services Costs	\$61,800	\$8,340	
Grant Compliance Issues	<u> </u>	<u> </u>	<u>\$39,500</u>
Totals	<u>\$61,800</u>	<u>\$8,340</u>	<u>\$39,500</u>

*Amounts represent Federal funds.

STATUS OF AUDIT REPORT RECOMMENDATIONS

Finding/Recommendation Reference	Status	Action Required
A.1, A.2, A.3, A.4, and A.5	Unresolved.	Provide a response to the recommendations that indicates concurrence or nonconcurrence. If concurrence is indicated, provide a plan of action, including target dates and titles of the officials responsible for implementation. If nonconcurrence is indicated, provide reasons for the nonconcurrence.
B.1, B.2, and B.3	Unresolved.	Provide a response to the recommendations that indicates concurrence or nonconcurrence. If concurrence is indicated, provide a plan of action, including target dates and titles of the officials responsible for implementation. If nonconcurrence is indicated, provide reasons for the nonconcurrence.
C.1, C.2, and C.3	Unresolved.	Provide a response to the recommendations that indicates concurrence or nonconcurrence. If concurrence is indicated, provide a plan of action, including target dates and titles of the officials responsible for implementation. If nonconcurrence is indicated, provide reasons for the nonconcurrence.

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