



**U.S. Department of Education
Office of Inspector General**



American Recovery and Reinvestment Act of 2009

**Virgin Islands Department of Education's Current Efforts to Address
Prior Audit Findings**

Alert Memorandum



ED-OIG/L04J0015

January 2010



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES

January 13, 2010

ALERT MEMORANDUM

To: Thelma Melendez de Santa Ana, Ph.D.
Assistant Secretary
Office of Elementary and Secondary Education

Philip Maestri
Director
Office of the Secretary, Risk Management Service

From: Keith West /s/
Assistant Inspector General for Audit

Subject: *Virgin Islands Department of Education's Current Efforts to Address Prior Audit Findings*
Control Number ED-OIG/L04J0015

The purpose of this alert memorandum is to highlight issues that could affect education funds provided to the Government of the Virgin Islands (GVI) through the *American Recovery and Reinvestment Act of 2009 (ARRA)*. In a recent audit¹ of the Virgin Islands Department of Education (VIDE), we found that although VIDE had implemented some controls to address prior audits, it had not sufficiently addressed or taken the necessary actions to resolve prior recommendations in the areas of (1) Financial Management, (2) Human Capital, and (3) Property Management and Procurement. We became aware of these issues during our audit of the VIDE's current efforts to address prior audit findings.

VIDE has had a history of unsatisfactory performance in the administration of the Department's programs, and our audits continue to identify systemic internal control weaknesses. Based on our review of VIDE's corrective actions related to recommendations in our prior reports, we found that VIDE did not ensure that corrective actions were taken to adequately address the deficiencies identified. In addition, the GVI is not current with its OMB Circular A-133 audits. Specifically, GVI submitted its A-133 audits late for audit years 2003, 2004, 2005, and 2006. The GVI had not submitted its A-133 audits for 2007 or 2008.

Since 1999 the Department imposed special conditions on grant awards to the GVI and its agencies. According to the special conditions, noncompliance with any of the special conditions will negatively impact the GVI and its agencies' ability to continue to receive Department funds and could result in enforcement or other actions. According to Section 454 of the General Education Provisions Act (20 U.S.C. § 1234c), when a recipient "is failing to comply substantially with any requirement of law applicable" to the Federal program funds, the Department is authorized to 1) withhold funds; 2) obtain

¹ *Audit of the Virgin Islands Department of Education's Current Efforts to Address Prior Audit Findings* (Control Number [ED-OIG/A04J0004](#), issued November 13, 2009).

compliance through a cease and desist order; 3) enter into a compliance agreement with the recipient; or 4) take any other action authorized by law.

VIDE, as a high-risk grantee, requires close monitoring, which requires greater Departmental oversight and a stronger independent internal audit function with a staff of sufficient size and experience level. Because of the GVI and VIDE's longstanding and recurring findings of fiscal and programmatic accountability deficiencies in the administration of Department programs, the Department should take stronger action than previously imposed to bring the GVI into full compliance with all Departmental requirements. If stronger action is not taken, the GVI may continue to have significant problems in administering Department grant programs and funds.

As detailed in the attached report to GVI and VIDE, the issues and corresponding recommendations that GVI and VIDE had not sufficiently resolved are significant for all Department funds. In addition to the funds that VIDE is otherwise authorized to receive for the current fiscal year, VIDE is scheduled to receive \$82.2 million in ARRA funds from the Department. As a result of its insufficient action to address significant weaknesses, VIDE requires close monitoring and greater Departmental oversight. As such, we suggest that your offices

1. Provide enhanced monitoring to help ensure that the GVI meets the requirements of the 2009 Special Conditions and the unresolved issues in the 2002 Compliance Agreement.
2. Provide enhanced monitoring of VIDE's activities with respect to the Department's programs and funds including ARRA funds.
3. Consider stronger actions, such as those outlined in the General Education Provisions Act, to protect Federal interests.

A copy of our final audit report issued to the GVI and VIDE is included in its entirety as an enclosure to this alert memorandum.

Department Response

We provided a preliminary copy of this memorandum to the Department for comment. In response, the Office of Elementary and Secondary Education (OESE) and the Department's Risk Management Service (RMS) agreed with the findings included in this memorandum. OESE added that under the 2009 Special Conditions, RMS required that VIDE develop and implement a Corrective Action Plan (CAP) to address and resolve the longstanding problems. OESE further noted that 1) VIDE developed and submitted the CAP by the due date; 2) VIDE and the third party fiduciary are working to address the action steps identified in the CAP; and 3) RMS is closely monitoring VIDE's progress in making the needed improvements in these areas. OESE comments are enclosed.

Corrective actions proposed (resolution phase) and implemented (closure phase) by your offices will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System. For further information, please contact Denise M. Wempe, Regional Inspector General, Region IV, at (404) 974-9416.

Alert memoranda issued by the Office of Inspector General will be made available to members of the press and general public to the extent information contained in the memoranda is not subject to exemptions in the Freedom of Information Act (5 U.S.C. § 552).

Enclosure 2

Electronic cc:

Tony Miller, Deputy Secretary, Office of Deputy Secretary
Martha Kanter, Under Secretary, Office of the Under Secretary
Andy Pepin, Delegated to Perform the Duties of the Assistant Secretary, Office of Special Education and Rehabilitative Services (OSERS)
Kevin Jennings, Assistant Deputy Secretary, Office of Safe and Drug-Free Schools
Edward Anthony, Deputy Commissioner, OSERS – Rehabilitative Services Administration (RSA)
David Esquith, Director, State Monitoring and Program Improvement Division, OSERS –RSA
Patty Guard, Acting Director, OSERS – Office of Special Education Programs (OSEP)
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UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF ELEMENTARY AND SECONDARY EDUCATION

THE ASSISTANT SECRETARY

JAN 11 2010

MEMORANDUM

TO: Keith West
Assistant Inspector General for Audit

FROM: Thelma Meléndez de Santa Ana, Ph.D

SUBJECT: Virgin Island Department of Education's Current Efforts to Address Prior Audit Findings – Audit Control Number: ED-OIG/L04J0015

The Office of Elementary and Secondary Education (OESE) concurs with the subject of the Alert Memo and bases its conclusion on the A-133 and OIG audits, site visits, and discussions with Virgin Islands Department of Education (VIDE) officials. In some cases, we conclude that VIDE has not effectively resolved certain recurring equipment issues because it lacks local funding to accomplish the remedies, as reported by them. For example, VIDE has requested the use of State Fiscal Stabilization Funds so that it could acquire a new warehouse, which we concluded is desperately needed, to secure the equipment in order to help prevent theft. While program requirements do not permit such use of funds, we are in the process of requiring that VIDE develop an interim solution, using non Federal funds for managing the property in accordance with Federal regulations. Also, we will require that VIDE provide a timeline for completing this. However, in other cases, for example, VIDE continues its failure to implement a system-wide approach for adequately maintaining proper documentation to account for the goods or services procured through program grant funds.

Under the 2009 Special Conditions, by September 1, 2009, Risk Management Services (RMS) required that VIDE develop and implement a Corrective Action Plan (CAP) to address and resolve the longstanding problems. We note here that VIDE developed and submitted the CAP by the September 1 due date and that VIDE and the third party fiduciary are working to address the action steps identified in the CAP. RMS is closely monitoring VIDE's progress in making the needed improvements in these areas.



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Audit Services
Region IV

November 13, 2009

Control Number
ED-OIG/A04J0004

Honorable John P. deJongh, Jr.
Governor of the Virgin Islands
Office of the Governor
21-22 Kongens Gade
St. Thomas, VI 00802

Honorable Dr. LaVerne Terry
Commissioner
Virgin Islands Department of Education
44-46 Kongens Gade
St. Thomas, VI 00802

Dear Governor deJongh/Dr. Terry:

This **final audit report**, Control Number ED-OIG/A04J0004, presents the results of our audit titled Virgin Islands Department of Education's Current Efforts to Address Prior Audit Findings. The objective of the audit was to determine the status of the Virgin Islands Department of Education's (VIDE) actions to address previously reported audit deficiencies and provide suggestions related to additional improvement needed. Our review covered audits issued from 2003 through 2008.

BACKGROUND

VIDE is responsible for the administration and operation of all publicly supported elementary and secondary education facilities and programs in the Virgin Islands (VI). This responsibility covers vocational, adult, special education, supportive services such as school lunch programs, pupil transportation, and library services to non-public schools in the territory. Between October 2002 and June 2009, VIDE drew down more than \$151.4 million¹ in U.S. Department of Education (Department) funds related to its fiscal year (FY) 2003 through FY 2009 grant awards to support its education programs. Prior to June 1, 2009, VIDE had a balance of almost \$72.8 million in Department funds available for drawdown related to the FY 2003 through FY 2009 grant awards. However, VIDE failed to draw approximately \$21.4 million in Department funds timely, leaving an available balance of \$51.4 million as of June 1, 2009.

¹ Based on net draws reflected in the Department's Grants Administration and Payment System (GAPS).

VIDE has had a history of unsatisfactory performance in the administration of the Department's programs. As early as 1998, the Department's Office of Special Education and Rehabilitative Services (OSERS) designated VIDE a "high-risk grantee" and imposed special conditions on its FY 1998 Special Education grant award. When VIDE did not demonstrate significant progress, OSERS entered into a voluntary compliance agreement with VIDE in December 1999. The agreement ensured a continued flow of Special Education funds while VIDE implemented a structured plan to come into compliance with the statute. Also in 1999, the Department imposed special conditions on grant awards to the GVI and its agencies, because GVI could not ensure proper expenditures of grant funds and was not current with its Office of Management and Budget (OMB) Circular A-133 audits.

Despite the imposition of special conditions, serious deficiencies continued to exist in a number of Department programs. As a result, on September 23, 2002, the Department entered into a 3-year comprehensive Compliance Agreement with the VI to develop integrated and systemic solutions to VIDE's problems in managing the Department's funds and programs. The Compliance Agreement addressed the areas of (1) Program Planning, Design, and Evaluation, (2) Financial Management, (3) Human Capital, and (4) Property Management and Procurement. However, neither the GVI nor VIDE complied with the terms of the 2002 Compliance Agreement. The GVI lacked significant progress in developing and implementing a Credible Financial Management System (CFMS) as required by the agreement. As a result, the Department required the GVI to hire a third-party fiduciary to manage its grant funds, starting with the 2004 grant awards. In August 2006, VIDE contracted with Alvarez & Marsal Public Sector Services (A&M) as its third-party fiduciary. Subsequent to VIDE's contract with A&M, our audits continued to identify systemic internal control weaknesses similar to those leading up to the requirement for the third-party fiduciary.² In addition, A&M had not addressed all of the requirements of the contract and special conditions as required, including the effective management and oversight of property.

A&M's contract was to have ended in July 2009. On May 15, 2009, the Department approved VIDE's selection of the firm Thompson, Cobb, Bazilio, and Associates based in Washington, D.C., to replace A&M and serve as its third-party fiduciary. However, A&M's contract has been amended to extend until December 31, 2009.

The Department's most recent 2009 Special Conditions include the requirement that the GVI make significant improvements in all aspects of its fiscal management, including fully implementing its CFMS. According to the special conditions, noncompliance with any of the special conditions will negatively impact the GVI and its agencies' ability to continue to receive Department funds and could result in enforcement or other actions. According to Section 454 of the General Education Provision Act (20 U.S.C. § 1234 (c)), when a recipient "is failing to comply substantially with any requirement of law applicable" to the Federal program funds, the Department is authorized to 1) withhold funds; 2) obtain compliance through a cease and desist order; 3) enter into a compliance agreement with the recipient; or 4) take any other action authorized by law.

² Although some of the weaknesses may have been expected to continue after the assignment of a third-party fiduciary, we reviewed current processes in place, as well as selected transactions before concluding that VIDE continued to have internal control weaknesses.

As of the date of our audit, the GVI was not current with its OMB Circular A-133 audits. Based on information in the Federal Audit Clearinghouse, the GVI's A-133 audits were submitted late for audit years 2003, 2004, 2005 and 2006. The GVI had not submitted its A-133 audits for 2007 or 2008

AUDIT RESULTS

We found that although VIDE had implemented some controls to address prior audits, VIDE had not sufficiently addressed or taken the necessary actions to resolve prior recommendations in the areas of (1) Financial Management, (2) Human Capital, and (3) Property Management and Procurement. For all six of the prior OIG audit reports reviewed, VIDE had not taken the necessary actions to resolve the audit deficiencies identified. Specifically, VIDE

- Had not fully implemented a CFMS that meets needs across the VI (Financial Management);
- Continued to submit late liquidation requests to the Department (Financial Management);
- Failed to submit A-133 audits timely (Financial Management);
- Had not completed an accurate and complete teacher qualification and personnel database (Human Capital);
- Continued to have an ineffective property management system in place (Property Management and Procurement); and
- Had not taken appropriate measures to implement adequate contract administration policies and procedures (Property Management and Procurement).

As a result, VIDE lacked sufficient internal controls to manage Departmental funds, programs, and activities. The Government Accountability Office's *Standards for Internal Control*³ state that internal control

should provide reasonable assurance that the objectives of the agency are being achieved in the following categories: 1) effectiveness and efficiency of operations including the use of the entity's resources; 2) reliability of financial reporting, including reports on budget execution, financial statements and other reports for internal and external use; and 3) compliance with applicable laws and regulations.

VIDE's inability to address issues identified in audits of its activities may 1) adversely impact VIDE's management of future funding including the \$82.2 million allocated to VIDE under the American Recovery and Reinvestment Act of 2009 (ARRA) as well as the allocation of funding that VIDE is otherwise authorized to receive each fiscal year; and 2) adversely impact the Department's overall mission to ensure access to equal educational opportunity for every individual. Further, GVI is not

³ GAO/AIMD-00-21.3.1 (November 1999).

current with the required OMB A-133 audits, which are required annually to assure that Federal funds are used appropriately and documented accordingly.

In its comments to the draft report, GVI concurred with Recommendations 1.1, 1.2, and partially concurred with Recommendation 1.3. GVI stated that VIDE is pursuing staffing an independent internal audit group by FY 2010, that both the GVI and VIDE have made strides in responding to prior OIG audits, and that the corrective actions are an ongoing collaborative effort. GVI made no other comments specifically related to the recommendations. However, GVI stated that it did not concur with the Financial Management issues identified in the report. Specifically, it did not concur that VIDE lacked a CFMS and that VIDE continued to submit late liquidation requests. GVI stated that VIDE partially concurred with the Human Capital issue and the two Property Management and Procurement issues.

GVI's response did not contain sufficient information nor did it provide additional documentation in support of its nonconurrence with the Financial Management issues. As a result, we did not change the findings or the related recommendations. Because GVI's comments address each section of the report, its comments are summarized after each section in the finding. The full text of its comments to the draft report is included as an attachment to the report.

Financial Management – VIDE Lacks A Credible Financial Management System

The 2002 Compliance Agreement required that the VI's financial management system be integrated across departments and other management systems, including human resource management, planning and evaluation, and property and procurement. The financial management system was to be developed based on a needs assessment, which was to be performed by an independent third-party. However, in February 2005, we found that VIDE had made little progress toward developing a central financial management system. Although VIDE had created a vision document, there was no evidence that an independent third-party had performed a needs assessment. As such, we recommended that the VI move forward in implementing a fully functional central financial management system based on an independent party's needs assessment of the system.⁴

In May 2008⁵ we alerted the Department that the VI still had not fully implemented a CFMS to manage Department grant funds. The VI's Enterprise Resource Planning (ERP) system⁶ was developed to satisfy the requirement of managing grant funds. However, we found that the ERP system did not contain any financial data for Department grants. As a result, the VI has no central repository of financial information related to those grants. In addition to the lack of financial data, we found that the payroll and human resources modules of the ERP system had not been implemented.

⁴ ED-OIG/A02D0028 – *The Virgin Islands Is at Risk of Not Meeting the Goals of the September 2002 Compliance Agreement* (February 2005).

⁵ ED-OIG/L04I0040 – *The Government of the Virgin Islands Has Not Fully Implemented a Credible Financial Management System to Manage U.S. Department of Education Funds* (May 2008).

⁶ The VI's ERP system is composed of 7 modules (Accounting, Accounts Receivables, Requisitions, Treasury Management, Human Resources Management, Payroll, and Fixed Assets). According to the VI's March 1, 2009, status report, 5 of 7 modules were fully complete. The Payroll and Human Resources Management modules were 85 and 74 percent complete, respectively.

The Department's FY 2008 Special Conditions also required VIDE and other VI agencies to demonstrate improved communication, coordination, and cooperation in developing a CFMS that meets needs across the VI. The special conditions require the VI, working with the VIDE, to complete the full implementation of its CFMS, including all modules required to eliminate the use of the legacy financial management system, by June 1, 2009.

According to 34 Code of Federal Regulations (C.F.R.) § 80.20(b)(2), accounting records "must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income."

In December 2008, the Department requested additional documentation based on the VI's September 2008 update of the implementation of its CFMS. In addition, a staff person within the Department's Risk Management Service (RMS) stated that the VI had been working on implementing the ERP system since early 2006 and had been strongly encouraged to have this completed so that the Department could begin to consider a possible transition of fiscal management from the third-party fiduciary back to the VI.

VIDE's Assistant Commissioner is part of an executive management team that meets bi-weekly to discuss the implementation of the ERP. However, she was unable to provide information related to VIDE's coordination and monitoring efforts or even to communicate VIDE's needs with respect to the CFMS. Instead, she referred the audit team to the VI's Department of Finance, which is the department that serves as the lead for the implementation of the ERP. According to the Executive Assistant Commissioner for the VI Department of Finance, ERP executive team members voted to extend the payroll module implementation to a future date, with proposed dates of July 2009, October 2009, or January 2010. He added that the final implementation date would be set after reviewing the plan provided by the VI Bureau of Information Technology.

According to the 2009 Special Conditions, the VI had not implemented a CFMS, which was originally required under the Compliance Agreement with the Department that ended on September 23, 2005. The 2009 Special Conditions required the VI to submit a detailed status report on the implementation of its CFMS, with respect to a Corrective Action Plan, by September 1, 2009. The VI submitted its status report to the Department on September 2, 2009; however, according to the status report, the payroll and human resources modules of the CFMS remain incomplete. Without the payroll and human resources information, the CFMS is not considered to be fully implemented.

The Department's special conditions required the development and implementation of the CFMS beginning in 2005. However, the GVI has been unable to meet the deadlines for its planned ERP system, and it appears unlikely that VIDE will comply with the Department's FY 2009 Special Conditions requiring a CFMS. Without a centralized repository of financial information in a CFMS, the Department's grant funds are at risk for mismanagement.

GVI Comments

GVI responded that it did not concur with the finding that it had not sufficiently addressed prior recommendations for developing a CFMS. Specifically, GVI stated that

- GVI entered into a contract with a third-party fiduciary, as required by the Department to manage Department grant award funds and store all related financial data in its FMS. The third-party fiduciary's financial management system can interface with GVI's central repository.
- GVI's ERP System, which is similar to the third-party fiduciary's FMS, is active for the core financial modules including Human Resource Module, which came on-line in October 2009. Additionally, the Payroll Module, which is 90 to 95 percent complete, is on target for its projected January 2010 implementation.
- GVI implemented the ERP System October 2006 with several "Core" modules including Purchasing/Requisitions, Accounts Payable, Cash Receipts, Treasury Management, General Ledger, Budgeting and Fixed Assets, which served to improve GVI's internal control structure.

GVI added that it is proactively and aggressively working to bring on-line the system's payroll component and that it is working together with the third-party fiduciary to interface the system. GVI maintained that it is committed to the following projected timeline to bring it closer to fully implement its CFMS: Human Resources Module – October 2009; Payroll Module – January 2010; and Financial Data Centralization from Third-Party Fiduciary – February 2010. According to GVI, an independent third-party performed a Needs Assessment for the CFMS.

OIG Response

While not concurring with the finding, GVI acknowledges that it has not completed all the modules. It is especially important that GVI implement its ERP System because it will serve as the cornerstone of the GVI's financial management, which is critical in its ability to manage Department funds consistent with applicable Federal Regulations and controls over fiscal accountability and funds management.

Developing and implementing a CFMS was one of the requirements outlined in the VI's 2002 Compliance Agreement and previous years special conditions. Although it appears that GVI is working toward full implementation of its ERP System, GVI has not fully implemented a CFMS. According to RMS, a fully implemented CFMS includes hardware, software, and operations. As a result, RMS expects that it will take the GVI several years to fully implement a CFMS.

Financial Management – VIDE Continues to Submit Late Liquidation Requests

In the Department's policy memorandum⁷ dated June 5, 2007, the principal operating component within the Department has the responsibility to consider and approve or disapprove late liquidation requests made up to 18 months after the end of the Tydings⁸ period. According to the policy letter,

⁷ The policy memorandum includes the subject line – *Extension of Liquidation Periods and Related Accounting Adjustments for Grantees under Department of Education State-Administered Programs.*

⁸ Section 421(b) of the General Education Provisions Act (20 U.S.C. § 1225(b)), known as the Tydings Amendment, allows funds to be obligated during a "carryover period" (i.e., 12 months after the end of the normal liquidation period). "If a State or a sub-grantee does not obligate its entire grant or sub-grant funds by the end of the fiscal year for which Congress appropriated the funds, it may obligate the remaining funds during a carryover period of one additional fiscal year. The State shall return to the Federal Government any carryover funds not obligated by the end of the carryover period by the State and its sub-grantees."

after the 18-month period expires, the Department will no longer grant late liquidation requests, except under extraordinary circumstances, or in cases involving lengthy construction contracts. The 2002 Compliance Agreement includes a performance measure that the VI will liquidate obligations on a timely basis and not need extensions in the liquidation period. However, in January 2008 we reported that VIDE continued to submit late liquidation requests that were not adequately supported. As such, we are concerned that VIDE may be unable to timely obligate funds and comply with the Department's regulations, placing Federal funds at risk of lapsing in the future.

A&M prepares late liquidation requests based on information VIDE provides, and VIDE submits the requests to the Department. According to VIDE's Assistant Commissioner, once the Department approves the late liquidation request, VIDE draws down the requested funds using the Grants Administration and Payment System (GAPS). In February 2005,⁹ we recommended that the VI provide, in coordination with the Department, GAPS training to new users before giving them access to the system. However, VIDE's Assistant Commissioner confirmed that VIDE staff had not attended any formalized GAPS training.

According to A&M staff, VIDE started spending its 2006 grant, which was not approved by the Department until July 2007, beginning in January 2008. A&M staff further stated that at least 40 percent of the 2006 funds were spent during late August and September 2008, and approximately 50 purchase orders remained open because goods had not been received or services had not been completed. A&M staff added that VIDE's Assistant Commissioner was very concerned about the amount of money left on the 2006 grant and was looking for expenses that could be paid using those Federal funds.

According to A&M staff, VIDE submitted a late liquidation request in December 2008 involving 2005 funds and another request in August 2008 that had not yet been approved by the Department. The last late liquidation requests were sent in February and March 2009, and A&M staff stated that they anticipated that VIDE would submit another request in April 2009.¹⁰

In January 2008, we recommended that VIDE provide additional documentation regarding the type and amount of expenditure when submitting a request to reopen a grant for late liquidation and ensure that financial data are accurate, verified, and reconciled to GAPS, the Department's Financial Management System (FMS), and its own financial records.

Between August 2008 and May 2009, A&M prepared VIDE's late liquidation requests totaling \$4.98 million, as shown in the following table. These requests are for VIDE expenditures associated with goods and services, per diems, and indirect costs.

⁹ ED-OIG/A02D0028 – *The Virgin Islands Is at Risk of Not Meeting the Goals of the September 2002 Compliance Agreement* (February 2005).

¹⁰ According to A&M staff, VIDE's most recent late liquidation request was filed on May 7, 2009.

Table – VIDE’s Late Liquidation Requests for Its 2004 Through 2007 Grant Awards

Grant Type	Goods / Services	Per Diems	Indirect Costs	Totals(a)
Reading First	\$15,587	\$0	\$177,599	\$193,186
Advance Placement	\$0	\$0	\$15,041	\$15,041
Literacy and School Libraries	\$0	\$0	\$1,448	\$1,448
Special Education	\$4,239	\$201,947	\$14,125	\$220,311
Title V, Consolidated	\$2,386,489	\$790,986	\$1,376,797	\$4,554,272
Totals	\$2,406,315	\$992,933	\$1,585,010	\$4,984,258

(a) Late liquidation requests since A&M began as VIDE’s third-party fiduciary

VIDE’s past inability to use its grants funds within the drawdown period and its recent practice of submitting late liquidation requests indicates a cash management weakness. As such, we are concerned that VIDE may be unable to timely obligate funds and comply with the Department’s regulations, placing Federal funds at risk of lapsing in the future.

GVI Comments

GVI responded that VIDE did not concur with our finding and stated that its inability to timely obligate funds and comply with the Department’s regulations was due to the Department’s consistent late approval of several grant awards. In addition, GVI stated that

- The Department has not responded timely when VIDE has requested guidance and/or approvals and as a result, the Department has been a contributing factor in VIDE’s late liquidation requests.
- Once grant awards are approved before the grant period begins, VIDE can “timely obligate funds and comply with the Department’s regulations.”
- VIDE does not have any inherent weaknesses in making drawdown requests using GAPS and the Department has not required that VIDE staff receive formal training in the past. However, VIDE is open to participating in any “formalized GAPS training” provided by the Federal Government. During the period of the Compliance Agreement, the Department provided GAPS training on the island for staff within a number of GVI offices.
- Because of its geographical location, VIDE purchase orders are often not a high priority to vendors off of the islands because vendors fulfill orders based on the volume and/or district size. Consequently, purchased items can take several months to arrive in the Territory, contributing to the need for late liquidation requests.

OIG Response

Although VIDE did not concur with the finding, it did not provide any additional information to contradict the information presented in the report. In its comments, VIDE acknowledged the use of late liquidation requests but maintained that it is not within its control. In addition to cited logistical

challenges to secure its purchased goods from off-island vendors, VIDE asserts that the Department's late approval of its grant requests contributed to its late liquidation practices. However, according to the Department, this condition does not appear to be the result of the Department's grant application approval process or untimely response to the VIDE. According to a School Support and Technology Programs staff person within the Office of Elementary and Secondary Education, the Department normally approves grant applications in a timely manner. She added that a number of VIDE's past grant applications were approved late because VIDE's did not submit complete grant packages to the Department. VIDE's inability to use its grant funds within the drawdown period stems from its own existing internal control weaknesses.

Although GVI indicated that the Department has not required that VIDE staff receive formal training, we recommended GAPS training to new users before giving them access to the system to address deficiencies identified in a prior audit. In this audit, we found that VIDE had not sufficiently addressed our prior recommendation. In addition, GVI stated that the Department provided GAPS training on the island for staff within a number of GVI offices. However, the intent of our prior recommendation was for the GVI, in coordination with the Department, to provide GAPS training to new users before giving them access to the system, as opposed to providing a one-time GAPS training session during the 3-year compliance agreement period. GAPS training should be ongoing. As we previously reported, until new users receive proper training, they cannot effectively use GAPS. Even though its comments indicated disagreement, GVI stated that it would like to partner with the Department to provide periodic or as needed GAPS training for new GVI staff and updated training for existing GVI staff relative to GAPS changes.

Financial Management – Failed to Submit OMB Circular A-133 Audits Timely

In 1999, at the time of the Department's imposed special conditions, GVI did not have a current A-133 audit. As of the date of our audit, the GVI was again not current with its OMB Circular A-133 audits. Based on information in the Federal Audit Clearinghouse, the GVI's A-133 audits were submitted late for audit years 2003, 2004, 2005 and 2006. All four audits submitted did not reflect an unqualified or "clean" opinion. The GVI had not submitted its A-133 audits for 2007 or 2008. Without current A-133 audits, the Department has no assurance that Department funds are used as intended.

In cases of continued inability or unwillingness to have an audit conducted in accordance with the established regulations, OMB Circular A-133, Subpart B, § 225, directs Federal agencies and pass-through entities to take appropriate action using sanctions such as: 1) withholding a percentage of Federal awards until the audit is completed satisfactorily; 2) withholding or disallowing overhead costs; 3) suspending Federal awards until the audit is conducted; or 4) terminating the Federal award.

GVI Comments

GVI stated that it is working to bring its audits current and has contracted Ernst and Young to conduct its 2007 and 2008 A-133 audits, which are scheduled to be completed by October 15, 2009, and January 31, 2010, respectively.

OIG Response

Subsequent to the Department's FY 1999 special conditions, the GVI made improvements to its A-133 audits, however, those improvements were not lasting. According to the 2009 Special Conditions, the Department expects the GVI to have current OMB A-133 reports with an unqualified or "clean" opinion for at least 3 consecutive years before the Department will consider a transition of the fiscal management responsibilities for Federal education grants from the third-party fiduciary back to the VI. However, since 2003, none of the GVI's A-133 audits were submitted timely, and the 2006 A-133 audit is the most recent one submitted, nor had any received an unqualified or "clean" opinion. All parts of GVI's A-133 audits for 2003 through 2006 provided a combination of qualified, disclaimer, and adverse opinions. As such, GVI needs to develop a long-term solution for receiving unqualified opinions in A-133 audits and for maintaining current audits.

Human Capital –VIDE's Teacher Qualification and Personnel Database Not Completed

The 2002 Compliance Agreement required the VI to 1) determine the percentage of classes conducted by highly qualified teachers and the number of highly qualified teachers that were needed per program to achieve the goal of having a highly qualified teacher in every classroom within 5 school years; 2) implement a process to re-engineer its personnel system by the beginning of the 2003-2004 school year; and 3) work with the Board of Education to expedite the teacher certification process, including alternative certification approaches. However, in February 2005,¹¹ we found that VIDE had not fully complied with the Agreement.

Although VIDE provided the number of highly qualified teachers, it did not address the percentage of classes conducted by the teachers or the determination of the number of highly qualified teachers needed. Specifically, we reported that the teacher qualification documentation was inconsistent, which appeared to result from VIDE's efforts to systematically categorize and classify its teachers and their qualifications without the benefit of a database. In addition, VIDE did not complete the process to expedite the teacher certification process. We recommended that VIDE ensure that an accurate and complete teacher qualification and personnel database be developed and maintained, including expediting the teacher certification process. Although VIDE concurred with the findings and recommendations and indicated that the implementation was ongoing, we were unable to confirm that VIDE had implemented corrective action.

VIDE provided documentation stating that funding was established to create a substitute teacher pool in each school and that VIDE developed policies and procedures for covering classes. However, VIDE did not provide any detailed information documenting the establishment of funding nor did it provide the written policies for covering classes. In addition, the documentation stated that VIDE actively updates its teacher quality database. VIDE also provided documentation of a High Objective Uniform State Standard of Evaluation (HOUSSE) initiative to ensure that teachers hired prior to 2001 were afforded a certification alternative so that more teachers met the highly qualified status. VIDE also provided the VI Board of Education's May 2007 Statement of Work for the Highly Qualified Teacher System (HQTS) and undated procedures pertaining to the HOUSSE initiative. However, VIDE did not provide any additional information regarding these documents, including the actual implementation

¹¹ ED-OIG/A02D0028 – *The Virgin Islands Is at Risk of Not Meeting the Goals of the September 2002 Compliance Agreement* (February 2005).

date for the HQTS database and HOUSSE initiative, nor did VIDE provide sample printouts of data extracted from the proposed system.

According to 34 C.F.R. § 200.56, to be deemed highly qualified, teachers must have 1) a Bachelor's degree; 2) full State certification or licensure, and 3) demonstrated knowledge of each subject they teach. Without a database categorizing and classifying teachers and their qualifications, VIDE's teacher qualification documentation has been inconsistent.

In response to our request for documentation to address the corrective actions for another audit, VIDE provided the St. Thomas/St. John 2008-2009 District Improvement Plan (DIP) and a sample 2008-2009 School Improvement Plan (SIP) from an elementary school. According to its DIP, educator data regarding highly qualified personnel were provided by VIDE's Human Resources Division and documented in the SIPs from each school. The DIP also stated that discrepancies existed between the number of teachers identified in the Human Resources Division report and the SIPs because the Human Resources Division data included all budgeted positions, some of which had not been filled, while the SIPs data included only positions that were filled.

The DIP did not discuss or mention the use of a teacher qualification and personnel database to document highly qualified teachers, and we were unable to confirm that VIDE had developed 1) an accurate and complete teacher qualification and personnel database, and 2) an expedited teacher certification process. According to RMS, VIDE had made progress in developing a database of teacher information, but it has not achieved full compliance with the agreement. The RMS staff stated that VIDE maintains an ACCESS database of teachers and related certifications. The database currently does not link to students and to classes, but the ultimate goal is to link the teacher information through VIDE's Student Information System. He stated that VIDE is working with the Department to research additional expenses that could be eligible to be paid with Federal funds. As such, a highly qualified teachers' database with links to students and classrooms is critical to the future use of Department funds for payroll. He added that due to the challenges of completing the implementation of the GVI CFMS Human Resources and Payroll modules, VIDE has had difficulty in generating a complete and accurate staffing list for payroll, even for the highly qualified teachers.

The Compliance Agreement's goals are to ensure that (1) there is a highly qualified teacher in every classroom to improve education in VI, and (2) teachers and related personnel can be moved into the schools quickly and receive their first paycheck on a reasonable time schedule. Without an accurate and complete teacher qualification and personnel database and an expedited teacher certification process, VIDE has not met the explicit goals of the Compliance Agreement.

GVI Comments

GVI responded that VIDE partially concurred with our finding that it had not completed a teacher qualification and personnel database, but added that it has implemented corrective measures. Specifically, GVI stated that

- VIDE acquired a new software tool – HQTS, that is able to provide data and information much more quickly and accurately. The HQTS database and HOUSSE initiatives were both successfully implemented during the 2007-2008 school year and, as a result, approximately 300 veteran teachers became highly qualified after the 2007-2008 school year. The software is still

in place and provides valuable data, including the percentage of classes taught by highly qualified teachers.

- VIDE has completed documentation of the HOUSSE HQTS software, as well as, the listing of teachers who became highly qualified through HOUSSE. Sample printouts of the HQTS database and a comparative analysis chart were attached to GVI's comments as Exhibit 1.
- VIDE hired a new Human Resource Director tasked with the responsibility for completing the requirements outlined in the Compliance Agreement.
- The Virgin Islands Board of Education (VIBE) created its own database in December 2005 to assist in certification verification and created a VI History and Culture Institute to help teachers and other professionals become certified. As a result of these increased efforts, between June 2008 to the present, 500 professionals have been certified and deemed highly qualified – either through the HOUSSE initiative or through the regular route to certification. VIBE is responsible for updating the teacher certification guidelines that were amended August 7, 2003.
- VIDE and VIBE both support the current initiatives which are developing a database of highly qualified teachers and corresponding certifications.

OIG Response

Our review of the additional documentation provided in its comments on the draft report indicates that VIDE has initiated a teacher qualification and personnel database and is expediting the teacher certification process. However, we did not test the data and, therefore, cannot confirm that the database is accurate and complete.

Property Management and Procurement – Inadequate Physical Inventory

In two audits issued in 2003,¹² we found that VIDE had not performed adequate physical inventories and recommended that VIDE perform physical inventories at all schools at least once every 2 years. According to 34 C.F.R. § 80.32, a physical inventory is required to be taken and reconciled with property records at least once every 2 years; and property records are to be maintained that include a description of the property, serial or other identification number, source, acquisition date, cost, location, and use and condition of the property. However, we found that VIDE still has not performed an adequate physical inventory at all schools, as required.

According to VIDE's Assistant Commissioner of Education, VIDE performed an inventory of property during the summer of 2008, and the inventory results were forwarded to the Department's RMS group in October 2008. According to RMS staff, the Department reviewed the inventory data but suggested that VIDE conduct a more rigorous physical inventory of its equipment. Although the inventory listing provided to the Department included items inventoried at 34 schools in both the St. Thomas and

¹² ED-OIG/A02C0011 – *The Virgin Islands Department of Education – St. Thomas / St. John School District's Control of Equipment Inventory* (June 2003) and ED-OIG/A02C0019 – *The Virgin Islands Department of Education St. Croix School District's Control of Equipment Inventory* (March 2003).

St. Croix school districts, we found that the information in the inventory listing was incomplete. For example, we found that inventory data for 2,078¹³ pieces of equipment at one elementary school did not include at least three of the following data elements – make, model, value, property tag number, serial number, and/or condition of the equipment.

In August 2008, VIDE developed new equipment policies and procedures to address inventory issues and comply with Federal regulations and local requirements. These included conducting physical inventories at least once every 2 years; developing adequate procedures to maintain the property in good condition; transferring and disposing of equipment; and reporting stolen, missing, or damaged equipment. According to VIDE’s Assistant Commissioner, these procedures were implemented in August 2008 but VIDE’s staff were not trained in these procedures until November 2008.

We recently reported¹⁴ that VIDE did not have adequate policies and procedures nor an effective property management system to properly account for property purchased with Department funds. As a result, it did not properly account for property purchased and valued at \$337,409. Although VIDE delivered the property purchased to the appropriate locations for those items that we were able to locate, we were unable to locate other items and we could not determine whether any property was delivered in a timely manner. Specifically, we found that items routinely sat on the warehouse floor unattended for long periods of time until a receiving officer processed the shipments, and there was no deadline for recording and tagging the property. In addition, A&M did not manage the property purchased by VIDE with Department funds in accordance with contract requirements, and the VI government did not provide proper oversight of A&M’s contract to ensure that it complied with all the contract deliverables.

The Assistant Commissioner stated that VIDE was about to perform another physical inventory beginning on May 11, 2009; the new handheld inventory scanners would be installed by May 4, 2009; and the vendor would be on-site at that time to provide training to all staff in both districts involved in equipment distribution. In his July 7, 2009, comments to our recent audit report,¹³ the VI Governor stated that VIDE was “currently conducting physical inventories at all the schools ... [and] aggressively pursuing completion of the physical inventories....” However, since shipments are not processed timely and tagged, the inventory may not accurately reflect all items purchased with Department funds.

GVI Comments

In its comments, GVI stated that VIDE partially concurred with the Property Management and Procurement finding related to inventory and indicated that it has implemented corrective measures. Specifically, GVI stated that

- In FY 2008, VIDE implemented its “Property, Procurement, and Auxiliary Services Standard Operating Procedures Manual” providing guidance and direction in the proper handling of inventory.

¹³ In instances where VIDE listed more than one piece of equipment as one inventoried item (e.g., 27 tables as one item), we counted those multiple pieces individually to calculate the total number of inventoried items.

¹⁴ ED-OIG/A04I0042 – *Virgin Islands Department of Education’s Administration of Property Purchased with Federal Funds* (August 2009).

- VIDE developed and implemented a policy/procedure for the distribution of equipment received by its Division of Property, Procurement, and Auxiliary Services. VIDE is attempting to process all items within 5 days of arrival at the warehouse – inventoried, tagged, and delivered.
- VIDE contracted with a security company that provides surveillance and monitoring services with cameras and monitors for all schools and warehouses in all districts.
- VIDE is adhering to the Federal requirements by endeavoring to schedule and conduct an inventory every 2 years as required by 34 C.F.R. § 80.32. A fully completed inventory of all equipment purchased with grant award funds will be completed by September 30, 2009. Additionally, VIDE has developed a schedule to conduct a physical inventory every 2 years as required.

OIG Response

Although it appears that VIDE is moving toward its compliance with conducting a physical inventory of all equipment purchased with Department funds every 2 years, the results of our recent audit of VIDE's *Administration of Property Purchased with Federal Funds* reported that control weaknesses in VIDE's property management practices still exist. According to the audit report, an A&M representative stated that there are issues in the current inventory scanning process and the information was not reconciling. He stated that the warehouse manager is e-wasting¹⁵ property, but it does not appear that the property was always being scanned before removal from the warehouse, which may affect the inventory. The representative also stated that the warehouse manager was not tagging all new assets. Additionally, although VIDE stated that a company was hired to provide 24-hour surveillance and monitoring services at all schools and warehouses, the A&M representative stated that he routinely passes by the warehouse and that the gates are not locked; the surveillance system is not monitored; and the security guard routinely naps in the back of the building.

Since GVI stated that a full inventory of all equipment purchased with Departmental funds would be completed by September 30, 2009, we requested a copy of the inventory listing. However, VIDE did not provide it. We are not convinced that adequate controls have been implemented to address our concerns regarding the physical inventory of all property and equipment purchased with Department funds. Without an effective system in place to accurately process, identify, tag and reconcile inventory in a timely manner, VIDE is not in compliance with Department regulations and is unable to provide an accurate account of all property purchased with Department funds. The lack of inventory control allows opportunities for theft and loss of assets without detection and is an indication of systemic weaknesses that affect both property management and fiscal management of Department funds.

Property Management and Procurement – Inadequate Contract Administration

In January 2007,¹⁶ we reported that VIDE did not adequately manage its contract with Learning Point Associates (LPA) to ensure that the contract deliverables were adequately completed. In addition, VIDE had insufficient controls written in the contract and did not perform sufficient contract

¹⁵ E-wasting is the disposal of property and removal from the islands.

¹⁶ ED-OIG/A02F0023 – *Virgin Islands Department of Education Administration of the Learning Point Associates Contract* (January 2007).

monitoring to ensure that contract deliverables were delivered timely, in accordance with the contract, and prior to payment of the LPA invoices. We recommended that VIDE develop and implement adequate contract administration policies and procedures. Although VIDE concurred with the findings and recommendations included in the report, we were unable to confirm that VIDE had implemented corrective action.

Specifically, in response to the report, VIDE agreed to develop a formal Contract Administration Policies and Procedures Manual by June 2007 that would meet the requirements of 34 C.F.R. § 80.40, which states

Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

VIDE's Assistant Commissioner provided VIDE's new Payment Policy on Approving Professional Service Contracts. According to the Assistant Commissioner, this policy was implemented in February 2009, almost 2 years after VIDE agreed to develop its policy manual. VIDE's new policy states that copies of all executed professional services contracts must be forwarded to the Department's internal auditor for the purposes of performing operational, financial, and compliance audits to determine the accuracy of financial transactions, including confirming that for each invoice

- (1) The Program Director and Property and Procurement Director have performed the required verifications;
- (2) The delivered services and products are consistent with the contract invoices to include only approved eligible services and products; and
- (3) Eligible services and products are billed at the approved contract amounts.

According to the list of VIDE's internal auditor's completed and ongoing audits, between October 2005 and the present, no audits have been completed on professional services contracts. There was only one desk audit of a professional services contract worth approximately \$717,000, which began after the contract ended in June 2008. According to the internal auditor, the desk audit was completed in about 30 days. According to A&M staff, VIDE obtained professional services in a number of situations. For example, between September 2007 and October 2008, purchase orders¹⁷ were issued for nine professional services contracts with a total value of approximately \$2.3 million.

VIDE provided no other documentation regarding corrective actions it has taken to address our original recommendation. As a result, we cannot confirm that VIDE has taken appropriate measures to implement adequate contract administration policies and procedures.

GVI Comments

GVI responded that VIDE partially concurred with this issue and that VIDE plans to meet the requirements as outlined in 34 CFR § 80.40. VIDE stated that by FY 2010, a Compliance Monitor and

¹⁷ Based on a review of VIDE's 2006 Consolidated and Special Education grants.

Contract Administrator will be hired to fulfill the requirements stated in the Policy on Approving Professional Service Contract Payments, which was developed and implemented by VIDE.

OIG Response

Even though VIDE did not completely concur with the finding, it responded that it plans to meet the applicable requirements regarding contract administration.

Conclusion

Based on our review of VIDE's corrective actions related to recommendations in our prior reports, we found that VIDE had not ensured that corrective actions were taken to adequately address the deficiencies identified. In addition, VIDE had not completed the required OMB Circular A-133 audits in a timely manner. These issues are significant to all Department funds but may be even more critical because VIDE is scheduled to receive \$82.2 million in ARRA funds from the Department in addition to the funds VIDE is otherwise authorized to receive for the current fiscal year.

VIDE had an internal auditor to perform independent audits. However, the internal audit staffing level was not sufficient to ensure proper use and accounting of Department funds. In addition, based on 1) the significance of the deficiencies identified in our previous audits and the resulting negative impact on VIDE's overall administration of Departmental funds and programs, and 2) VIDE's insufficient action in taking the necessary steps to correct the deficiencies identified, the VIDE ARRA funds could be at risk for mismanagement.

VIDE, as a high-risk grantee, requires close monitoring, which requires greater Departmental oversight and a stronger independent internal audit function with a staff of sufficient size and experience level. Because of the GVI's and VIDE's longstanding and recurring findings of fiscal and programmatic accountability deficiencies in the administration of Department programs, the Department should take stronger action than previously imposed to bring the GVI into full compliance with all Departmental requirements. If stronger action is not taken, the GVI may continue to have significant problems in administering Department grant programs and funds.

RECOMMENDATIONS

We recommend that the Assistant Secretary for OESE require GVI to ensure that VIDE

- 1.1 Completes and submits the required OMB Circular A-133 audits timely;
- 1.2 Develops a fully staffed, independent internal audit group responsible for auditing and monitoring VIDE's activities with respect to the Department's programs and funds; and
- 1.3 Ensures that corrective actions requested by the Department are implemented.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of the audit was to determine the status of VIDE's actions to address previously reported audit deficiencies and provide suggestions related to additional improvement needed. Our review covered OIG audits issued from 2003 through 2008.

To complete our audit objective, we

- Obtained and reviewed OIG audit reports issued between 2003 and 2008 to identify recommendations for use in evaluating VIDE efforts to address prior audit findings;
- Obtained Federal Audit Clearinghouse data for OMB Circular A-133 audits.
- Contacted and/or interviewed VIDE's Assistant Commissioner and Internal Auditor, and VI's Executive Assistant Commissioner for the Department of Finance;
- Held meetings and discussions with the Department's RMS group and staff from A&M;
- Reviewed VIDE's policies and procedures related to the actions taken to address prior OIG audits, late liquidation requests, inventory listings, purchase orders, district and school improvement plans, invoices, memoranda to VIDE and other VI staff;
- Obtained and reviewed documents from the Department's RMS group, including Special Conditions requirements, status reports, correspondence, and emails between the Department and the VI and VIDE;
- Obtained and reviewed A&M's progress report assessing the progress on the VI's implementation of its CFMS; and
- Reviewed laws, regulations, and guidance applicable to the areas identified in this audit report which related to prior OIG audit recommendations.

Because we did not rely on computer-processed data to meet the objectives of our audit, we did not conduct a data reliability test.

We assessed the documentation provided by VIDE and VI staff to determine whether adequate corrective actions were taken to address selected prior OIG audits. An exit conference was held with VIDE officials on July 24, 2009.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

ADMINISTRATIVE MATTERS

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Department of Education official, who will consider them before taking final Departmental action on this audit:

Thelma Melendez de Santa Ana, Ph.D.
Assistant Secretary
Office of Elementary and Secondary Education
U.S. Department of Education
400 Maryland Avenue, SW
Washington, DC 20202

It is the policy of the U. S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,

/s/

Denise M. Wempe
Regional Inspector General for Audit

Attachment

Appendix A – Acronyms/Abbreviations Used in this Report

A&M	Alvarez and Marsal
ARRA	American Recovery and Reinvestment Act
CFMS	Credible Financial Management System
C.F.R.	Code of Federal Regulations
Department	U.S. Department of Education
DIP	District Improvement Plan
ERP	Enterprise Resource Planning
FMS	Financial Management System
FY	Fiscal Year
GAPS	Grants Administration and Payment System
GVI	Government of the Virgin Islands
HOUSSE	High Objective Uniform State Standard of Evaluation
HQTS	Highly Qualified Teacher System
LPA	Learning Point Associates
OMB	Office of Management and Budget
OSERS	Office of Special Education and Rehabilitative Services
RMS	Risk Management Service
SIP	School Improvement Plan
VI	Virgin Islands
VIBE	Virgin Islands Board of Education
VIDE	Virgin Islands Department of Education

Appendix B – List of Audits Reviewed for Corrective Actions Taken to Address Prior OIG Audits

- (1) The Virgin Islands Department of Education – St. Thomas / St. John Control of Equipment Inventory (ED-OIG/A02-C0011).
- (2) The Virgin Islands Department of Education – St. Croix School District’s Control of Equipment Inventory (ED-OIG/A02-C0019).
- (3) The Virgin Islands Department of Education Did Not Manage its Federal Education Funds (ED-OIG/A02-C0012).
- (4) Virgin Islands Is at Risk of Not Meeting the Goals of the September 2002 Compliance Agreement (ED-OIG/A02-D0028).
- (5) Virgin Islands Department of Education's Administration of the Learning Point Associates Contract (ED-OIG/A02-F0023).
- (6) Audit of the Virgin Islands Department of Education’s 2003 Reopened Consolidated Grants (ED-OIG/A02-H0006).

GVI Draft Response

to

United States Department of Education

Office of Inspector General

Control Number ED-OIG/AA04J004, dated August 4, 2009

#1: FINANCIAL MANAGEMENT - VIDE LACKS A CREDIBLE FINANCIAL MANAGEMENT SYSTEM

Without a centralized repository of financial information in a CFMS, the Department's grant funds are at risk for mismanagement.

Government's Response

Government of the Virgin Islands (GVI) does not concur.

Subsequent to the Compliance Agreement between GVI and the U.S. Department of Education (USED), GVI entered into a contract with a third party fiduciary as required by USED to manage federal funds awarded by USED. The designated third party fiduciary is contracted to manage USED federal grant awards, and tasked to store all financial data for the USED grants in its financial management system. The third party fiduciary's financial management system can interface with GVI central repository and GVI and the third party fiduciary are currently working together to address this. GVI's Enterprise Resource Planning (ERP) System, which is similar to the third party fiduciary's financial management system, is active for the core financial modules and the Human Resource (HR) Module which came on-line October 1, 2009. Additionally, the Payroll Module, which is 90-95% complete, is on target for its projected January 2010 implementation.

The initial implementation of the Tyler-Munis (T-M) Enterprise Resource Planning (ERP) System commenced on October 1, 2006 with several "Core" modules (i.e., Purchasing/Requisitions, Accounts Payable, Cash Receipts, Treasury Management, General Ledger, Budgeting and Fixed Assets) which served to improve the internal control structure of the Government of the Virgin Islands (GVI). These Core modules, which conform to Generally Accepted Accounting Principles (GAAP), along with the training of VI personnel to utilize the capabilities of the T-M ERP System (concluded prior to the implementation date of October 1, 2006), as well as documented policies and procedures, have significantly enhanced the effectiveness of the GVI's internal control structure dramatically.

For instance, to ensure timely locating supporting documentation underlying each transaction, which are eventually posted to the general ledger; with the Core modules, all transactions are electronically attached with the necessary supporting documentation and stored within the GVI's T-M ERP system for proper review and/or retrieval. Moreover, the embedded levels of specific staff (i.e. segregation of duties) that have limited access to accounts for their respective department/agency through permissions and security; minimizes and or eliminates the

probability that a transaction will be solely approved by a Department/Agency Head (i.e. management review and approval) prior to being forwarded to the Department of Property and Procurement (P&P) for procurement review, and or to the Department of Finance (DOF) for final review and subsequent payment. Note that, both P&P and DOF have mutually exclusive workflow approval processes that serve to minimize (or eliminate) the likelihood of missing supporting documentation, as well as to further enhance management review and approval of transactions, accounting entries and financial and other reporting.

Additionally, the T-M ERP system helps to ensure that funds, property and other assets are safeguarded against loss or unauthorized disposition. For example, aside from the well-established inter/intra-workflow approval process that exists to manage, review and approve transactions, from a funding standpoint, the “allotment lever” utilized by the Office of Management and Budget (OMB) within the Budgeting module, serves as a strong mechanism to safeguard and control the authorized flow of funds by departments/agencies at the outset of initiating a transaction. These funding controls are further strengthened via a multi-level review at P&P, as well as at DOF (i.e. Accounting and Treasury Divisions). Conversely, the control environment surrounding property has been improved through the implementation and oversight of the Fixed Asset Module by P&P, as well as the ancillary policies and procedures that permit the GVI to cross-reference the detailed items resident within the ERP financial management system.

GVI is proactively and aggressively working to bring on-line the payroll component of the system. Further, with the mandated requirement of USED which requires GVI to contract for a third party fiduciary, it is not a requirement for GVI to have one central repository; however, to reiterate, GVI and the third party fiduciary are working cohesively to interface the system. GVI is committed to the following projected timeline to bring it closer to fully implement its CFMS. Human Resources Module – October 2009, Payroll Module – January 2010 and Financial Data Centralization from Third Party Fiduciary – February 2010.

A Needs Assessment was performed by TreWyn & Associates, the independent third party who also created the Vision Document for the GVI. OIG is not accurate in its statement that there was no evidence that an independent third-party had performed a Needs Assessment.

The statement by OIG auditor that “*VIDE’s Assistant Commissioner is part of an executive management team that meets bi-weekly to discuss the implementation of the ERP. However, she was unable to provide information related to VIDE’s coordination and monitoring efforts or even to communicate VIDE’s needs with respect to the CFMS*” is subjective and unwarranted. The team is comprised of executive management from across GVI. For VIDE to submit a report on the status of the ERP is not the protocol. Such a request from OIG could be communicated to the appropriate GVI department and/or the ERP Executive Team.

Implementation date(s): Fiscal Year 2007 (Phased implementation*)

Due date(s): Fiscal Year 2010 – Human Resource and Payroll Modules

*Per Industry Standards, Implementation of a System of this magnitude takes 3 to 5 years.

Responsible Party(ies): Commissioner, DOF and **Executive Assistant Commissioner, DOF**
Director, DOP and **MIS Administrator, DOP**

#2: FINANCIAL MANAGEMENT - VIDE CONTINUES TO SUBMIT LATE LIQUIDATION REQUESTS

VIDE's past inability to use its grant funds within the drawdown period and its recent practice of submitting late liquidation requests, indicate a cash management weakness. As such, USED is concerned that VIDE may be unable to timely obligate funds and comply with the USED's regulations, placing Federal funds at risk of lapsing in the future.

Government's Response

Virgin Islands Department of Education (VIDE) does not concur.

In accordance with USED's policy memorandum dated June 5, 2007, the principal operating component within the USED has the responsibility to consider and approve late liquidation requests made up to eighteen months (18) after the end of the Tydings period.

At least four (4) grant awards received by VIDE from USED were approved mid-way into the grant award period. VIDE may be unable to timely obligate funds and comply with the Department's (USED's) regulations, due to USED's consistent late approval of several grant awards. In addition, when requests for guidance and/or approvals are made to USED they are not being responded to timely. USED's lack of timely responses has been a contributing factor in VIDE requesting late liquidations of approved grant awards. Once grant awards are approved before the grant period begins, VIDE can "timely obligate funds and comply with the Department's regulations."

While GAPS (e.g. G5) is user friendly, VIDE does not have any inherent weaknesses in making drawdown requests; and USED has not required that VIDE staff receive formal training in the past. VIDE is open to participating in any "formalized GAPS training" seminars being held by the federal government. During the period of the Compliance Agreement, USED provided GAPS training on St. Thomas (Virgin Islands) for Government of the Virgin Islands entities that utilize GAPS. The trainer [REDACTED] and participants included staff from VIDE, VIOMB, VIDOH, etc.

GVI would like to continue to partner with USED to provide: (a) periodic or as needed GAPS training for new GVI staff, and updated training for existing GVI staff relative to GAPS changes and, (b) to expedite changes regarding external user access request forms submitted by GVI. Additionally, GVI recommends that for clarity, future reference, etc. a column should be inserted in the reports e.g. (Award Balance Report) to show the date the funds were awarded to the Territory of the U.S. Virgin Islands.

All late liquidation requests were submitted by A&M with adequate support and were favorably accepted by USED. The VIDE senior management along with the A& M team provided OIG personnel with documentation that adequately supported the late liquidation request. Because of our geographical location often times VIDE purchase orders are not a high priority to the off-island vendors; vendors fulfill orders based on the volume of purchase and/or the size of district. Consequently VIDE cannot compete with districts on the mainland in terms of volume. Additionally, the department (VIDE) does not control items being shipped from the mainland. Many times, booking companies ship their items by boat based on weight. Purchased items can take several months to arrive in the Territory. This contributes to late liquidation requests.

The Assistant Commissioner had no conversation with A&M staff about being “*very concerned about the amount of money left on the 2006 grant and was looking for expenses that could be paid using those Federal funds,*” as OIG has asserted. Nor was there any follow-up made by OIG staff to the Assistant Commissioner.

Responsible Party(ies): Commissioner, VIDE and Assistant Commissioner, VIDE

#3: HUMAN CAPITAL - VIDE’s TEACHER QUALIFICATION AND PERSONNEL DATABASE NOT DEVELOPED

Although VIDE provided the number of highly qualified teachers, it did not address the percentage of classes conducted by the teachers or the determination of the number of highly qualified teachers needed.

Government’s Response:

VIDE partially concurs.

The compilation of data on the percentage of classes conducted by highly qualified teachers was completed in February 2005. Updated information for the 2008-2009 school year is as follows: Territory-wide 56% certified (791)/44% not certified; 45% highly qualified (643)/55% not highly qualified; 300 HOUSSE. Developing a more systematic mechanism, since then, VIDE has acquired a new software tool known as Highly Qualified Teacher System (HQTS) that is also able to provide data and information much more quickly and accurately. At that time, VIDE already had a teacher credential database. VIDE archived versions of that database going back to the 2002 - 2003 School Year before the February 2005 audit cited by this report. Updated versions of the teacher databases are being maintained consistently by VIDE’s Human Resources Division.

The Virgin Islands Board of Education (VIBE) has created its own database in December 2005 that has assisted in certification verification. Additionally, the VIBE created a VI History and Culture Institute to help teachers and other professionals to become certified. Through its increased efforts between June 2008 to the present, five hundred (500) professionals have been certified and deemed highly qualified – either through the High Objective Uniform State Standard of Evaluation (HOUSSE) or through the regular route to certification. VI Board of

Education is responsible for updating the teacher certification guidelines which were amended August 7, 2003. Moreover, the Board is presently reviewing the entire certification policy for update and upgrade. Additionally, the Board is creating several alternative routes to assist non-certified personnel. A new institute is presently being finalized to assist professionals who do not have pedagogical training. It is scheduled to be launched in either November or February, depending on the formulation of a Memorandum of Agreement between the DOE and the BOE. The Department (VIDE) continues to support the Board's (VIBE) efforts with certification, and the Board (VIBE) continues to support the Department's (VIDE) initiatives in this area.

The HQTS database and HOUSSE initiatives were both successfully implemented during the 2007-2008 school year and approximately 300 veteran teachers became highly qualified as a result of HOUSSE after the 2007-2008 school year aided by the HQTS software. That software is still in place and provides valuable data, including the percentage of classes taught by highly qualified teachers mentioned previously. We have completed documentation of the HOUSSE HQTS software, as well as the listing of teachers who became highly qualified through HOUSSE. Sample printouts of the HQTS database and a comparative analysis chart are attached in Exhibit 1. VIDE is not unique with hiring and retaining highly qualified teachers. VIDE has hired a new Human Resource Director tasked with the responsibility of fulfilling the requirements as outlined in the Compliance Agreement.

Implementation date(s): FY 2005 (Classes/HQ Teachers HQTS), FY 2008 (HOUSSE) and FY 2009 (HR Director)

Due date(s): FY 2009 (update database)

Responsible Party(ies): Commissioner, VIDE and **Human Resources Director, VIDE, Board of Education (BOE) and Executive Director, BOE, Chairperson, Vocational Board of Education**

#4: PROPERTY MANAGEMENT AND PROCUREMENT - INADEQUATE PHYSICAL INVENTORY

According to 34 CFR §80.32, a physical inventory is required to be taken and reconciled with property records at least once every two (2) years; and property records are to be maintained that include a description of the property, serial or other identification number, source, acquisition date, cost, location, and use and condition of the property. However, USED's Office of the Inspector General (OIG) found that VIDE still has not performed an adequate physical inventory at all schools, as required.

Government's Response:

VIDE partially concurs.

Although VIDE did not have adequate procedures in place in FY 2007, it now has a "Property, Procurement and Auxiliary Services Standard Operating Procedures (SOP) Manual" that

provides guidance in the proper handling of inventory. The manual (SOP) which was implemented in FY 2008 addresses: Equipment Policies and Procedures; Physical Inventory; Transfer of Equipment; Disposition of Equipment; and Stolen, Missing, or Damaged Equipment. During the summer of 2008 GVI performed an inventory of property which was forwarded to the USED'S Risk Management Service (RMS) group in October 2008; however, VIDE received no reply or correspondence from RMS group suggesting *“that VIDE conduct a more rigorous physical inventory of its equipment.”* VIDE is adhering to the federal requirements by endeavoring to schedule and conduct an inventory every 2 years as required by 34 CFR 80.32. A fully completed inventory of all equipment purchased with grant award funds will be completed by September 30, 2009. Additionally, VIDE has a schedule to conduct a physical inventory every two (2) years as required.

VIDE has developed and implemented (effective November 1, 2008) policy/procedures regarding the distribution of equipment received by its Property, Procurement and Auxiliary Services. To ensure that items are processed and distributed to each school on a weekly basis, all items will be processed within five (5) days of arrival at the warehouse –inventoried, tagged, and delivered to the designated locations. Tracking of distributed equipment is further detailed in the Equipment Distribution and Location Policy section of the property management manual (October 15, 2008). Moreover, VIDE has contracted with a security company which provides twenty-four (24) hours surveillance and monitoring services with CCTV cameras and monitors all schools and warehouses in all districts (St. Thomas/St. John District; St. Croix District) on all three (3) islands.

As stated in the GVI Audit response to OIG Audit ED-OIG/A04I0042, only \$10,384.78 or about 3% of the \$337,409 of property purchased with USED funds were unaccounted for. VIDE further stated that a fully completed inventory of all equipment purchased with grant award funds will be completed by September 30, 2009 and will accurately reflect all items purchased.

Implementation date(s): FY 2008, FY 2009 and ongoing (every two years)

Responsible Party(ies): Commissioner, VIDE and Assistant Commissioner, VIDE
Directors–Property Procurement and Auxiliary Services,
VIDE, Deputy Commissioner for Property, VIP&P
Third Party Fiduciary

#5: PROPERTY MANAGEMENT AND PROCUREMENT - INADEQUATE CONTRACT ADMINISTRATION

VIDE did not implement adequate contract administration policies and procedures.

Government's Response

VIDE partially concurs.

VIDE endeavors to meet the requirements as outlined in 34 CFR §80.40. By the 1st quarter of GVI FY 2010 a Compliance Monitor and Contract Administrator will be hired to fulfill the requirements stated in the Policy on Approving Professional Service Contract Payments, which was developed and implemented by VIDE.

Implementation date(s): FY 2009 (VIDE policy developed)

Due date(s): FY 2010 (new positions and policy implementation)

Responsible Party(ies): Commissioner, VIDE and Assistant Commissioner, VIDE
Internal Auditor, Compliance Monitor and Contract Administrator

Recommendations:

USED recommends that GVI ensures that VIDE:

- 1.1 Completes and submits the required OMB Circular A-133 audits timely.
- 1.2 Develops a fully staffed, independent internal audit group responsible for auditing and monitoring VIDE's activities with respect to the USED's programs and funds.
- 1.3 Implements the corrective actions requested by USED.

Government's Response

GVI/VIDE concurs with Recommendation 1.1,

VIDE concurs with Recommendation 1.2, and partially concurs with 1.3.

- 1.1 The Government of the Virgin Islands (GVI) is working to bring the audits up to date and has contracted Ernst and Young to conduct its FY 2007 and FY 2008 Single Audits which are scheduled to be completed by October 15, 2009 and January 31, 2010, respectively.
- 1.2 VIDE is proactively pursuing staffing an independent internal audit group by GVI's Fiscal Year 2010.
- 1.3 GVI and VIDE has made strides in responding to prior OIG Audits and the corrective actions stated therein are an ongoing collaborative effort.