
The Virgin Islands Department of Education Did Not Effectively Manage Its Federal Education Funds

FINAL AUDIT REPORT



ED-OIG/A02-C0012
September 2003

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effectiveness, and integrity of the
Department's programs and operations.



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UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

SEP 30 2003

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

Dear Governor Turnbull:

Enclosed is our final audit report, Control Number ED-OIG/A02-C0012, entitled *The Virgin Islands Department of Education Did Not Manage Its Federal Education Funds*. This report incorporates the comments you provided in response to the draft report. If you have 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 Education Department official, who will consider them before taking final Departmental action on this audit:

Ronald Tomalis
Acting Assistant Secretary for Elementary and Secondary Education
U.S. Department of Education
Federal Building No. 6, Room 3W315
400 Maryland Ave, 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 greatly appreciated.

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

Sincerely,

Helen Lew

Assistant Inspector General for Audit Services

Enclosure

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Executive Summary

The U.S. Department of Education (ED), Office of Inspector General (OIG) performed an audit to determine whether the Virgin Islands Department of Education (VIDE) was effectively managing and appropriately expending its Federal education funds. Our audit covered grants awarded during the period October 1, 1994 through February 24, 2000.

We found that VIDE did not effectively manage and appropriately expend funds granted by ED. Specifically, VIDE

- had approximately \$6.8 million in ED funds that lapsed,
- improperly expended \$1.5 million in expired ED funds,
- failed to use or return \$482,085 in duplicate payments from ED in a timely manner,
- failed to effectively maintain and monitor encumbrance data, and
- did not monitor the status or receipt of deliverable goods and services after making advance payments to vendors.

To correct these deficiencies, we recommend that ED require VIDE to

- access and use the data in ED's Grant Administrative Payment System (GAPS) to be fully aware of the grants received, payments made, available balances, and funding periods, and improve its internal grant tracking system to reconcile regularly with the data in GAPS;
- return to ED \$1.5 million of expired funds expended improperly and implement procedures to ensure that ED funds are only spent for obligations made during allowable grant periods;
- return to ED \$7,641 not recognized as a duplicate payment from ED, determine the interest liability associated with the untimely use or return of the duplicate payments, and develop and implement procedures that will allow for the immediate return or use of any duplicate payments from ED;
- develop a process that would allow VIDE to monthly reconcile the Financial Management System's (FMS) encumbrance data with VIDE's known obligations; and
- establish written procedures and implement practices to monitor the receipt of goods and services after making advance payments to vendors.

In its response to the draft report, VIDE disagreed with the substance of Findings 1, 2 and 3, as well as Recommendation 2.1, which asked for the return of \$1.5 million of improperly expended funds, and Recommendation 3.1, which asked for the return of \$139,387—most of which they have now refunded. VIDE agreed to implement the remaining recommendations, some of which were also required as part of the September 23, 2002, Compliance Agreement between ED and the Virgin Islands (VI). This Compliance Agreement compelled the VI to develop solutions to problems in managing Federal education funds and programs. A portion of VIDE's written response to the draft report has been included as Attachment B to this report. Because of the voluminous response, we have not included all documents in this Attachment. Copies of those attachments are available on request. We also summarized VIDE's responses at the end of the respective findings. Where appropriate, we changed the report to reflect the impact of the information VIDE provided.

AUDIT RESULTS

Finding 1

VIDE had approximately \$6.8 million in ED funds that lapsed

VIDE was not always aware of grant awards, available balances, and funding periods. Consequently, as of March 12, 2003, VIDE had \$6,756,320 that lapsed from 15 ED grants, awarded from October 1, 1994 through February 24, 2000. Of that amount, \$868,889 from five of the grants was de-obligated and reverted to the U.S. Treasury. The remaining \$5,887,431 from the other 10 grants lapsed and will also revert to the U.S. Treasury unless VIDE can provide evidence to ED of outstanding expenses obligated during the grant periods. This occurred because VIDE neither used readily available information from ED nor had an adequate internal tracking system to monitor its grants.

According to 34 C.F.R. § 80.20 (b) (2),¹ accounting records “[M]ust contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.”

The regulations at 34 C.F.R. § 80.20 (b) (3) provide that “Effective control and accountability must be maintained for all grant and subgrant cash”

GAPS shows information on grant awards, such as total authorizations, pending and confirmed payments, drawdowns, and available balances. However, VIDE did not effectively use GAPS to monitor its Federal education grants.

After ED-OIG identified the potential for VIDE’s grant funds to lapse, we reviewed GAPS data on all Federal education grants and found 20 grants that had available balances as of August 9, 2001. One of the grants, the 1995 Elementary and Secondary Education’s Consolidated Grant, had an available balance of \$148,252. On September 30, 2001, the balance was de-obligated and reverted to the U.S. Treasury. As of March 12, 2003, GAPS data revealed that four additional grants had available balances totaling \$720,637 that were also de-obligated and reverted to the U.S. Treasury. Of the remaining 15 grants, 10 grants had \$5,887,431 in lapsed funds. Those funds could only be used to liquidate obligations made during the period of availability if VIDE obtained authorization from ED.

Because valid obligations were not being paid within the Federal funding period, the VIDE Federal Grants Office had to repeatedly submit written requests for grants to be reopened. According to the VIDE’s Director of the Federal Grants Office, VIDE requests to reopen Federal grants were common because of the VI’s problems associated with late payments to vendors and with the vendors not providing the goods until they received payment.

¹ Unless otherwise specified, all regulatory citations are to the July 1, 2000 volume.

ED program officials did not always authorize the reopening of grants. VIDE officials indicated that they often did not receive a response from ED program officials authorizing the draw down of funds, particularly if documentation was not provided to support the reopening of a grant.

VIDE's inability to effectively monitor its use of Federal education funds was also impacted by differences in data used by VIDE, which caused grant funds to lapse. The VI Department of Finance (VI Finance) maintained the official accounting records for the VI Government on an automated data processing system – the Financial Management System (FMS). The system included data for VIDE's obligations and was designed to track the initial encumbrance of funds, adjustments to encumbrances, expenditure postings, and transactions to liquidate and close encumbrances. However, the FMS data did not agree with either the grant information in GAPS or the VIDE Business Office's account balances, resulting in lapsed funds. For example:

- 1997 Consolidated Grant - S922A970004: The FMS showed outstanding obligations totaling \$693,986, while GAPS showed an available balance to pay those obligations totaling \$1,057,598. However, the VIDE Business Office could not provide us any documentation to support the outstanding obligations. As a result, the \$1,057,598 lapsed.
- 1998 Consolidated Grant - S922A98004: The FMS showed outstanding obligations totaling \$995,225, while the VIDE Business Office provided us documentation to support obligations pending to be paid totaling \$96,404. GAPS showed an available balance to pay those obligations totaling \$2,177,894. Thus, the remaining \$2,081,490 (\$2,177,894 - \$96,404) lapsed.
- 1999 Technology Literacy Challenge Grant - S318X990056: The FMS showed outstanding obligations totaling \$104,473, while the VIDE Business Office provided us documentation to support obligations pending to be paid totaling \$8,752. GAPS showed an available balance to pay those obligations totaling \$528,552. Thus, the remaining \$519,800 (\$528,552 - \$8,752) also lapsed.

VIDE was unaware of one Goals 2000 grant, which caused grant funds to lapse. GAPS data showed two Goals 2000 grants awarded during 1999, one for \$502,715 (S276A990026) and another for \$500,127 (S276A990036). The S276A990026 grant reflected confirmed payments totaling \$500,127. No monies had been drawn down from the other grant. The VIDE's Director of the Federal Grants Office indicated that the \$500,127 spent belonged to the S276A990036 grant, but were posted in GAPS against the other grant. He stated ED would not approve two Goals 2000 grants in one award year. Since he was unaware of the S276A990026 grant, the \$502,715 lapsed.

Attachment A identifies the 20 grants reviewed, the total amount of funds authorized for each grant, the GAPS balance as of March 12, 2003, and the funds that lapsed from 15 of the grants. The lapsed funds column takes into consideration the grants' balances that were de-obligated and reverted to the U.S. Treasury and the outstanding obligations that we reviewed and found to be legitimate.

Recommendations:

We recommend that the Assistant Secretaries for Elementary and Secondary Education, Special Education and Rehabilitative Services, and Postsecondary Education, and the Director for English Language Acquisition, Language Enhancement, and Academic Achievement for Limited English Proficient Students require VIDE to:

- 1.1 Access and use the data in GAPS to be fully aware of the grants received, payments made, available balances, and funding periods;
- 1.2 Improve its internal grant tracking system and reconcile regularly with the data in GAPS;
- 1.3 Utilize its internal grant tracking system to identify outstanding obligations and liquidate them prior to the closing of a grant. This will require reconciliation between GAPS, FMS, and records maintained by the VIDE Business Office; and
- 1.4 Provide ED program officials with requisitions' documentation when requesting grants to be reopened.

VIDE Comments – VIDE did not fully agree with the cause of this finding, primarily because of what it claimed was mismanagement by ED. VIDE admitted to being responsible for about \$2.6 million in Federal education funds lapsing, but claimed the remainder of the lapsed funds is directly the fault of ED. Specifically, VIDE claimed that ED failed to respond to VIDE's request to reopen grants totaling over \$3.1 million. To support its claim, VIDE provided an Excel spreadsheet detailing the requests to reopen specific grants and the associated outstanding obligations associated with each grant. In addition, VIDE stated that it did not receive notice of \$1,011,704 in Goals 2000 grant awards.

VIDE concurred with the four recommendations for improving its administrative capabilities and oversight management of ED funds. Since the recommendations parallel the requirements set out in the September 23, 2002 Compliance Agreement, VIDE indicated that it had taken or would take action to fulfill its obligations.

OIG Response – VIDE is ultimately responsible for managing Federal funds and assuring that payments are made on a timely basis. Although VIDE contended that certain grants had outstanding obligations, we saw very limited evidence of valid invoices for those grants.

The VIDE Business Office did not provide documentation to support its claims for over \$1 million in outstanding obligations for the 1997 Consolidated Grant. For the 1998 Consolidated Grant, the VIDE Business Office provided support for only \$96,404 of outstanding obligations, versus the \$1.2 million claimed. At the time of our audit, the 1995 Consolidated Grant had been irrevocably closed, and the funds reverted to the U.S. Treasury.

VIDE failed to work more closely with ED to follow up on its requests to reopen grants. The Goals 2000 grants (S276A99026) and (S276A970059) appeared to be two cases where VIDE was not aware of the grants. VIDE had spent \$500,127 of the S276A99036 grant, but those expenses were posted in GAPS against the S276A99026 grant. ED program officials could not

explain how the S276A99026 grant appeared on GAPS nor provide the award notification for the grant. ED program officials were also unable to provide a copy of documents for the S276A970059 grant. Although VIDE stated that it did not receive the grant award for the S276A970059 grant, GAPS records indicated that \$16,355 was drawn down from this grant.

Although disputes remain about who was responsible for grant funds lapsing, VIDE must work more closely with ED program officials to assure that it is aware of all grant awards, that funds do not lapse, and that it monitors grant balances to assure obligations are made prior to the end of the Tydings period.

Finding 2

VIDE improperly expended \$1.5 million in expired funds

VIDE expended \$1,535,287 in funds from the 1995 and 1997 Consolidated Grants to pay for expenses incurred after the obligation periods. This included \$649,025 expended in funds from the 1995 grant related to requisitions dated May 1999, and \$886,262 expended in funds from the 1997 grant related to payroll expenses for August and September 2000.

Weaknesses in VIDE's fund management resulted in these improper expenditures. First, VIDE did not have procedures in place to assure that funds were spent only for obligations incurred within the allowable grant period, including the one year Tydings period. Second, VIDE lacked effective communication with ED. Based upon correspondence with ED, VIDE believed it had written authorization from ED to obligate and expend the 1995 grant funds through June 1, 1999. Although VIDE did not provide any documentation of authorization from ED to use the 1997 grant funds, a VIDE official stated they had verbal approval from ED to use the 1997 funds.

Pursuant to 34 C.F.R. § 80.23 (a), "Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted. (b) A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period. . . .The Federal agency may extend this deadline at the request of the grantee."

Under the "Tydings Amendment" Section 412 (b) of the General Education Provisions Act, 20 U.S.C. 1225 (b), any funds not obligated and expended during the period for which they were awarded become carryover funds and may be obligated and expended during the succeeding fiscal year.

We reviewed GAPS data to determine whether VIDE had drawn funds after the expiration of the Tydings period. We focused on the 1995, 1997 and 1998 Consolidated Grants because their draws were the largest. We assessed the validity of draws made and found that VIDE improperly expended \$1,535,287 in funds from the 1995 and 1997 Consolidated Grants. For the 1998 Consolidated Grant draws reviewed, VIDE properly obligated the funds within the Tydings period.

1995 Consolidated Grant

The authorized funding for the 1995 Consolidated Grant totaled \$17.6 million. The funding period ran from October 1, 1995 through September 30, 1996. The obligation period was extended through September 30, 1997 due to the Tydings period. VIDE requested an extension due to the cancellation of requisitions for goods and services from mainland vendors and purchase orders that could not be delivered due to unforeseen circumstances. As a result, on November 24, 1998, ED confirmed to VIDE the reactivation of the available amount so that VIDE could draw down funds through March 31, 1999. VIDE then requested an additional two-

months extension. In response, ED granted an additional extension, through June 1, 1999, to expend the funds for purchases/obligations that were incurred during fiscal year 1995. Based on the correspondence with ED, VIDE contended that ED had allowed them to obligate funds from the reactivated grant beyond the Tydings period.

We judgmentally selected for review five draws totaling \$696,883 to ensure that obligations were not made after the Tydings period and found that \$649,025 did not relate to expenses incurred during the grant period. The draws tested were all made in January or May 1999. The January 1999 draws generally related to expenses incurred within the Tydings period. However, the May 1999 draws were all related to requisitions dated May 1999 for expenses incurred after the Tydings period.

1997 Consolidated Grant

The authorized funding for the 1997 Consolidated Grant totaled \$36.9 million. It included 1996 and 1997 funds. The funding period ran from July 1, 1997 through September 30, 1998. The obligation period was extended through September 30, 1999, the end of the Tydings period. Although VIDE did not have any documentation from ED authorizing the use of funds from the grant after the end of the Tydings period, GAPS data showed that the grant was reopened to allow for additional draws until April 27, 2001.

We judgmentally selected for review five draws made from September 2000 through April 2001 totaling \$1,944,946 to ensure that obligations were not made after the Tydings period and found that \$886,262 from two of the draws did not relate to expenses incurred during the grant period. The draws were used for year 2000 payroll expenses. Of that amount, \$446,928 was for the pay period ending August 26, 2000 and \$439,334 for the pay period ending September 9, 2000.

Recommendations:

We recommend that the Assistant Secretary for Elementary and Secondary Education require VIDE to:

- 2.1 Return to ED the \$1,535,287 of expired funds expended improperly;
- 2.2 Implement procedures to ensure that ED funds are only spent for obligations made during the allowable grant period; and
- 2.3 Provide ED program officials with expense documentation, ensuring that the original obligation dates were within the Tydings period, whenever grants are to be reopened.

VIDE Comments – VIDE did not concur with the recommended return of the \$1,535,287 in expired ED funds. To support its argument, VIDE provided documentation that it received permission from ED to obligate and liquidate \$649,025 from the 1995 Consolidated Grant. VIDE officials stated that an ED employee extended VIDE’s liquidation/obligation period through March 31, 1999. Accordingly, VIDE contended that because of ED’s improper grants management, it was unfair to fault VIDE and force it to repay the funds, when VIDE depends on ED for technical assistance and advice.

For the \$886,262 in Consolidated Grant funds used for payroll costs, VIDE argued that the funds were drawn against the 1999 Consolidated Grant and that the expenses were legitimate. However, VIDE then stated that it should be allowed to transfer the costs to the 1998 Consolidated Grant. That transfer would only entail an adjustment to the VI Finance postings on its part and an adjustment by ED to reflect a draw on the 1998 grant, not the 1997 grant.

VIDE officials stated that they had implemented procedures to ensure that ED funds are only spent for obligations made during the allowable grant period in accordance with the September 23, 2002 Compliance Agreement. VIDE also agreed to provide ED program officials with expense records whenever grants are to be reopened.

OIG Response – Although an ED employee extended VIDE’s liquidation/obligation period of the 1995 Consolidated Grant through March 31, 1999, the employee did not have the authority to extend the period beyond that which was allowed by law and regulations. In addition, the 1995 grant expenses of \$649,025, which we are recommending for disallowance and return to ED, were related to requisitions dated in May 1999. These requisitions were dated after the March 31, 1999 extension date and long after September 30, 1997, the legal end of the obligation period.

Regarding the \$886,262 in Consolidated Grant funds, VIDE stated the payroll costs had been drawn down from the 1999 grant. However, the funds were drawn from the 1997 grant. Since the payroll charges appeared to be legitimate, the use of 1998 grant funds to pay for those costs would be appropriate. However, the 1998 grant is also closed.

Finding 3

VIDE failed to use or return \$482,085 in duplicate payments from ED in a timely manner

VIDE received \$482,085 in duplicate payments from ED, one for \$346,363, one for \$128,081, and one for \$7,641, but did not use or return the funds to ED within the required three business days. As a result, VIDE incurred an interest liability of \$28,261 to the Federal Government. While VIDE officials were aware of the \$346,363 and the \$128,081 duplicate receipts, they did not recognize having received the additional \$7,641 payment. VIDE officials indicated that they were not aware of the three-day requirement to use or return excess funds. In addition, VI Finance and VIDE did not have procedures that would have allowed the immediate return of funds when VIDE discovered the duplicate payments.

According to 34 C.F.R. § 80.20 (b) (7),

Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees . . . must be followed whenever advance payment procedures are used. . . . When advances are made by . . . electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements.

Pursuant to 31 C.F.R. § 205.7 (c) (4) (September 7, 2000), a State shall request funds not more than three business days prior to the day on which it makes a disbursement.

The regulations at 31 C.F.R § 205.12 (a) (September 7, 2000) provide that a State will incur an interest liability to the Federal Government from the day Federal funds are credited to a State account to the day the State pays out the funds for program purposes.

On April 27, 2001, VIDE received from ED two duplicate payments, one for \$346,363 and one for \$128,081. GAPS data showed two separate VIDE requests for these funds. The \$346,363 receipt was comprised of a drawdown request from one Elementary and Secondary Education grant totaling \$196,790, one Individuals with Disabilities Education Act (IDEA) grant totaling \$147,412, and one English Language Acquisition, Language Enhancement, and Academic Achievement for Limited English Proficient Students grant totaling \$2,161. The \$128,081 receipt was comprised of drawdown requests from three Elementary and Secondary Education grants totaling \$123,898 and one IDEA grant totaling \$4,183.

VIDE recognized the duplicate receipts and notified both VI Finance and ED in May 2001. ED's Office of the Chief Financial Officer agreed that VIDE could either use the funds to offset future expenses or return the funds, but within three business days, as required by cash management regulations.

An additional \$7,641 from the 1999 Consolidated Grant had been received as a duplicate payment on August 11, 2000. Neither VI Finance nor VIDE recognized the duplicate receipt of

\$7,641 although it showed on the bank statements of June and August 2000. In addition, VI Finance did not record the duplicate \$7,641 payment as a receipt on the FMS. A similar finding was reported in the ED-OIG report “The Virgin Islands Government Lacks Adequate Management Controls Over the Administration of Its IDEA, Part B Grant Program Salary Costs” (A04-A0015 – July 2001).

VIDE offset \$342,248 of the \$346,363 payment, but did so from July 5, 2001 through August 10, 2001, after the required three business days. GAPS records show that VIDE returned \$4,113 of the remaining \$4,115 on April 5, 2002 and the \$128,081 payment on September 27, 2002. Because of the untimely use or return of the duplicate draws, the imputed interest cost to ED as of August 21, 2003, was \$28,261. The \$7,641 had not been returned.

Since neither VIDE nor VI Finance had policies and procedures on how to treat duplicate receipts, during the course of our audit they began consideration of how to return the funds without creating inaccurate entries on the FMS.

Recommendations:

We recommend that the Assistant Secretaries for Elementary and Secondary Education and Special Education and Rehabilitative Services, and the Director for English Language Acquisition, Language Enhancement, and Academic Achievement for Limited English Proficient Students require:

- 3.1 VIDE and VI Finance to return to ED \$7,641 not recognized as a duplicate payment from ED and enter it into the FMS;
- 3.2 VIDE and VI Finance to update and return to ED the interest liability associated with the untimely use or return of duplicate payments;
- 3.3 VIDE and VI Finance to develop and implement procedures that will allow for the immediate return of duplicate payments from ED; and
- 3.4 VIDE to reconcile all receipts with FMS and bank statements.

VIDE Comments – VIDE did not concur with the finding since it had returned duplicate payments of \$128,081 and \$4,113 to ED. VIDE was determining how to treat the remaining \$7,641. If the funds were not already returned, they were going to be adjusted against future expenses or returned as deemed necessary. VIDE agreed with the remaining recommendations, including the computation of imputed interest, the determination of whether procedures adequately address the return of duplicate payments, and the continued reconciliation of receipts with FMS and the bank statements on a more frequent basis.

OIG Response – OIG agrees that duplicate payments of \$128,081 and \$4,113 were returned to ED and changed the report to reflect the impact of this information. GAPS records confirmed that VIDE refunded \$4,113 on April 5, 2002, and \$128,081 on September 27, 2002, but not within the required three business days. As of August 21, 2003, the imputed interest of these late uses and returns was \$28,261.

Finding 4

VIDE's processes for maintaining and monitoring encumbrance data were ineffective

VIDE could not reconcile its outstanding obligations with VI Finance's FMS encumbrance data. Encumbrances were being erroneously increased on the FMS without apparent reasons. In addition, VIDE often circumvented the normal payment process by requesting straight payments, which did not liquidate or reduce encumbrances because the payment documents could not be associated with specific encumbrances. The inflated balances reduced the available funds for encumbering subsequent requisitions or paying other expenses. This impacted VIDE's ability to manage its funds.

According to 34 C.F.R. § 80.20 (b) (2), accounting records “[M]ust contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.”

Pursuant to 34 C.F.R. § 80.40 (a), “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.”

When FMS encumbrances were improperly increased (or decreased), there was no systematic process to detect these erroneous changes. Because the FMS encumbrances were not always being liquidated after payment, adjusted as warranted, or removed from the system when no longer valid, FMS balances did not agree with VIDE information. To resolve the problem, VI Finance annually provided VIDE with a listing of all outstanding encumbrances.

VIDE determined which encumbrances were still valid or accurate, identified necessary adjustments, and returned the printout to VI Finance so that deletions and changes could be made. However, this process was not working effectively since the recommended changes and corrections were not always made. Further, an annual reconciliation of encumbrances with expenses and obligations did not provide VIDE with the needed flexibility to manage its funds throughout the grant periods.

For example, for the 1998 Consolidated Grant, the FMS had encumbrances totaling \$995,225, while the VIDE Business Office provided the OIG with only \$96,404 of outstanding obligations. This demonstrates the need for VIDE to continually reconcile the VI Finance encumbrance data with outstanding obligations.

The FMS also generated internal transactions that impacted the balances of obligations. When obligations were improperly increased, there was no systematic process to detect the erroneous changes. For example, one obligation - S1096101 - had an FMS balance of \$52,414 when it should have been zero. A Department of Finance employee concurred that the balance was increased on three separate occasions for no apparent reason. She corrected the problem with a

“Voucher for Adjustment of Encumbrance” that reversed the \$52,414 and left a correct balance of zero.

The FMS had a system flaw that allowed obligations to be increased by internally generated transactions. VI Finance personnel were researching the problem to determine the cause.

Another situation, which caused the encumbrance data in the FMS to be overstated, involved attempts to expedite payments. VIDE often circumvented the normal payment process by requesting straight payments. These straight payments did not liquidate or reduce encumbrances because the payment documents could not be associated with specific encumbrances. According to the Director of the VIDE’s Business Office, straight payments were used in limited situations, such as employees’ travel advances, registration fees, and emergency purchases.

From October 1, 1997 through July 31, 2002, VIDE sent to VI Finance \$12.9 million in straight payments to be processed for the Consolidated grants. We concluded that these payments may have had outstanding obligations that were never liquidated.

When encumbrances were not liquidated from the FMS or the encumbrances were erroneously increased on the FMS, the inflated encumbrance balances reduced the available funds for encumbering other requisitions or paying expenses. This impacted VIDE’s ability to effectively manage its funds.

Recommendations:

We recommend that the Assistant Secretaries for Elementary and Secondary Education, Special Education and Rehabilitative Services, and Postsecondary Education, and the Director for English Language Acquisition, Language Enhancement, and Academic Achievement for Limited English Proficient Students require:

- 4.1 VIDE and VI Finance to develop a process that would allow VIDE to reconcile monthly the FMS encumbrance data with VIDE’s known obligations;
- 4.2 VI Finance to determine the cause for system generated increases in encumbrances and make the necessary changes to prevent further occurrences;
- 4.3 VIDE and VI Finance to associate straight payment documents with encumbrances and liquidate those encumbrances as necessary; and
- 4.4 VIDE to minimize the use of straight payments and ensure that a straight payment is never used when an outstanding encumbrance exists.

VIDE Comments – VIDE adopted the recommendations in accordance with the Compliance Agreement. Reconciliations were being done on a semi-annual basis. At the end of year three of the Compliance Agreement, reconciliations would be performed monthly.

OIG Response – For VIDE to most effectively manage its funds, it must closely examine the straight payments and liquidate associated encumbrances. VIDE should perform monthly reconciliations sooner in order to enhance its ability to better control its funds.

Finding 5

VIDE did not monitor the status or receipt of deliverable goods and services after making advance payments to vendors

Although VIDE often paid its vendors in advance, VIDE did not always follow up to determine whether goods and services were actually received. VIDE maintained records of all pre-paid requisitions, but did not always monitor the status or receipt of goods and services on advance payments made because they lacked the necessary personnel to perform the work. In addition, VIDE lacked guidelines and procedures that addressed advance payments and subsequent follow up. As a result, VIDE sometimes expended ED grant funds on goods and services that were not delivered.

Pursuant to 34 C.F.R. § 80.40 (a), “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.”

Many vendors requested advance payments from VIDE before delivering goods and services because VIDE had been slow in processing payments due to shortage of funds. For example, a computer equipment vendor delivered \$24,092 in goods to St. Croix in 1996, but had not been paid as of April 2, 2003. In other cases, checks had been cut, but held for up to 10 months before they were mailed to the vendor.

The VIDE Business Office maintained a record of advance payments made named “Vendors’ Advance Payment Register.” The record included relevant information, such as the total amount invoiced by vendor, the requisition number, and the percentage and amount of the prepayment made. Although the form also provided for determining whether the goods and services were received, the VIDE Business Office did not always perform work to determine the percentage or amount of the order received when a vendor provided a partial shipment.

For example, a local vendor had 24 fully paid vouchers totaling \$69,798 related to 1998, 1999, and 2000 requisitions, but only \$5,675 of the equipment had been delivered. Subsequently, the vendor was waiting for change orders to complete the deliveries because the equipment was either obsolete or no longer in stock. A VIDE official stated they did not have the personnel to perform the follow up work on these deliveries.

We reviewed nine records of advance payments made and found that four contained receiving reports, whereas five did not have receiving reports. VIDE does not have a system that will allow it to effectively follow up on prepaid and non-delivered items.

Recommendations:

We recommend that the Assistant Secretaries for Elementary and Secondary Education, Special Education and Rehabilitative Services, and Postsecondary Education, and the Director for English Language Acquisition, Language Enhancement, and Academic Achievement for Limited English Proficient Students require VIDE to:

- 5.1 Establish written procedures and implement practices to monitor the receipt of goods and services after making advance payments to vendors;
- 5.2 Determine the status of all requisitions with advance payments and follow up as necessary to secure the ordered goods and services; and
- 5.3 Pay all outstanding obligations when the goods have been delivered.

VIDE Comments – VIDE concurred with the finding and recommendations and agreed to incorporate advance payment procedures into its Policy and Procedures Manual.

OIG Response – None

Background

VIDE is the state education agency for the VI that is responsible for administering all ED programs. VI Finance is the official record keeping entity for the VI Government. VI Finance is responsible for accounting for all expenditures of Federal grants received from ED. The VI has two local education agencies; the school districts of St. Thomas/St. John and St. Croix.

VIDE has had serious and recurring deficiencies in its administration of Federally funded programs. As a result, ED's Office of Special Education and Rehabilitative Services (OSERS) designated VIDE a "high-risk grantee" and imposed special conditions on its fiscal year 1998 Special Education grant award. The special conditions required VIDE to provide ED with monthly reports on its efforts to come into full compliance with Part B of its IDEA grant. When VIDE did not demonstrate significant progress, OSERS proposed to VIDE a voluntary compliance agreement. Signed on December 12, 1999, the compliance agreement was a means of ensuring a continued flow of Part B of IDEA funds while VIDE implemented a structured plan to come into full compliance with the statute.

Recent audit work by ED-OIG and on-site visits by ED programs' staff (from the Offices of Elementary and Secondary Education, Vocational and Adult Education, and OSERS) make clear that large-scale fiscal accountability and programmatic problems that have existed for a number of years continue to exist. Serious deficiencies are present in many key aspects of procurement, program planning and implementation, and financial and property management, and include the lack of appropriate record keeping and the lack of proper fiscal reconciliations.

ED has worked closely with VIDE and with other VI agencies to address these major issues, but it is clear that the problems cannot be corrected by the VI immediately and that the VI needs more than one year to correct them. Therefore, in order to remedy this condition, ED consented to enter into a comprehensive, three-year compliance agreement with VI. Through the compliance agreement, signed on September 23, 2002, the VI, with assistance from ED, agrees to develop integrated and systemic solutions to problems in managing Federal education funds and programs. It is also intended to ensure an effective planning and evaluation process throughout VI programs and initiatives. The Compliance Agreement addresses four areas of crosscutting issues: (1) Program Planning, Design, and Evaluation; (2) Financial Management; (3) Human Capital; and (4) Property Management and Procurement.

Objective, Scope, and Methodology

The purpose of our audit was to determine whether VIDE was effectively managing and appropriately expending its Federal education funds. Our audit covered grants awarded during the period October 1, 1994 through February 24, 2000.

To accomplish our audit objectives, we performed the following:

- Reviewed VIDE's 1998, 1999, and 2000 Single Audit reports and working papers;
- Analyzed ED's grant data;
- Reviewed applicable Federal and VI laws and regulations;

- Interviewed VI Government officials to determine and review VI's policies and procedures covering drawdowns, payments and encumbrances;
- Reviewed and tested VIDE's drawdowns made when grants were reopened;
- Extracted and analyzed encumbrance data from the FMS;
- Analyzed the processes relating to advance payments and follow up of the delivery of goods and services; and
- Reviewed a compliance agreement report prepared by ED.

Our initial goal was to analyze VIDE's use of Title VI funds. As we were analyzing the use of Title VI funds, we became aware of financial management issues related to other ED grants. First, we noted that substantial amounts of Federal education funds could lapse and be returned to the U.S. Department of Treasury because VIDE had not spent the grant monies prior to the grants' closing dates. Consequently, we refocused our audit on determining what amount of funds had lapsed or were likely to lapse and whether funds were properly used when the grants were reopened. Second, we found that VIDE had received duplicate payments from ED. Thus, we determined the disposition of those funds.

To assist us in achieving our audit objectives, we obtained detailed data extracts in electronic format from VI Finance's FMS. To test the FMS data, we judgmentally selected and examined the 85 largest dollar values of VIDE's expenditures and compared them with the underlying documentation maintained by VIDE and VI Finance. Based upon our comparison of original documentation to FMS data, we found the data was sufficiently reliable. In all cases, the supporting documentation existed and corresponded to the FMS information. We also selected all the payment transactions associated with ED grants as recorded on the FMS during the period October 1, 1997 through July 31, 2002 to determine potential straight payments and tested the validity of the highest dollar draws that appeared in GAPS as of August 9, 2001 from the 1995, 1997, and 1998 Consolidated Grants and all 20 grants that appeared with possible lapsed funds. The 1997 Consolidated Grant included funding from both the 1996 and 1997 years.

Our audit covered VIDE's grants awarded by ED during the period October 1, 1994 through February 24, 2000. We performed fieldwork at VIDE St. Thomas and VI Finance during the period May 15, 2001 to August 23, 2002, the day of our exit conference with VI government officials. Updated GAPS data as of August 12, 2003 was incorporated into the findings presented.

Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

Statement On Management Controls

As part of our review we assessed the system of management controls, policies, procedures, and practices applicable to VIDE's administration of Federal education funds. Our assessment was performed to determine the level of control risk for determining the nature, extent, and timing of our substantive tests to accomplish the audit objectives.

For the purpose of this report, we assessed and classified the significant controls into the category of grant funds' management. Because of inherent limitations, a study and evaluation

made for the limited purpose described above would not necessarily disclose all material weaknesses in the management controls. However, our assessment disclosed significant management control weaknesses which adversely affected VIDE's ability to administer Federal education funds. These weaknesses allowed funds to lapse; improper spending of expired funds; and failure to use or return duplicate payments from ED in a timely manner. Other weaknesses included the failure to effectively maintain and monitor encumbrance data and monitor the status or receipt of deliverable goods and services after making advance payments to vendors. These weaknesses and their effects are fully discussed in the AUDIT RESULTS section of this report.

ATTACHMENT A
Lapsed Funds as of March 12, 2003

Grant	Award Number	Total Authorization	GAPS Balance March 12, 2003	Lapsed Funds	Remarks	
1	Special ED Training Personnel	H029H940027	\$ 425,000	\$ 82,419	\$ 82,419	
2	Impact Aid	S041Z975692	\$ 168,666	\$ 0	\$ 0	
3	Impact Aid	S041Z985692	\$ 148,876	\$ 0	\$ 0	
4	Goals 2000	S276A960059	\$ 738,890	\$ 0	\$ 358,733	•
5	Goals 2000	S276A970059	\$ 525,344	\$ 508,989	\$ 508,989	
6	Goals 2000	S276A990026	\$ 502,715	\$ 2,588	\$ 502,715	♦
7	Goals 2000	S276A990036	\$ 500,127	\$ 500,127	\$ 0	
8	Technology Literacy Challenge	S318X970056	\$ 410,188	\$ 0	\$ 274,940	•
9	Technology Literacy Challenge	S318X980056	\$ 867,252	\$ 269,908	\$ 269,908	
10	Technology Literacy Challenge	S318X990056	\$ 860,101	\$ 528,552	\$ 519,800	*
11	Emergency Immigrant Education	T162A970005	\$ 180,880	\$ 0	\$ 45,210	•
12	Emergency Immigrant Education	T162A980025	\$ 370,726	\$ 158,780	\$ 0	
13	SEA - Improving Disabilities ED Abilities	T194Q950024	\$ 0	\$ 0	\$ 41,754	•
14	SEA - Improving Disabilities. ED Abilities	T194Q980039	\$ 300,000	\$ 68,836	\$ 0	
15	Robert C. Byrd Scholarship	P185A990058	\$ 300,000	\$ 53,322	\$ 53,322	○
16	Class Size Reduction	S340A990008	\$ 835,936	\$ 597,325	\$ 597,325	
17	1995 Consolidated	S922A950005	\$ 17,597,199	\$ 0	\$ 148,252	•
18	1997 Consolidated	S922A970004	\$ 36,907,094	\$ 1,057,598	\$ 1,057,598	
19	1998 Consolidated	S922A980004	\$ 12,940,676	\$ 2,177,894	\$ 2,081,490	*
20	1999 Consolidated	S922A990004	\$ 13,092,068	\$ 213,865	\$ 213,865	
	Total				\$ 6,756,320	

- The lapsed balance was de-obligated and reverted to the U.S. Treasury.
- ♦ According to the VIDE's Director of the Federal Grants Office, the \$500,127 spent (\$502,715 - \$2,588) belonged to the S276A990036 grant, but were posted in GAPS against this grant. He was unaware that ED had awarded two Goals 2000 grants in one year. As a result, the \$502,715 lapsed.
- * Outstanding obligations that we reviewed and found to be legitimate were deducted from the lapsed funds column.
- VI Department of Finance records indicate full use of the grant. However, GAPS had a record of only \$6,678 being requested.

ATTACHMENT B



Government of the United States Virgin Islands

Department of Education

Office of the Commissioner

#44-46 Kongens Gade

St. Thomas, U.S. Virgin Islands 00802

Tel: (340) 774-0100

Fax: (340) 779-7153

August 11, 2003

Mr. Daniel P. Schultz
United States Department of Education
Office of Inspector General
75 Park Place, 12th Floor
New York, NY 10007

Dear Mr. Schultz:

Transmitted herewith are the written comments on the findings of the draft report of the audit, *The Virgin Islands Department of Education Did Not Effectively Manage Its Federal Education Funds – ED-OIG/A02-C0012, dated July 2003.*

We reviewed each finding and provided the required substantiating data to support our position. Additionally, the Virgin Islands Department of Education outlined steps that will be taken to correct the cited deficiencies.

Should you have any questions or require additional information, do not hesitate to contact us.

Sincerely,

A handwritten signature in cursive script that reads "Michael".

Noreen Michael, Ph.D.
Commissioner

NM/kpt

ENCLOSURES:

- c: Mrs. Juel T. R. Molloy, Governor's Liaison to the Department of Education
- Dr. Rita J. Howard, Assistant Commissioner
- Mr. William I. Frett, Insular Superintendent, St. Thomas/St. John District
- Mr. Terrence T. Joseph, Insular Superintendent, St. Croix District
- Ms. Sonia Clendinen, Deputy Commissioner, Fiscal and Administrative Services

GOVERNMENT OF THE VIRGIN ISLANDS
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**VIRGIN ISLANDS DEPARTMENT OF EDUCATION
MANAGEMENT RESPONSE AND ACTION PLAN
ED-OIG/A02-C0012**

“VIDE DID NOT EFFECTIVELY MANAGE ITS FEDERAL FUNDS”

Finding No. 1

VIDE had approximately \$6.8 million ED funds that lapsed.

- *VIDE does not concur with finding. Of the \$6.8 million indicated VIDE is only responsible for \$2,598,133.92 of lapsed funds identified. The remainder of the funds was due to USDOE poor management of grants to VIDE. First, the finding appears to be slanted. VIDE has requested the re-opening of several closed grants in order to complete the liquidation process of 1) draws needed to pay vendors who have delivered goods and 2) reimbursement for funds paid to vendor while VIDE still awaits re-opening of grants. USDOE has not responded definitively to our repeated request to re-open these grants VIDE has made repeated requests to re-open these grants. Instead, there has been requests for additional information which although provided has still not resulted in definitive responses. This process has resulted in significant time lapses spanning the initial request from re-opening to the present, including the time requested by this audit. Our review of the audit reveals that VIDE is responsible for only \$2,598,133.92 of lapsed funds identified. The remainder is as follows: 1) VIDE requested the re-opening of grants totaling \$3,146,482.08 and 2) VIDE did not receive \$1,011,704 in grant awards. USDOE neither followed up on these programs nor kept in contact with staff in VIDE to alert them that the funds were available even though the Department knew we had no visual access to the GAPS system during the time period referred to in the Audit Report.*
- *To further support our non-concurrence that we were at fault for the lapsed funds, VIDE will like to document instances in which ED has failed to manage federal grants coming to VIDE. For example the Goals 2000 grant listed, as Item #7 in Attachment A will show that USDOE issued a Notice of Grant Award for a period that had already expired. VIDE was forced to request ED to extend the period of the award or recognize the funds as lapsed even before the grant was awarded. Further, to complicate matters instead of USDOE increasing the existing grant award, as is customary, USDOE issued a new notice of Grant Award for Goals 2000 in the same funding year, which VIDE never received. It appears doubtful that ED sent out the other grant awards mentioned in the audit for the Goals 2000 program (see item #5 & #6 on attachment A) that were entered into GAPS system.*

Recommendations:

We recommend that the Assistant Secretary for Elementary and Secondary Education, Special Education and Rehabilitative Services, and Postsecondary Education, and the Director for English language Acquisition, Language Achievement for Limited English Proficient Students require VIDE to:

- 1.1 Access and use the data in GAPS to be fully aware of the grants received, payments made, available balances, and funding periods;

VIDE has concurred with the recommendation and has already implemented procedures in which telephone calls to GAPS hotline is not used. The GAPS system on-line is now being utilized to make all ED draws, adjustments, monitor open and closed grants and perform reconciliation. This system was adopted on December 20, 2002.

- 1.2 Improve its internal grant tracking system and reconcile regularly with the data in GAPS;

VIDE has concurred with the recommendation and has implemented procedures as stated above in item 1.2. These measures were developed as a result of the Compliance Agreement (signed September 23, 2002). Procedures were developed and implemented as of March 31, 2003. It must be stated, however, that this is currently being done on a semi-annual basis, per the Compliance Agreement. It is expected that VIDE will be reconciling quarterly during the second year of the Compliance Agreement and monthly by the third year.

- 1.3 Utilize its internal grant tracking system to identify outstanding obligations and liquidate them prior to the closing of a grant. This will require reconciliation between GAPS, FMS, and records maintained by the VIDE Business Office; and

VIDE concurs with the recommendation and is in compliance per Compliance Agreement as stated in item 1.2 response above.

- 1.4 Provide ED program officials with requisitions' documentation when requesting grants to be reopened.

VIDE agrees to this procedure now that it is stated. However this method has not really caused our grants to be re-opened. Timely re-opening of grants is necessary to be in compliance with the Compliance Agreement. Thus far the Department has substantially failed to assist us in this area.

Finding No. 2 VIDE improperly expended \$1.5 million in expired funds

- *VIDE does not concur with this finding. VIDE received approval from the grantor agency (ED) to obligate and liquidate under the 1995 grant and we made obligations and liquidated obligations based on their approval. We realized it was only by ED's permission, that VIDE could have obligated these funds. Based on the permission granted, VIDE obligated and liquidated*

under the 1995 grant. It is therefore unfair to the VIDE to repay any of those funds used for federal programs operated by the VIDE. Secondly, the payroll costs drawn from the 1999 grant are valid charges on that grant and those costs should remain charged against that grant (VIDE is launching a full review of this finding in order to insure that this is a correct procedure.).

Recommendations:

We recommend that the Assistant Secretary for Elementary and Secondary Education require VIDE to:

2.1 Return to ED the \$1,535,287 of expired funds expended improperly;

- *VIDE does not concur with the return of \$1,535,287. VIDE was granted permission by the U.S. Department of Education to obligate and liquidate the \$649,025 based on the attached correspondence which was previously provided to the auditors. Because of USDOE's improper Grants Management, it is unfair to fault the VIDE who depends on this grantor for technical assistance and advice. VIDE recommends that USDOE train its personnel in the program areas to assist its grantees with technical advice on grant administration relating to ED grants. This training should be extended to VIDE personnel to avoid further confusion with what should or could be done under unforeseen circumstances outside the issues already outlined in the Compliance Agreement. In regards to the 1997 funds the payroll costs drawn from the 1999 grant are valid charges on that grant and those costs should remain charged against that grant (VIDE is launching a full review of this finding in order to insure that this is a correct procedure.). These expenditures (adjustment vouchers) were rejected by the V.I. Department of Finance and should remain on the grant where they were originally charged. The only required change, to make this adjustment, would be to request that USDOE switch the draw amount made under the 1997 grant back to 1998 grant.*

2.2 Implement procedures to ensure that ED funds are only spent for obligations made during the allowable grant period;

- *VIDE has implemented procedures based on the Compliance Agreement which was entered into by USDOE and VI in order to rectify these problems since September 23, 2002. This was subsequent to this audit. The procedures were implemented on March 31, 2003. Please see the attached.*

2.3 Provide ED program officials with expense records documenting that the original obligations dates were within the Tyding period whenever grants are to be reopened.

- *VIDE concurs with providing this information to USDOE, however, even after this has been done, VIDE still does not have grants re-opened by USDOE in a timely manner, and in some cases, VIDE has had to pay vendors*

Person(s) responsible

Sonia Clendinen, Deputy Commissioner, Fiscal and Administrative Services

- 4.1 VIDE and VI Finance to develop a process that would allow VIDE to reconcile monthly the FMS encumbrance data with VIDE's known obligations;
- 4.2 VI Finance to determine the cause for system generated increases in encumbrances and make the necessary changes to prevent further occurrences;
- 4.3 VIDE and VI Finance to associate straight payment documents with encumbrances and liquidate those encumbrances as necessary; and
- 4.4 VIDE to minimize the use of straight payments and ensure that a straight payment is never used when an outstanding encumbrance exists.

Finding No. 5

VIDE did not monitor the status of receipt of deliverable goods and services after making advance payments to vendors.

VIDE concurs with the finding. VIDE will amend its Policies and Procedural Manual to include advance payment procedures. All recommendations listed in items 5.1 to 5.3 will be incorporated in the new procedures.

Person(s) responsible

Sonia Clendinen, Deputy Commissioner, Fiscal and Administrative Services

Recommendation:

- 5.1 Establish written procedures and implement practices to monitor the receipt of goods and services after making advance payments to vendors;**
- 5.2 Determine the status of all requisitions and with advance payments and follow- up as necessary to secure the ordered goods and services and**
- 5.3 Pay all outstanding requisitions when the goods have been delivered.**