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# The Virgin Islands Is at Risk of Not Meeting the Goals of the September 2002 Compliance Agreement

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## FINAL AUDIT REPORT



**Control Number ED-OIG/A02-D0028**  
**February 2005**

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effectiveness, and integrity of the  
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## **NOTICE**

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

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**U.S. DEPARTMENT OF EDUCATION**  
**OFFICE OF INSPECTOR GENERAL**

February 15, 2005

Juel Molloy, Chief of Staff  
Office of the Governor  
No. 21 Kongens Gade  
Charlotte Amalie  
St. Thomas, Virgin Islands 00802

Dear Ms. Molloy:

Enclosed is our final audit report, Control Number ED-OIG/A02-D0028, entitled The Virgin Islands Is at Risk of Not Meeting the Goals of the September 2002 Compliance Agreement. This report incorporates the comments you provided in response to the draft report. 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 Education Department official, who will consider them before taking final Departmental action on this audit:

Jack Martin  
Chief Financial Officer  
Office of the Chief Financial Officer  
U.S. Department of Education  
400 Maryland Avenue, S.W.  
Washington, D.C. 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/s

Helen Lew  
Assistant Inspector General for Audit Services

Enclosure

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# ACRONYMS

CIMS	Comprehensive Information Management for Schools	VIDE	Virgin Islands Department of Education
ED	U.S. Department of Education	VIDF	Virgin Islands Department of Finance
FMS	Virgin Islands Financial Management System	VIDH	Virgin Islands Department of Health
FY	Fiscal Year	VIDP	Virgin Islands Department of Personnel
GAPS	Grant Administration and Payment System	VIDPP	Virgin Islands Department of Property and Procurement
LPA	Learning Point Associates	VIOMB	Virgin Islands Office of Management and Budget
MOA	Memorandum of Agreement		
NCLB	No Child Left Behind Act of 2001		
NOPA	Notice of Personnel Actions		
OIG	Office of Inspector General		
OSERS	Office of Special Education and Rehabilitative Services		
UVI	University of Virgin Islands		
VI	U.S. Virgin Islands		

## **EXECUTIVE SUMMARY**

As a result of serious and recurring deficiencies in the administration of various Federally funded programs by the government of the U.S. Virgin Islands (VI), the U.S. Department of Education (ED) entered into a comprehensive, three-year Compliance Agreement (Agreement) with the VI. Through the Agreement, signed on September 23, 2002, the VI, with assistance from ED, agreed to develop integrated and systemic solutions to problems in managing Federal education funds and programs. The Agreement addressed four crosscutting issues: (1) Program Planning, Design, and Evaluation; (2) Financial Management; (3) Human Capital; and (4) Property Management and Procurement.

The objective of this audit was to evaluate the VI's progress in meeting the Agreement's Year One goals and assess the likelihood of the VI being on target to meet the goals for Years Two and Three. Although the Virgin Islands Department of Education (VIDE) and the VI government made some progress, only 9 of 28 Year One major action steps have been completed. As a result, they are not on target to meet the goals for Years Two and Three for three of the four issue areas: Program Planning, Design, and Evaluation; Financial Management; and Property Management and Procurement. The VI is making progress toward meeting the goals for Years Two and Three for the Human Capital issue area, but to meet these goals, it still has to complete five Year One major action steps.

We summarized the results of our audit into four findings in the Audit Results section of this report. We included detailed information accompanying each of the findings in Attachments A through D.

In its response to the draft report, VI and VIDE concurred with Findings 1 and 3, partially concurred with Finding 2, and did not concur with Finding 4. VI and VIDE also disagreed with recommendations 2.1, 4.5, 4.6, and 4.7. VI and VIDE have agreed to implement, have implemented, or are in the process of implementing the remaining recommendations. A portion of VI's written response to the draft report has been included as Attachment E to this report. Because of the voluminous number of VI's exhibits included in its response, we have not included them in Attachment E. Copies of VI's exhibits are available on request. We summarized VI's responses at the end of the respective findings. We also made changes to reflect comments to the draft report provided by officials of the U. S. Department of Education.

## BACKGROUND

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 (FY) 1998 Special Education grant award. 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 Special Education funds while VIDE implemented a structured plan to come into full compliance with the statute.

Subsequent audit work by the U.S. Department of Education Office of Inspector General (ED-OIG) and on-site visits by ED program staff (from the Office of Elementary and Secondary Education, Office of Vocational and Adult Education, and OSERS) made clear that large-scale fiscal accountability and programmatic problems that have existed for a number of years continue to exist. Serious deficiencies were found in many key aspects of procurement, program planning and implementation, financial and property management, including the lack of appropriate record keeping, and proper fiscal reconciliations.

ED-OIG has issued several audit reports relating to VIDE's use of Federal funds. The first report noted weaknesses in management controls over payroll processing and check distribution in the Special Education program.<sup>1</sup> The second cited inadequate management controls in administering salary costs for the Special Education program.<sup>2</sup> Next were two reports issued during 2003 that cited VIDE's lack of controls over equipment inventories on St. Thomas/St. John and St. Croix.<sup>3</sup> A cash management report was issued in September 2003 that detailed problems with lapsed funds and improper expenditures.<sup>4</sup> Audits performed by the U.S. Department of Interior Inspector General and KPMG LLP<sup>5</sup> have also revealed a serious lack of management controls and fiscal accountability.

ED has worked closely with VIDE and with other VI agencies to address these major issues. When it became clear that the VI could not correct the problems immediately, ED entered into a comprehensive, three-year Compliance Agreement with the VI. Through

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<sup>1</sup> ED-OIG A04-B0013, *Audit of the Virgin Islands Department of Education, Special Education Payroll*.

<sup>2</sup> ED-OIG A04-A0015, *The Virgin Islands Government Lacks Adequate Management Controls Over the Administration of Its IDEA, Part B Grant Program Salary Cost*.

<sup>3</sup> ED-OIG A02-C0011, *The Virgin Islands Department of Education - St. Thomas/St. John School District's Control of Equipment Inventory*, and ED-OIG A02-C0019, *The Virgin Islands Department of Education - St. Croix School District's Control of Equipment Inventory*.

<sup>4</sup> ED-OIG A02-C0012, *The Virgin Islands Department of Education Did Not Effectively Manage its Federal Funds*.

<sup>5</sup> KPMG LLP is the independent auditor who performed the Single Audits for the Virgin Islands.

the Agreement, signed on September 23, 2002, the VI, with assistance from ED, agreed to develop integrated and systemic solutions to problems in managing Federal education funds and programs. The Agreement also is intended to ensure an effective planning and evaluation process throughout VI programs and initiatives. The Agreement addresses four crosscutting issues as cited earlier. The four crosscutting issues contain sub-issues that include action steps. (See Table A below.) VI has set up an Agreement Internet website, [www.vica.gov.vi](http://www.vica.gov.vi), for posting deliverables and updates of the Agreement.

**Table A. Major Action Steps**

			Action Step Description
<b>ISSUE 1 – Program Planning, Design, and Evaluation</b>			
1	1.1 – Separation of State and Local Educational Agencies	1	Develop a Comprehensive, School-Based, Statewide Plan
2		2	
3		3	
4		4	Prepare Certifications of Allowable Expenses
Issue 1 Subtotal		<b>4</b>	
<b>ISSUE 2 – Financial Management</b>			
5	2.1 – Credible Financial Management System	1	Provide GAPS Access
6		2	Develop a Vision Document and an Implementation Plan for a Credible Central Financial Management System (FMS)
7		3	
8		4	Prepare Semi-Annual Reconciliations
9	2.2 – Indirect Costs	1	Develop Unused Leave Policy
10		2	Determine and Correct Indirect Cost Rate
11		3	Implement Indirect Cost Rate Automatic Application
12	2.3 – Obligation of Funds/Disbursement of Obligation	1	Minimize Lapsed Funds and Re-Engineer Grant Process (refer to step 3)
13		2	List Past Problems
14		3	Minimize Lapsed Funds and Re-Engineer Grant Process (refer to step 1)
Issue 2 Subtotal		<b>10</b>	

			Action Step Description
<b>ISSUE 3 – Human Capital</b>			
15	3.1 – Recruiting and Hiring	1	Develop Policies and Procedures for Class Coverage
16		2	Determine Percentage of Classes Conducted by Highly Qualified Teachers
17		3	Increase Recruitment of Specialized Personnel
18		4	Determine Number of Qualified Teachers Needed
19		5	Set Goals for Employing Qualified Teachers
20		6	Improve Hiring Process
21		7	Expedite the Teacher Certification Process
22	3.2 – Inadequate Time Accounting and Supplanting	1	Develop a Plan for Time and Attendance Accounting and Supplanting
23		2	Develop an Accurate List of Employees
Issue 3 Subtotal		<b>9</b>	
<b>ISSUE 4 – Property Management and Procurement</b>			
24	4.1 – Property Management	1	Implement an Inventory System
25		2	Develop an Inventory Policy and an Implementation Plan of the Inventory Management System
26		3	Develop a Property Security Plan
27	4.2 – Competitive Procurement	1	Develop a Procurement Policy
28		2	Establish Competitive Procurement Process
Issue 4 Subtotal		<b>5</b>	
Total for All Issues		<b><u>28</u></b>	

We used the Agreement as the criteria for our observations, which are summarized under each heading. Of the 60 action steps in the Agreement, we reported on a total of 28 as major action steps, based on each step's impact on the goals of the Agreement. The Agreement also includes three provisions in addition to meeting the action steps laid out in the plan: (1) consequences of not meeting the terms and conditions of the Agreement, (2) reporting requirements, and (3) updated plans, action steps, and timelines.

The Agreement further requires regular progress reporting on all issues by the VI. The VI and ED agreed to three performance measures that will be applied to each issue and sub-issue in addition to other performance measures specifically applied throughout the Agreement, as follows:

1. All plans, other documents, and reports are timely, complete, accurate, and address the requirements set forth in the Agreement.
2. All action steps are implemented within the timeframes set forth in the Agreement.
3. Implementation of actions steps demonstrates progress towards achieving the outcomes or performance measures set forth in this Agreement.

## AUDIT RESULTS

### FINDING 1

#### PROGRAM PLANNING, DESIGN, AND EVALUATION

VIDE and VI did not fully complete *three* of the *four* major action steps of the Compliance Agreement's Issue 1 - Program Planning, Design, and Evaluation.

VI and VIDE did not fully complete three of the four Year One major action steps for Program Planning, Design, and Evaluation. Issue 1 contains one sub-issue: separation of state and local educational agencies (Sub-Issue 1.1).

VI and VIDE did not complete the requirements for developing the comprehensive, school-based, statewide action plan as required in the first three major action steps. For the fourth major action step, VIDE completed and submitted the required certified expenditure reports, but the amount certified on the reports did not coincide with the corresponding amounts on the semi-annual reconciliations.

The stated purpose of the Agreement is to improve education for the students of the VI. This means that the VI has to be prepared to meet the requirements of the No Child Left Behind Act of 2001 (NCLB) by the end of the third year of the Agreement. Essential to meeting this goal is the development and implementation of a comprehensive, school-based, statewide plan and fiscal year 2003 consolidated grant application as outlined in the Agreement. The school-based, statewide action plan must include action steps that will show steady progress in meeting the requirements of ED grants with respect to separate State/Local Educational Agency issues.

#### **Sub-Issue 1.1 – Separation Of State And Local Educational Agencies**

VI and VIDE did not complete the comprehensive, school-based, statewide action plan as required by the first three steps of the Agreement, because of delays in ED approving the drawdown of the FY 2001 Consolidated Grant, and delays in VIDE entering into professional service agreements with both Learning Point Associates (LPA) and the University of the Virgin Islands (UVI). Further, VIDE did not have a monitoring system in place to ensure that the contractors made sufficient progress to meet the requirements of the Agreement.

#### **Delay in ED Approval for 2001 Consolidated Grant**

The FY 2001 Consolidated Grant was not approved timely. According to VIDE officials, ED did not provide VIDE with sufficient technical support and timely responses to VIDE inquiries. ED officials stated that its approval was delayed by receiving unacceptable applications that were not suitable for approval. Further, ED officials noted large-scale fiscal accountability and programmatic problems during a site visit in February 2001. ED

officials also stated that while corrective actions were recommended and technical assistance was provided, the problems continued to exist. ED did not release most of the \$15.6 million grant to VIDE until August and September 2003 because of these issues. Therefore, VIDE did not have sufficient time to obligate<sup>6</sup> the funds as this grant's obligation period ended on September 30, 2003, resulting in \$95,883 in lapsed funds.

VIDE, as of November 9, 2004, had drawn only \$4.7 of the \$15.6 million grant. Prior to April 20, 2004, the last date to draw funds was December 31, 2003.<sup>7</sup> VIDE officials indicated that they had received written approval to extend the draw period, but had been unable to draw funds through GAPS. On April 20, 2004, ED extended the liquidation period to June 30, 2005. VIDE then made over \$1 million in draws, in May 2004. VIDE must work with ED to ensure that the 2001 Consolidated Grant obligations are liquidated within the extended liquidation period.

Due to the late approval of the 2001 grant, VIDE delayed entering into a contract with LPA and two Memoranda of Agreement (MOA) with UVI to develop a comprehensive, territory-wide plan based on the information derived from individual school and district plans. Because any work to be performed by contractors or consultants was a year late in starting, the related Year One goals were not met. The goals for Years Two and Three call for the VI to implement the comprehensive, statewide plan and demonstrate that it is achieving the required program goals. The delays in starting the projects unavoidably will result in the Year Two goals not being met, and may impact the timeliness of Year Three goals. In addition, VIDE and ED should monitor the progress of the contractors in developing the comprehensive, statewide plan.

### **Lack of Progress in Professional Service Agreements**

The Executive Summary of ED's Site Visit Report noted that one of UVI's MOAs included a plan to subcontract with Brown University for professional support and assistance and another included a provision to procure security services to safeguard the VI public schools. However, we found no evidence that UVI subcontracted with Brown University or how UVI was going to procure security services. Furthermore, per an August 2004 discussion, UVI officials were unsure of the actions they were to take on the MOAs and wanted assurance from ED that the MOAs were valid documents. ED officials stated it had no responsibility or legal authority regarding the MOAs. Such delays could further hamper VIDE's efforts to meet the Agreement's milestones.

### **Semi-Annual Expenditure Certifications**

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<sup>6</sup> We use the term "obligate" throughout the report for consistency. Please note that VIDE often encumbers obligations as a means of ensuring that funds will be reserved for future expenses.

<sup>7</sup> Per 34 C.F.R. § 80.23(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.

For the fourth major action step, VI is required to prepare and submit semi-annual expenditure reports, which include certifications that all expenditures are for allowable purposes in each of the three Agreement years. VIDE completed the required semi-annual expenditure certifications, but the expenditure amounts certified did not always coincide with the amounts reported on the semi-annual reconciliations due to the ineffective use of GAPS.<sup>8</sup> For the certifications to be a meaningful tool, the certification periods and the reconciliation periods, along with the related amounts, should be the same. It would allow management to compare the expenses being certified with the reconciliations and have a clearer picture of the amount of funds that may be lapsing on a given award.

For detailed information on this finding see Attachment A.

### **Recommendations**

We recommend that ED require

- 1.1 VIDE to work more closely with ED to ensure that grant applications are approved in a timely manner.
- 1.2 VIDE to work with ED to assure that the 2001 grant obligations are liquidated within the extended liquidation period.
- 1.3 VIDE to monitor the progress of the contractors in developing the comprehensive, statewide plan, clarify how Brown University is going to provide support or assistance to UVI, and determine how security services are going to be procured.
- 1.4 VIDE to involve managers in the semi-annual certifications and reconciliations and to take steps to assure that the reported amounts correspond to each other.

### **VI and VIDE Comments**

VI and VIDE concurred with the recommendations. Since the recommendations parallel the requirements set out in the September 23, 2002 Compliance Agreement, VI and VIDE indicated that they had taken or would take action to fulfill their obligations.

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<sup>8</sup> See in Attachment B, the section entitled “Fourth Major Action Step in Sub-Issue 2.1” for additional semi-annual reconciliation data.

**FINDING 2**  
**FINANCIAL MANAGEMENT**

VIDE and VI did not complete *six* of the *ten* major action steps of the Compliance Agreement's Issue 2 - Financial Management.

VI and VIDE did not complete six of the ten Year One major action steps for Financial Management. Issue 2 contains three sub-issues: credible financial management (Sub-Issue 2.1), indirect costs (Sub-Issue 2.2), and obligation of funds/disbursement of obligation (Sub-Issue 2.3).

The Agreement stipulates that the VI develop a credible central FMS by September 23, 2005. In the Agreement, such a system is described as being capable of providing the correct amount of funds, in the correct accounts, in a timely manner, all the time. Further, through the terms of the Agreement, financial management systems will be integrated with one another (i.e., across departments) and with other management systems (including planning and evaluation, budget, human resource management, and property and procurement). It is especially important for the purpose of the Agreement that the VI's FMS is effectively integrated with all management systems and procedures in VIDE. As a critical factor for success, the VI must improve its cash management function immediately. Since the lapsed funds issue persists as a major problem, VIDE has failed to meet this goal.

**Sub-Issue 2.1 – Credible Financial Management System**

Sub-Issue 2.1 has four major action steps:

- provide the appropriate employees with access to ED's GAPS system to monitor drawdowns,
- create a vision document of a credible central FMS based on an independent party performing a needs assessment for the financial management system,
- create a plan for the development and implementation of a credible FMS based on an independent party performing a needs assessment for the financial management system, and
- provide complete semi-annual reconciliations.

The VI completed the first action step by providing certain employees training and appropriate access to ED's GAPS system to monitor drawdowns. However, new users have been given access without receiving the GAPS training. Until the new users receive proper training, they cannot effectively use GAPS.

VI did not complete the second and third action steps of Sub-Issue 2.1. VI created a vision document of a credible central FMS, but there is no evidence that an independent party performed a needs assessment of the system. As a result, implementation of the

FMS is on hold and is not likely to be operational within the three-year Agreement period.

VIDE completed the fourth action step of Sub-Issue 2.1 by performing semi-annual reconciliations for the six month periods ending March 31, 2003 and September 30, 2003. However, the reconciliations could be made more effective by using a modified set of comparisons. Further, the dates of the GAPS balances did not always coincide with the reconciliation dates, the explanations for the differences between GAPS, FMS, and VIDE's internal system were inadequate, and the status of expired grants with outstanding differences was omitted in the reconciliations in the subsequent periods. VIDE and VIDF would benefit from using a modified reconciliation summary schedule.

Important aspects of a modified reconciliation summary schedule include: 1) the reconciliation summary should be provided to the program managers since these managers are required by the Agreement to certify semi-annual expenditure reports for their grants;<sup>9</sup> and 2) the status of expired grants should be included for one reconciliation period after the grant has expired. VIDE initially thought that such a reconciliation would be confusing to the managers, but finally agreed that the managers need to have the data to better manage their program funds. We also suggested that a note could be inserted to explain that the expired grant would be removed from the next reconciliation. VIDE and VIDF adopted the modifications for the March 31, 2004 reconciliation. (See Exhibit A for the proposed reconciliation summary schedule.)

### **Sub-Issue 2.2 – Indirect Costs**

Sub-Issue 2.2 has three major action steps:

- establish a cost policy for unused leave for separating employees,
- determine and correct the indirect cost rate, and
- implement the indirect cost rate automatic application.

The VI did not complete the first action step requirement to establish a cost policy for unused leave for separating employees. As of October 2004, a proposed policy for unused leave for separating employees, dated July 28, 2004, was posted on the VI's Agreement Internet website.

VIDE and VI did complete the second action step requirement for an indirect cost application determination and correction. VIDE retroactively applied the pro rata indirect cost rate to expenditures incurred from April 1, through September 30, 2003. The manual calculation of \$482,054 was submitted to VIDF for entry into the FMS. VIDE has not submitted a budget to VIDF for these funds. The funds could not be spent before VIDE submits a budget to VIDF for entry into the general ledger.

VI did not complete the third action step of Sub-Issue 2.2, requiring the implementation of the indirect cost rate automatic application. There was no evidence of the automatic

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<sup>9</sup> See in Attachment A, the section entitled "Fourth Major Action Step in Sub-Issue 1.1."

application of the indirect cost rate to the appropriate base and the resulting entries into the appropriate FMS account. ED may have complicated the indirect cost issue by recommending, in its Site Visit Report, that the VI replace the current three-year, pre-determined rate cycle with a fixed-with-carry-forward hybrid rate type. ED should allow time for VI to become efficient with the simple three-year, pre-determined rate before requiring the change to a more complex type of indirect cost rate.

### **Sub-Issue 2.3 – Obligation of Funds/Disbursement of Obligation**

Sub-Issue 2.3 has three major action steps:

- minimize lapsed funds,
- create a list of where and why problems occurred in the program planning, obligation, and disbursement of VI's education grants, and
- reengineer the grant application, planning, obligation, and disbursement process.

The VI did not complete the first and third action step requirements to minimize lapsed funds and re-engineer the grant application process. The VI did not complete a system of safeguards to minimize the lapsing of funds. Although the VI developed a plan to re-engineer its grant application, planning, obligation, and disbursement functions, it has not implemented those policies. As a result, the VI continued to experience lapsed funds problems after the March 31, 2003, deadline stipulated in the Agreement. More than \$5.1 million (\$1.3 million plus \$3.8 million as noted below) is likely to lapse since we last reported on this issue.

In November 2003, we alerted ED to potential lapsed funds of \$1.8 million in FY 2001 and 2002 Special Education funds. Despite the request for intervention, GAPS showed, as of November 9, 2004, that over \$1.3 million would lapse. Therefore, VIDE and the Special Education<sup>10</sup> program would benefit from entering into a contract with a third-party fiduciary agent – similar to what is required of the Infants and Toddlers grant program. Using a fiduciary agent will provide the VIDE and program officials with an expedited payment process and more current financial data. This should start with the next grant approved and funded by ED.

In addition to the \$1.3 million in 2001 and 2002 Special Education lapsed fund balances, an additional \$3.8 million has potentially lapsed for the 2000 Special Education grant, the 2000 Consolidated grant, and other grants. This is caused by a lack of monitoring by ED officials and by VIDE's failure to ensure that funds are obligated and spent timely. ED and VIDE must jointly monitor potential lapsed funds and take actions to assure that funds do not revert to the U.S. Treasury.

For the second major action step, the Agreement requires the VI to provide ED an analysis of VI's education grants for the past fiscal year specifying where the problems occurred in meeting the requirements in program planning, obligation, and disbursement, and the reasons for the problems. The VI completed a listing of the problems it identified

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<sup>10</sup> Special Education grants are usually single source grants administered by one VIDE program staff member who could easily monitor the grant funds and third-party fiduciary.

in the areas of planning, obligation, and disbursement, but it did not provide adequate reasons for the problems.

For detailed information on this finding see Attachment B.

### **Recommendations**

We recommend that ED require

- 2.1 VIDE and the Special Education program to use a third-party fiduciary, effective with the next grant approved and funded by ED, to ensure that funds are obligated and spent in a timely fashion.
- 2.2 VI to provide, in coordination with ED, GAPS training to new users before giving them access to the system.
- 2.3 VI to move forward in implementing a fully functional central FMS based on an independent party performing a needs assessment of the system.
- 2.4 VIDE to improve its cash management capabilities by:
  - Implementing the newly proposed reconciliation summary schedule when preparing the required reports, and reporting on all grants for one reconciliation period past the funds availability or expiration period.
  - Using the reconciliation schedule to manage the Federally funded programs and simultaneously reduce lapsed funds.
  - Assuring that the GAPS balances used on the reconciliation schedule coincide with the period of the reconciliation.
  - Assuring that program managers receive the reconciliations so they can be involved in fiscal monitoring.
- 2.5 VIDE to submit a budget(s) to VIDF so the indirect cost funds can be used.
- 2.6 VIDF to ensure that indirect cost computations are automatically computed within the FMS and posted to the appropriate accounts.
- 2.7 VI and VIDE to use a three-year, pre-determined indirect cost rate cycle rather than the fixed-with-carry-forward hybrid rate type until the system for capturing, budgeting, and spending indirect costs is fully functional.

### **VI and VIDE Comments**

VI did not fully concur with Finding 2. VI and VIDE concurred with five out of seven recommendations of this finding.

VI did not fully concur with our Finding 2, Sub-Issue 2.1. VI stated it submitted a vision document on March 2003, however, due to ED not approving the document until August 2003, it caused the vision document to be revised three times. VI further stated that despite these delays it has made substantial progress in the execution of the credible central FMS. The VI stated that one of the significant measures, to have a needs assessment performed by an independent contractor, has begun.

VI did not fully concur with our Finding 2, Sub-Issue 2.2. The VI stated that it had established a written policy regarding unused leave for separating employees from federally funded positions dated August 24, 2004. The VI also stated, while there is no requirement that the VI automatically compute indirect cost, VIOMB/VIDOF made a decision to compute indirect cost manually to ensure accuracy before turning back on this feature in FMS and to “[G]et it right first, or it will simply mean Garbage In Garbage Out.”

VIDE did not concur with the recommendation 2.1, which requires it to use a third party fiduciary effective with the next grant approved and funded by ED. VIDE stated that based on the grant funds spent on the fiscal year 2003 (“Q”) grant and the fiscal year 2004 (“R”) grant it has been obligating and spending grant funds timely.

VIDF did not concur with the recommendation 2.6, which requires it to automatically capture indirect cost within the FMS and post to appropriate accounts.

### **OIG Response**

We considered VI's response to Finding 2, Sub-Issue 2.1, but our position remains the same. VI failed to provide documentary evidence supporting its contentions. While the VI provided a vision document that was revised three times, during our audit, we found no assurances that the vision document and the implementation plan were adequate to accomplish the second and third major action steps outlined in the Agreement.

We considered VI's response to Finding 2, Sub-Issue 2.2, and its related recommendation 2.6, but our position remains the same. Although the VI stated that it had established a written policy regarding unused leave for separating employees from federally funded positions dated August 24, 2004, it was not to be effective until October 1, 2004, well after the conclusion of our field work. In addition, according to the Agreement this policy should have been developed by September 30, 2002.

While there is no requirement for automatic computation of the indirect cost, VI should compute and apply indirect cost in a timely manner. In addition, automatic computation would eliminate the need for manual computation and expedite the posting to FMS. Further, the VI failed to provide documentary evidence that it was continuing to manually compute indirect costs for the current period or that the appropriate FMS account contained the resulting entries.

We considered VI's response to recommendation 2.1 requiring a third party fiduciary effective with the next grant approved and funded by ED, but our position remains the same. VIDE requested and received an extension of the liquidation period for some of its grants so that funds would not lapse. A third party fiduciary would better manage these funds. Our audit indicated that when a third party fiduciary was utilized, grant funds were spent timely and, therefore, there would not be a need for an extension of liquidation periods.

**FINDING 3**  
**HUMAN CAPITAL**

VIDE has made significant strides by completing *four* of the *nine* major action steps in the Compliance Agreement's Issue 3 - Human Capital.

VIDE made significant strides in four of the nine Year One major action steps for Human Capital. Issue 3 contains two Sub-Issues: recruiting and hiring (Sub-Issue 3.1) and inadequate time accounting and supplanting (Sub-Issue 3.2). VIDE completed three of the seven major action steps in Sub-Issue 3.1, and completed one of the two major action steps in Sub-Issue 3.2.

The Agreement's goals are to ensure (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. The main objectives of Sub-Issue 3.2 were to ensure that (1) the salaries of employees who work under more than one Federal program are properly allocated among those programs, in accordance with accurate time distribution records, and (2) Federal funds are not paying for personnel that should be paid for by the State.

**Sub-Issue 3.1 – Recruiting and Hiring**

Sub-Issue 3.1 contains seven major action steps:

- develop policies and procedures for class coverage,
- determine the percentage of classes conducted by highly qualified teachers,
- increase recruitment of specialized personnel,
- determine the number of highly qualified teachers needed,
- set goals for employing qualified teachers,
- improve the hiring process, and
- expedite the teacher certification process.

VIDE completed three of the seven major action steps in Sub-Issue 3.1. Specifically, VIDE completed action steps one, three, and six, and made significant strides in categorizing teachers' academic backgrounds and in trying to match schools' needs with teacher subject matter areas.

VI was to have determined the percentage of classes conducted by highly qualified teachers as defined in the NCLB of 2001. VIDE did not complete this requirement. While VIDE provided the number of highly qualified teachers, it did not address the percentage of classes conducted by highly qualified teachers nor the determination of the number of highly qualified teachers needed. In addition, the teacher qualification documentation was inconsistent. The inconsistencies appeared to result from VIDE trying to systematically categorize and classify its teachers and their qualifications, when no database existed. Because VIDE had to expend a tremendous initial effort to create a

teacher database and because the work was time consuming and tedious, this may have resulted in some of the compiled data being inconsistent or conflicting.

VIDE did not complete the process to expedite the teacher certification process. Although VIDE prepared a draft proposal of alternatives to certification under NCLB, as of November 2003, it had not yet been approved by the VI Board of Education or the VI Board of Vocational Education.<sup>11</sup> Therefore, we could not determine whether VIDE will be prepared to be in compliance with NCLB within the five years stipulated in the Agreement.

### **Sub-Issue 3.2 – Inadequate Time Accounting and Supplanting**

Sub-Issue 3.2 contains two major action steps:

- develop a plan for time and attendance accounting and supplanting, and
- develop an accurate list of employees.

VIDE completed the second major action step and made significant progress in meeting the other for Sub-Issue 3.2. VIDE completed a list of all employees who would be charging time to different cost centers. Although VIDE did not complete the first action step, it made significant progress by creating a database system for the Notice of Personnel Actions (NOPAs). Copies of NOPAs indicated the term of employment, salary, start date, and funding source. However, the NOPAs were for a one-year temporary term and would not allow personnel expenses to overlap grant years.

VIDE provided a list of all employees who would be charging time to different cost centers (funding sources), which we subjectively tested. We found that the split charges appeared to be in line with the Agreement's requirements.

We did not assess whether supplanting occurred.

For detailed information on this finding see Attachment C.

### **Recommendations**

We recommend that ED require

- 3.1 VIDE to ensure an accurate and complete teacher qualification and personnel database is developed and maintained, including expediting the teacher certification process.
- 3.2 VIDE, VIOMB, and VIDP to work to extend the period covered by NOPAs to two or more years.

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<sup>11</sup> As of October 2004, there was no update available on the Agreement Internet website.

**VIDE Comments**

VIDE concurred with the findings and recommendations and indicated implementation is ongoing.

## **FINDING 4**

### **PROPERTY MANAGEMENT AND PROCUREMENT**

VIDE and VI did not complete the *five* major action steps of the Compliance Agreement's Issue 4 - Property Management and Procurement.

The VI did not complete any of the five Year One major action steps for Property Management and Procurement. Issue 4 contains two Sub-Issues: property management (Sub-Issue 4.1) and competitive procurement (Sub-Issue 4.2).

The Agreement requires that, by December 30, 2004, an inventory policy and system will be fully implemented (the WIN ASSETS software was suggested). The inventory policy and system will include procedures to ensure all property purchased with Federal program funds will be tagged, entered into a tracking system, and delivered to the appropriate location within three calendar days of receipt. The inventory policy will include an established procedure for replacement or payback of any items in the inventory that cannot be located, consistent with Federal regulations.

VI was to complete all reasonable steps to secure equipment by June 30, 2003. In addition, VI's inventory policy and system will ensure that the VIDPP, VIDF, and VIDE act as an integrated team on procurement issues. They will delineate between responsibilities of individual departments (including at the local and State levels), ensure efficiency and eliminate duplication of effort, and make provisions for emergency needs to ensure students' health and safety.

#### **Sub-Issue 4.1 – Property Management**

Sub-Issue 4.1 has three major action steps:

- implement a government-wide inventory system,
- develop an inventory policy and implementation plan of the inventory management system, and
- secure all property in warehouses, schools, and other locations from larcenous behavior or inappropriate or unauthorized use.

VI did not implement a government-wide inventory system. VIDPP stated that WIN ASSETS II would be used instead of WIN ASSETS as the VI government-wide inventory system. This was the first indication that a change in inventory software would occur. Since the Agreement identifies the VIDPP with responsibility for many of the inventory action steps, ED must ensure that the VI Government takes immediate action to implement the WIN ASSETS II system so that all VI government agencies can use it by the Agreement's target date of December 30, 2004. Without the VI Government's constant monitoring of the implementation status, it is unlikely that WIN ASSETS II will be put into practice within the time prescribed.

While VI is trying to implement WIN ASSET II, VIDE St. Thomas is planning on using the Comprehensive Information Management for Schools (CIMS) software to manage its internal inventory and VIDE St. Croix Curriculum Center is still using its internally created database system to manage the St. Croix inventory. By using CIMS, VIDE is at odds with the concept of a government-wide inventory system envisioned in the Agreement.

VI did not provide evidence that it had developed a final inventory policy and implementation plan of the inventory management system by June 30, 2003. While VIOMB had posted VIDE's internal Procurement and Inventory Policy Manual on its Internet website, VIDE indicated that it was only a draft.<sup>12</sup> However, the manual needs some clarification to ensure that necessary controls are understood and implemented. Specifically, it does not include:

- a provision indicating at what stage of the purchasing cycle the items will be tagged,
- control numbering and numerical sequencing on the forms for transferring items between centers/schools, and
- a provision for notifying the Curriculum Center.<sup>13</sup>

VI did not complete all reasonable steps to secure equipment by June 30, 2003. The VI planned to contract for a security risk analysis in order to complete all reasonable steps to secure all property in warehouses, schools, and other locations. As noted in Finding 1, VIDE signed two MOAs with UVI. Included as part of one MOA was \$1.7 million for security services to safeguard VI public schools. However, the MOA does not delineate how UVI is going to procure the \$1.7 million in security services. Further, per an August 2004 discussion, UVI officials were unsure of the actions they were to take on these MOAs and wanted assurance from ED that the MOAs were valid documents. Since VI has taken little action to initiate the security risk analysis, the physical security of the schools has not been improved to the extent required by the Agreement. ED must ensure that VI obtains a security risk analysis to accelerate the completion of all reasonable steps to secure VI schools.

#### **Sub-Issue 4.2 – Competitive Procurement**

Sub-Issue 4.2 contains two major action steps:

- provide ED with a procurement policy and implementation plan of procurement management, and
- develop baseline measures of the procurement process.

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<sup>12</sup> The manual provides guidance for VIDE's internal property management and refers to the CIMS software as the system to be used for its internal asset inventory.

<sup>13</sup> Both St. Thomas and St. Croix Curriculum Centers control the inventory receipt and distribution to schools in the Virgin Islands.

VI's procurement policy is inadequate. VIDE still has problems in assuring that, once requisitions are made, the goods are delivered and payments made within a reasonable time. The VI was to have provided ED with a procurement policy and implementation plan of the procurement management process by June 30, 2003. Based upon a limited evaluation of 14 transactions, we found that it took VIDE from 81 to 173 days to obligate purchases in FMS and make payment for the purchases. This did not include the time that it took VIDE to internally generate and process a requisition and send it to VIDF, which was still a paper process, adding to the time it takes to process equipment orders. We did not test to determine whether vendors were paid within 30 days of invoice receipt.

VI did not provide evidence that the revised steps to require three bids for each requested item had been implemented. This was to be implemented by September 30, 2003. We reviewed documentation requiring three bids for each item, including setting up a central store for common supplies and procedures for emergency procurement under \$10,000. Our review showed that VI did not provide evidence that these procedures had been implemented.

For detailed information on this finding see Attachment D.

### **Recommendations**

We recommend that ED require

The VI Government to take immediate action to:

- 4.1 Implement the WIN ASSETS II system to account for government-wide inventory for use by all government departments.
- 4.2 Contract for a security analysis to complete all reasonable steps to secure all property in warehouses, schools, and other locations.
- 4.3 Work with VIDE to consolidate and/or eliminate multiple approval steps in the requisition and payment process.
- 4.4 Ensure that the process of obtaining three bids for each requested item is implemented.

VIDE to:

- 4.5 Determine whether to implement its CIMS or VI's WIN ASSETS II inventory system.
- 4.6 Determine how to integrate the CIMS with the FMS, if CIMS is to be used.
- 4.7 Clarify and implement its Procurement and Inventory Policy Manual.

## **VI and VIDE Comments**

VI did not concur with Finding 4 and VIDE partially concurred with the related recommendations 4.5, 4.6, and 4.7.

VI stated late revisions of the inventory policy was due to a misinterpretation of exactly what was expected under the Agreement in this area, thereby missing the June 2003 deadline. In VI's reply, it stated that all departments were required to submit purchasing records to VIDPP for conversion to the WIN ASSETS system, inventory verification, and reconciliation. VI also noted that WIN ASSETS II is an upgraded version of WIN ASSETS. VI further stated the inventory has/has not been merged into the FMS Fixed Asset Module, a subsystem of the current DILOG (FMS) suite. The information for the fixed asset module test system was implemented October 2003, but the information was not transferred to the live system until September 2004.

VIDPP stated it has a functional procurement process outlined in the procurement manual. VIDPP provided documentation that it had requested feedback on its property and procurement manual from ED twice and did not receive a response. Therefore, the VI is proceeding under the assumption that its official policy and procedures manual satisfies ED's mandate and the Agreements requirements. VI stated that WIN ASSETS II is the official VI inventory system and that the implementation of CIMS is not relevant.

## **OIG Response**

We considered VI's response to Finding 4, but our position remains the same. VI failed to provide documentary evidence supporting the implementation of WIN ASSETS II, and the revised inventory policy.

We considered VI's response to recommendations 4.5, 4.6, and 4.7, but our position remains the same. VI was contradictory in its response as to whether the fixed asset data had been merged into the FMS system. While VI provided snapshots of fixed assets, there is no assurance that the American Appraisal Associates Summary Appraisal Report data has been incorporated into the VI's FMS Fixed Asset Module.

VIDE did not provide documentary evidence that it had reverted to using the revised VI government-wide inventory manual and, therefore, was not implementing CIMS as its inventory management system.

## OBJECTIVE, SCOPE, AND METHODOLOGY

The primary objective of our audit was to determine whether VIDE had met the Year One milestones outlined in the September 23, 2002, Agreement, and the likelihood of VIDE being on target for Years Two and Three. Our audit period covered September 23, 2002, through September 30, 2003, but we considered actions taken by the VI Government through October 2004. Also, because ED made a team visit in November 2003, we referenced ED's Site Visit Report<sup>14</sup> as appropriate.

To achieve the audit objective, we reviewed the Agreement. We also reviewed memoranda, manuals, policies and procedures, and other documents obtained from VIDE, Virgin Islands Department of Finance (VIDF), Virgin Islands Office of Management and Budget (VIOMB), Virgin Islands Department of Health (VIDH), Virgin Islands Department of Property and Procurement (VIDPP), and the VI Compliance Agreement Internet website. We interviewed officials from the above VI departments and Virgin Islands Department of Personnel (VIDP). We reviewed ED's Grant Administration and Payment System (GAPS) data to determine the status of the grants and available balances. We also extracted and analyzed encumbrance data from the FMS.

Of the 60 action steps in the Agreement, we classified a total of 28 as major action steps based on each action step's impact on the goals of the Agreement.

We relied on the FMS data reliability assessments of computer-processed data made in the audits of *The Virgin Islands Department of Education - St. Thomas/St. John School District's Control of Equipment Inventory*, ED-OIG A02-C0011, *The Virgin Islands Department of Education - St. Croix School District's Control of Equipment Inventory*, ED-OIG A02-C0019, and *The Virgin Islands Department of Education Did Not Effectively Manage Its Federal Education Funds*, ED-OIG A02-C0012, which indicated that the data was consistent and reliable.

We conducted fieldwork at VIDE's, VIDF's, VIOMB's, VIDP's, and VIDPP's offices in St. Thomas, VI, from September 22 through September 30, 2003, and from November 11 through November 21, 2003. Follow up work was performed on October 12, 2004.

We conducted the audit in accordance with generally accepted government auditing standards appropriate to the limited scope of the audit described above.

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<sup>14</sup> This Site Visit Report was issued on January 5, 2004.

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**Detail For Finding 1**

**SUB-ISSUE 1.1 - SEPARATION OF STATE AND LOCAL EDUCATIONAL AGENCIES**

**First Three Major Action Steps in Sub-Issue 1.1**

*Develop a Comprehensive, School-based, Statewide Plan*

In an effort to fulfill this requirement, VIDE entered into arrangements with third parties for the development of the plan. However, there is no evidence of further progress to complete the plan.

VIDE did not fully complete the requirements of the first three major action steps because of delays in 1) approval for the drawdown of the FY 2001 Consolidated Grant,<sup>15</sup> and 2) VIDE entering into professional service contracts with LPA and UVI to help it develop a comprehensive, school-based, statewide plan. Further, VIDE did not have a monitoring system in place to ensure that the contractors make the progress required by the Agreement.

Delay in ED Drawdown Approval

FY 2001 CONSOLIDATED GRANT

The VI used the FY 2001 Consolidated Grant funds, \$15.6 million, to aid in satisfying the Agreement's requirements. On October 18, 2002,<sup>16</sup> ED awarded VIDE \$15,614,698 for the FY 2001 Consolidated Grant. The grant period ended on September 30, 2002, but with the Tydings Amendment extension, VIDE had until September 30, 2003, to obligate the grant funds.<sup>17</sup>

It took an extended period before the 2001 Grant was totally approved for drawdown. Consequently, ED did not release most of the \$15.6 million grant to VIDE until August and September 2003. The late approval of the FY 2001 Consolidated Grant drawdowns not only prevented the action steps of the Agreement from being met, it also compounded the lapsed funds issue discussed in Finding 2. ED officials stated that in accordance with

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<sup>15</sup> Under the Special Conditions ED placed on this grant, VIDE could not draw down funds until it first received approval from ED.

<sup>16</sup> ED approved this award on October 18, 2002, after the grant period ended. This issue will be addressed in a separate report to ED.

<sup>17</sup> Under the "Tydings Amendment" Section 421(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.

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the Special Conditions, VIDE could only draw down funds after documentation was provided to show that funds would be spent for allowable purposes. Under the Agreement, VIDE was to resolve the lapsed funds problem by complying with Issue 2, in that no lapses of funds will occur after March 31, 2003. Funds lapse when the legislative deadline to obligate Federal grant awards has passed and funds remain that have not been properly obligated.

ED made the 2001 Consolidated Grant funds available as follows:

▪ May 9, 2003	\$453,499
▪ August 7, 2003	7,414,650
▪ September 26, 2003	<u>7,746,549</u>
	<u>\$15,614,698</u>

The late release of the final \$7,746,549 in grant funds, in combination with time constraints to obligate the grant funds by September 30, 2003, caused \$95,883 to lapse. Had the \$95,883 from the 2001 Consolidated Grant funds been obligated during the grant period, it could have been better used to serve the VI students.

**FY 2002 AND FY 2003 CONSOLIDATED GRANTS**

For the FY 2002 Consolidated Grant, as of November 9, 2004, VIDE has drawn down \$17.4 million of the \$21.2 million awarded. As stated in ED's Site Visit Report, before VIDE can draw down the 2002 Consolidated Grant funds related to the Reading First program, it has to submit a revised plan incorporating the Reading First program into the 2002 Grant. VIDE needed to obligate the remaining \$6.5 million prior to September 30, 2004, to avoid additional lapsed funds.

VIDE provided ED with the FY 2003 Consolidated Grant application. VIDE had to revise the 2003 Grant application to reflect the assessment conducted by LPA before ED would approve it. ED approved the \$16.8 million FY 2003 Consolidated Grant application in July 2004. According to GAPS, the last day to draw the FY 2003 Grant funds is January 3, 2006. If VIDE's experience with the 2001 Consolidated Grant is an indicator, VIDE again could have problems obligating the funds prior to the expiration of the 2003 Grant obligation period. As of November 9, 2004, VIDE had drawn only \$398,083.

Lack of Progress In Professional Service Agreements

VIDE obligated the majority of the FY 2001 Consolidated Grant for professional service agreements with LPA and UVI. On September 15, 2003, VIDE signed a \$7,414,650 contract with LPA to develop a comprehensive, territory-wide plan based on information derived from individual school and district plans. From the funds approved on September 26, 2003, VIDE obligated \$7,518,789 for two MOAs with the UVI. The MOAs were signed on September 30, 2003.

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ED's Site Visit Report pointed out that in the two UVI MOAs, \$1.7 million of the total \$7,518,789 million was for security services to safeguard VI public schools. However, the MOAs did not delineate how UVI is going to procure the \$1.7 million in security services. Per an August 2004 discussion, UVI officials were unsure of the actions they were to take on these MOAs and wanted assurance from ED that the MOAs were valid documents.

According to the MOA, UVI has the right to assign all or part of its responsibilities to a subcontractor with approval from VIDE. The Executive Summary of ED's Site Visit Report noted that UVI planned to subcontract with Brown University for professional support and assistance. However, we found no evidence that UVI planned to subcontract with Brown University. A UVI official indicated to OIG that he was waiting for ED to provide evidence of approval of the MOAs.

The lack of progress suggests that VIDE and ED need to establish a formal system to monitor the LPA contract and the MOAs with UVI. The monitoring system would need to include assurances that the contracted work is progressing and that funds are being drawn to pay for the services so that VIDE will be able to meet the requirements of the Agreement.

ATTACHMENT B

**Detail For Finding 2**

**SUB-ISSUE 2.1 - CREDIBLE FINANCIAL MANAGEMENT SYSTEM**

The main goal of this Sub-Issue was to ensure, by the conclusion of the Agreement, VI departments will no longer need separate accounting systems and that outside auditors will be able to rely on the central FMS as an accurate system of record. From the inception of this Agreement, all transactions for draws and disbursements, as well as any required adjustments for Federal education program funds, will be timely and accurately recorded in VIDF's accounting system as they occur according to generally accepted accounting standards. The inability to track drawn funds will be considered a failure to meet the terms and conditions of this Agreement.

**First Major Action Step in Sub-Issue 2.1**

*Provide GAPS Access to Appropriate Staff*

The Agreement requires that within one month of the inception of the Agreement, appropriate staff members will be provided access to ED's GAPS system to monitor drawdowns. We found that not all of the appropriate staff members were provided GAPS access. ED provided the VI a certain number of GAPS user accounts and GAPS training on December 3, 2002. The list of employees with GAPS access has changed many times since the training was provided, therefore, the VI did not effectively determine who should have access to GAPS. In addition, the VI did not provide any evidence that GAPS training was provided to new GAPS users. Consequently, the new users are not using the GAPS information effectively.

Without proper training, new users cannot effectively use GAPS. The discussion in the Fourth Major Action Step in Sub-Issue 2.1, below, on the proposed reconciliation summary illustrates how the GAPS users could be employing the information to limit funds from lapsing and being returned to the U.S. Treasury.

**Second and Third Major Action Steps in Sub-Issue 2.1**

*Develop a Vision Document of a Credible Central FMS and a Plan for the Development and Implementation of a Credible Central FMS*

VIDF was to have created a vision document of a credible central FMS and timelines for implementing the FMS based on a needs assessment performed by an independent party by December 31, 2002. The vision document would include a description of how a creditable central FMS would serve as an accurate system of record for all VI departments, a detailed diagram of each function of the system, and how it would integrate with other related systems (such as VIDE's CIMS). The needs assessment of VIDF's FMS has not been completed. Without the needs assessment there is no assurance the vision document and the implementation plan are adequate to accomplish the second and third major action steps outlined in the Agreement.

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In addition, the VI has made little progress in implementing its vision statement for a sound FMS. ED's Site Visit Report also noted functional requirements have not been identified for the new credible central FMS and that some VI officials indicated that additional funding is needed to undertake several of the initial tasks, including the FMS needs assessment.

Further, ED's Site Visit Report stated

[T]hat no project management organization, nor leadership, is in place to guide and control IT [Information Technology] efforts across the VI, much less a new CFMS [credible central Financial Management System] project . . . "Stove-pipe" systems and organizations abound; each VI department has its own IT organization and leadership as well as financial management operations and, in some cases, systems. There appears to be more focus on parochial interests rather than on working collaboratively to identify the best solution(s) to address the overall problem(s) affecting VI information systems.

The timeline of the credible central FMS implementation plan has been revised three times, with the completion dates in the plan delayed from 92 to 487 days. Since the FMS development appears to be on hold, we do not believe that the VI will be able to meet its three-year commitment to implement a fully functional central FMS.

VIDE is in the process of replacing its current internal departmental financial system with CIMS. Currently, CIMS is not operational and VIDE provided no specific date as to when it would be implemented. Since the implementation date for CIMS is not known, there is little assurance that VIDF's FMS and VIDE's CIMS would be integrated as described in the vision document. Since VIDF's FMS contains the VI's official financial records, VIDF has been reluctant to support a new and independent internal system that would be implemented by one of VI's departments.<sup>18</sup>

Because the needs assessment of VIDF's FMS is not completed and considerable delays occurred in taking action to implement a fully functional central FMS, there is no assurance that a fully functional FMS is likely to occur within the three-year Compliance Agreement period.

**Fourth Major Action Step in Sub-Issue 2.1**

*Prepare Semi-Annual Reconciliations*

During the first year of the Agreement, the VI was required to conduct semi-annual reconciliations between GAPS, VIDE, and VIDF of draws and expenditures, resolve any differences, and record appropriate adjustments within 30 days. These reconciliations

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<sup>18</sup> See in Attachment D, the section entitled "First Major Action Step in Sub-Issue 4.1" for additional information on CIMS implementation by VIDE.

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must be provided on a semi-annual basis to ED for review with evidence that all adjustments have been made.

As required, VIDE completed semi-annual reconciliations for the 6-month periods ending March 31, 2003 and September 30, 2003. However, the reconciliations were inadequate. The reconciliations only showed the differences in dollar amounts between GAPS, VIDE's internal records,<sup>19</sup> and FMS. The reconciliations did not clearly show the amounts of available funds for draw from GAPS, which are subject to lapse if not drawn. Both VIDE and VIDH expired grants were removed from the reconciliation without explanation. Further, the dates of GAPS balances did not always coincide with the reconciliation dates, explanations of the differences were inadequate, and the status of expired grants with outstanding differences was omitted on reconciliations for the following periods.

During the week of January 20, 2004, we proposed to VIDE and VIDF a modified reconciliation summary schedule that would offer more useful comparisons of grant data. VIDE and VIDF agreed with the intent and adopted it for the reconciliation for the period ending March 31, 2004. (See Exhibit A for the proposed schedule.)

**SUB-ISSUE 2.2 - INDIRECT COSTS**

VIDE and VI were to have all of the underlying problems with indirect costs eliminated by FY 2004, so that audits and other monitoring procedures would have minimal findings related to indirect rates in FY 2003 and no findings related to indirect rates in FYs 2004 and 2005. Also, by the conclusion of the Agreement, there should be 100 percent application of the correct and current indirect cost rate in education programs.

**First Major Action Step in Sub-Issue 2.2**

*Develop Unused Leave Policy for Separating Employees*

VI was required to develop a cost policy for unused leave for separating employees by September 30, 2002. VI did not complete a cost policy for unused leave for separating employees as of April 2004. VI was in the process of developing the policy, but was waiting for guidance from ED. ED officials indicated that they provided timely and responsive technical assistance in this matter.

**Second Major Action Step in Sub-Issue 2.2**

*Determine and Correct Indirect Cost Rate*

According to the Agreement, VIDE and VI will determine and correct the rates as necessary; and review the prior year indirect costs applied to grants and prepare

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<sup>19</sup> Although FMS is VI's main accounting system, individual VI departments usually maintain their own internal accounting records.

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necessary adjustments. VIDE and VI completed the indirect cost application determination and correction.

VI satisfied this requirement by reimbursing VIDE \$482,054 of indirect costs and when VIDF established an indirect cost account that VIDE could use to pay for future expenses. As ED indicated in its Site Visit Report, VIDF fulfilled the promise to reimburse VIDE the pro-rata share of indirect costs of \$482,054, retroactively applied to expenditures incurred from April 1 through September 30, 2003. We traced the \$482,054 to VIDE's indirect cost account in FMS. The cost ledger inquiry sheet revealed that a budget in the amount of \$482,054 in the expense account had been set up for Departmental Indirect Costs. A separate account and budget was set up for central services for the VI government. Prior to VIDE spending these funds, it must send a budget to VIDF, where the budget will be entered into the general ledger.

**Third Major Action Step in Sub-Issue 2.2**

*Implement Indirect Cost Rate Automatic Application*

According to the Agreement, VI was required to implement the 2003-2005 indirect cost rates that the U.S. Department of Interior and VI departments approved. VI did not complete the implementation of the indirect cost rate automatic application. There was no evidence of the automatic application of the indirect cost rate to the appropriate base and the resulting entries into the appropriate FMS account.

In a September 26, 2003 letter to VIOMB, VIDF stated that it had established expense accounts in FMS for Departmental Indirect Costs and Central Service Indirect Costs. The initial indirect cost entry was done manually after VIDE calculated the indirect cost by applying the indirect cost rate to the base of salaries and wages. Since the indirect costs are not applied to FMS automatically, problems could arise with the computation and allocation of the indirect cost within FMS.

**SUB-ISSUE 2.3 - OBLIGATION OF FUNDS/DISBURSEMENT OF OBLIGATION**

VIDE and VI did not complete two of the three major action steps in Sub-Issue 2.3. By the conclusion of the Agreement, VIDE and VI were to have the grant application, planning, obligation, and disbursement functions fully integrated with the FMS; and obligations liquidated on a timely basis without the need for an extension of the liquidation period. Further, the VI would develop a grant application process and subsequent spending process that ensured that grant awards were based on specified program plans and spent on the programs in a timely manner.

**First and Third Major Action Steps in Sub-Issue 2.3**

*Minimize Lapsed Funds and Re-engineer Grant Process*

The Agreement requires that within 45 days of the Agreement, the VI will put in place a system of safeguards to assure that lapses of funds will be minimized and that no lapses

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of funds will occur after March 31, 2003. By March 31, 2003, VI also was required to develop a plan to re-engineer its grant application, planning, obligation, and disbursement functions. The plan should include policies, procedures, and systems to ensure that (1) program plans are the basis for application and disbursement; (2) disbursements are tied to actions specified in program plans; and (3) no funds are lost due to lapsing obligation periods.

VI did not complete a system of safeguards to minimize the lapsing of funds. As a result, VI continued to experience lapsed funds problems. While VI developed a policy entitled “Policy To Re-Engineer The Grant Application, Planning And Disbursement Procedures And Prevent Lapses Of Funds” and VIDE developed Policy Memorandum 01-03 “Departmental Policy Regarding Lapses of Federal Funds,” these policies were not successfully implemented. In an ED-OIG audit report,<sup>20</sup> issued in September 2003, VIDE had \$6.8 million in ED funds awarded in the period October 1, 1994, through February 24, 2000, that had lapsed by March 12, 2003, and were likely to revert to the U.S. Treasury.

At the start of this audit, we noted that \$1.8 million of FYs 2001 and 2002 Special Education Grants were subject to lapse by December 31, 2003, if actions were not taken. On November 14, 2003, we notified ED of this situation. As of November 9, 2004, the 2001 and 2002 Special Education Grant lapsed fund balances still amounted to more than \$1.3 million.

On January 21, 2004, VIDE officials indicated that they had requested, in November 2003, extensions of the liquidation periods. On May 5, 2004, ED reopened certain grants, but not the Special Education grants. According to GAPS data, VIDE had until June 7, 2004 to draw down funds. An ED official stated that an ED team examined documentation provided by VIDE and concluded that certain expenses were obligated properly within the grants’ timeframes. Based upon those evaluations, ED allowed the grants to be reopened. See the Table of Potential Lapsed Funds below.<sup>21</sup>

In addition to the \$1.3 million in 2001 and 2002 Special Education lapsed fund balances, another \$3.8 million has potentially lapsed for the 2000 Special Education grant, the 2000 Consolidated grant, and other grants. In total, over \$5.1 million (\$1.3 million plus \$3.8 million) has potentially lapsed since we last reported on this issue. Had a system of safeguards been put in place to prevent the lapsing of funds, pending evidence of any outstanding obligations, over \$5.1 million could have been better used to provide services to VI’s students. The grants have to be managed and the reconciliations completed to yield useful information to prevent funds lapsing. (See proposed summary reconciliation in Exhibit A.)

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<sup>20</sup> *The Virgin Islands Department of Education Did Not Effectively Manage Its Federal Education Funds* (ED-OIG A02-C0012).

<sup>21</sup> In our table, we listed only those grants that had not been previously identified in prior ED-OIG reports.

**ATTACHMENT B**

**Table of Potential Lapsed Funds**

					GAPS Last Date to Draw Funds
H027A000001	Special Education	\$ 8,852,007	\$ 8,148,588	\$ 703,419	7/1/2002
T162A010023	Emergency Immigrant Education Program	206,564	73,812	132,752	10/31/2003
S276A000026	Goals 2000	496,836	57,932	438,904	12/31/2002
S922A000004	Consolidated Grant	13,564,852	11,992,240	1,572,612	6/7/2004
T194Q010019	Bilingual Education Support Services	100,000	72,656	27,344	6/30/2003
S318X000056	Technology Literacy Challenge	860,101	281,009	579,092	12/31/2002
S318X010056	Technology Literacy Challenge	926,224	683,289	242,935	6/7/2004
S340A000056	Class Size Reduction	835,936	718,192	117,744	6/7/2004
	<b>Total</b>	<b>\$ 25,842,520</b>	<b>\$ 22,027,718</b>	<b>\$ 3,814,802</b>	

To counter the ongoing and serious problem of lapsed funds, ED should require VIDE and the Special Education program to enter into a contract with a third-party fiduciary agent. This should start with the next grant approved and funded by ED.

ED used a third-party arrangement for the Infants and Toddlers grant, which was administered by VIDH. According to GAPS, over \$102,000 of the \$759,000 of the year 1999 Infants and Toddlers grant lapsed. In addition, \$111,000 of the \$769,000 of the 2000 grant lapsed. ED then required VIDH to use a third-party fiduciary agent to expedite payment of all expenses except for personnel and related fringe benefits and indirect costs. VIDH paid an annual fee of \$25,000 for the services provided by this third-party fiduciary agent. The first grant administered by the fiduciary agent expired, and grant officials indicated that payments were made on a timely basis, with few complaints. The fact that GAPS showed no remaining balance indicates that the arrangement may be working well.

ATTACHMENT C

**Detail For Finding 3**

**SUB-ISSUE 3.1 - RECRUITING AND HIRING**

**First Major Action Step in Sub-Issue 3.1**

*Develop Policies and Procedures for Class Coverage*

VI was to have developed policies and procedures for class coverage in the event that a teacher is unable to be in the classroom. To complete this requirement, VIDE developed two documents entitled “Policy and Procedure For Assigning Substitutes” and “Substitute Teacher Pool.”

**Second Major Action Step in Sub-Issue 3.1**

*Determine Percentage of Classes Conducted By Highly Qualified Teachers*

While VIDE provided the number of highly qualified teachers, it did not address the percentage of classes conducted by highly qualified teachers. In addition, the teacher qualification documentation was inconsistent. VIDE provided funding for 109 teachers to take the Praxis Exam for certification as highly qualified. Of the 48 teachers we could account for who sat for the Praxis Exam on August 09, 2003, only 7 passed. Our calculations conflict with the documents provided by VIDE which state that 82 teachers sat for the Exam and 15 passed. A VIDE document entitled “Human Capital Subcommittee Report” provides a three-year moratorium, commencing with the school year 2001, for compliance with the NCLB highly qualified teacher certification. Because of this compliance delay, VIDE had difficulty getting teachers to take and pass the Praxis Exam for certification.

**Third Major Action Step in Sub-Issue 3.1**

*Increase Recruitment of Specialized Personnel*

By December 31, 2002, VIDE was to have worked with VIDH to establish a MOA between VIDH and VIDE to jointly recruit and share needed specialized personnel, such as speech pathologists, physical therapists, etc. VIDE completed this step by entering into a MOA with VIDH on December 20, 2002, to collaborate in the development and implementation of strategies for the recruitment and retention of highly qualified allied health professionals in the VI.

**Fourth Major Action Step in Sub-Issue 3.1**

*Determine the Number of Qualified Teachers Needed*

By December 31, 2002, VI was to have determined how many highly qualified teachers it needed per program to achieve the goal of having a qualified teacher in every classroom within five school years. In determining the number of teachers it needed, VI would ensure ratios comparable to similar sized school districts for the (1) average number of

**ATTACHMENT C**

students per teacher, (2) average number of administrators per student, and (3) percentage of Federal dollars spent directly for classroom instruction and related expenses. VIDE did not complete its determination of the number of highly qualified teachers needed.

The Human Capital Subcommittee Report documents did not include the student/teacher and administrator/student ratios or the percent of Federal dollars spent directly for classroom instruction. Further, the documents did not draw a comparison to similar sized districts in determining the number of highly qualified teachers needed within the next five years. This may not have been completed due to time constraints or lack of data.

**Fifth Major Action Step in Sub-Issue 3.1**

*Set Goals for Employing Qualified Teachers*

By March 31, 2003, VI was to set specific goals for employing qualified teachers in specific classrooms each year based on the total number of qualified teachers needed over five years and the priorities for types of vacancies to fill first. VIDE did not complete the determination of the number of qualified teachers needed.

VIDE completed the Five-Year Strategic Plan for Teacher Quality and Certification and VIDE met one of the first year's requirements, which was to have 20 percent of the qualified teachers it needed to meet the five-year goal. However, VIDE's data was inconsistent. For example, the Human Capital Subcommittee Report stated that 98 teachers benefited from a subsidy for a special administration of the Praxis Exam. Yet, VIDE's Human Capital-Teacher Quality Report had 82 as the number of examinees. In its data collection report entitled "Invoices and Other Financial Documents for Teacher Quality," VIDE also stated that 98 teachers took the Exam. However, an invoice listed fees paid for 109 participants. Similarly, the total number of teachers, territory-wide, was inconsistent and fluctuated from 1,447 to 1,594. Due to the inconsistency in reporting the VI's population of teachers, we could not verify the total number of teachers and whether VIDE will meet the yearly goal of 20 percent of the total number of qualified teachers needed per year over the next five years.

The inconsistencies appeared to result from VIDE's attempt to systematically categorize and classify its teachers and their qualifications, when no database existed. To meet the Agreement's requirements, VIDE must assure that its data are consistent and not contradictory.

**Sixth Major Action Step in Sub-Issue 3.1**

*Improve Hiring Process*

Another significant step by VIDE addressed the requirement to improve the hiring process, including the use of current legislative authority for VIDE to bypass VIDP and expedite the hiring process by April 30, 2003. On August 12, 2002, the Governor of VI granted VIDE hiring authority, in order to expedite the hiring process.

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**Seventh Major Action Step in Sub-Issue 3.1**

*Expedite the Teacher Certification Process*

The VI was to have worked with (1) the VI Board of Education to expedite the teacher certification process, including alternative certification approaches, and (2) the VI Board of Vocational Education to expedite setting standards for teacher certifications, including alternative certification approaches. VIDE did not complete the process to expedite the teacher certification process. Although VIDE prepared a draft proposal of alternatives to certification under NCLB, as of November 2003, it had not yet been approved by the VI Board of Education. Therefore, we could not determine whether VIDE will be in compliance with NCLB within the five years stipulated in the Agreement.

**SUB-ISSUE 3.2 - INADEQUATE TIME ACCOUNTING AND SUPPLANTING**

The main objectives of this Sub-Issue were to ensure that (1) the salaries of employees who work under more than one Federal program are properly allocated among those programs, in accordance with accurate time distribution records, and (2) Federal funds are not paying for personnel that the State should pay.

**First Major Action Step in Sub-Issue 3.2**

*Develop a Plan for Time and Attendance Accounting and Supplanting*

VI was required to develop a plan that shows how the time and attendance accounting procedures will be integrated with program related budgeting, financial management, planning, and personnel processes. This system is to be computer-based and territory-wide; allocate time and attendance to specific programs; and ensure personnel records are properly archived and readily accessible.

VIDE made significant progress by creating a database system for the Notices of Personnel Actions (NOPAs). Copies of NOPAs indicated the term of employment, annual salary, start date, funding source (including the percentage of salary paid by Federal programs), and type of certification along with other data for both temporary and permanent hires.<sup>22</sup>

According to the Director of VIDE's Human Resources Office, it would be a while before all NOPAs became available electronically because of the large volume of data on the NOPAs. VIDP was also working to establish an electronic personnel database.

**Second Major Action Step in Sub-Issue 3.2**

*Develop an Accurate List of Employees*

By September 30, 2002, the VI was to have developed an accurate list of employees whose time is paid in any part with Federal education funds. VIDE completed this step

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<sup>22</sup> See Finding 3, Sub-Issue 3.2, regarding the transfer of personnel costs between grant years.

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**ATTACHMENT C**

by providing a list of all employees who would be charging time to different cost centers (funding sources). As a test, we subjectively selected 34 personnel and calculated the portion of funds charged to local (VI) accounts as a percentage of total salary charges. The salary allocations were not uniform, thus indicating that the employees may be charging time based upon actual effort on a project. Without determining the accuracy of the salary allocations, it appeared to be in line with the Agreement's requirements.

ATTACHMENT D

**Detail For Finding 4**

**SUB-ISSUE 4.1 - PROPERTY MANAGEMENT**

**First Major Action Step in Sub-Issue 4.1**

*Implement an Inventory System*

VI was to have implemented WIN ASSETS Personal Property Inventory System, a government-wide inventory system, by completing a 13-step plan by December 30, 2004.

The plan required:

- (1) all VI departments to comply with the WIN ASSETS system;
- (2) individual department inventories be converted to WIN ASSETS format and uploaded department data to VIDPP system; and
- (3) VIDPP to reconcile FMS expenditures to WIN ASSETS inventory acquisitions quarterly.

VI did not complete this step. The VI had made little progress in implementing a government-wide inventory system, as required. Meanwhile, VIDE St. Thomas is planning on using CIMS to manage its internal inventory.<sup>23</sup> On November 7, 2003, VIDE's Director of Computer Operations wrote to the Commissioner of Education about the need for training for all VIDE program staff and purchase order initiators prior to using CIMS. At that time, the Director indicated that he had just learned how to use CIMS. During the exit conference, the Director stated that he had provided the necessary training. All staff, including the St. Croix warehouse personnel, would be using CIMS. By using CIMS, VIDE is at odds with the concept of a government-wide inventory system envisioned in the Agreement.

While VIDE St. Thomas moves to implement CIMS, the VIDE St. Croix Curriculum Center is still using its internally created database system to manage the St. Croix inventory. St. Croix personnel had only minimal involvement with the property management task force. If different inventory systems remain in use, the VI may not be able to meet the Agreement's Year Two requirements, which include the full implementation of the inventory management system.

Contract to Inventory VI Assets

VIDPP contracted with American Appraisal Associates to account for the VI's inventory as of September 30, 2002, as a baseline for the government-wide inventory. Using a \$5,000 threshold as the minimum value of equipment to be included in the inventory, American Appraisal Associates produced a Summary Appraisal Report. The report cited location, equipment cost, purchase date, depreciation, and net book value. This information has not been entered into an asset database so that depreciation and asset values could be calculated annually. No further inventories had been performed nor was

<sup>23</sup> Several states and school districts are using CIMS for their education financial system of record.

**ATTACHMENT D**

any reconciliation done with the VIDE inventory. In addition, because VIDPP's inventory accountability remains at the \$5,000 threshold, most of VIDE's purchases would not be captured and accounted for in VI's inventory. As mentioned in the Background section of this report, when OIG performed its inventories during years 2001 and 2002, we looked for equipment such as computers, printers, and other inventory items valued at more than \$250. In total, the reports cited almost \$2.5 million in unaccounted for equipment.

**Second Major Action Step in Sub-Issue 4.1**

*Develop an Inventory Policy and an Implementation Plan of the Inventory Management System*

The VI was to have provided ED with a final inventory policy and implementation plan of the inventory management system that would comply with Federal regulations by June 30, 2003. The inventory policy is to establish procedures for replacement or payback of any items in the inventory that cannot be located, consistent with Federal regulations.

We did not find any evidence that VI developed an inventory policy and implementation plan of the inventory management system. However, a copy of VIDE's Procurement and Inventory Policy Manual, dated June 30, 2003, was posted on the Internet website. It provides guidance for VIDE's property management and refers to CIMS as the system to be used for asset inventory. In November 2003, the Director of VIDE's Property, Procurement, and Auxiliary Services informed ED officials and OIG that the manual was a draft, but did not give a date as to when the manual would be finalized.

The manual illustrates the purchase order flow from initiator to payment by VIDE to VIDF's FMS. To coincide with the VI government's inventory policy, the inventory dollar threshold is set at \$5,000. However, the manual also states that physical inventories will be taken for items of \$500 or more. This would enable VIDE to account for inventory items such as computers, monitors, cameras, camcorders, televisions, fax machines, scanners, and other audiovisual equipment.

We noted some shortcomings in the manual that need to be addressed. For example, it describes the tagging of inventory, blue for Federal and red for state, but does not indicate at what stage of the purchasing cycle the items will be tagged; forms for transferring items between centers/schools are included, but appear to lack control numbering and numerical sequencing; and no provision exists for notifying the Curriculum Centers. These control functions should be part of CIMS, if it is to be used, when the schools are linked electronically to the Curriculum Centers. VIDE can then ensure that all property purchased with Federal program funds will be tagged, entered into a tracking system, and delivered to the appropriate location timely. Another shortcoming of the manual is that it did not address the need for reconciliation between the schools' biennial physical inventories and VIDE's property records and original requisitions. It also did not consider the need for providing the results to VIDPP to

## ATTACHMENT D

ensure VIDPP, VIDF, and VIDE act as an integrated team on procurement issues as required by the Agreement.

The manual also contains a flowchart documenting the requisition process that needs clarification. Specifically, the manual omitted how:

- Vendors are approved prior to obligating purchases in the CIMS system,
- CIMS would prohibit obligations if the vendor is not approved,
- Transactions will flow between CIMS and FMS, and
- Vendors are notified when orders are approved.

Also, VIDPP and VIDE need to consider how to consolidate and/or eliminate multiple approval stages for a purchase order to ensure efficiency and eliminate duplication of effort, as well as make provisions for emergency needs to ensure students' health and safety as required by the Agreement.

### **Third Major Action Step in Sub-Issue 4.1**

#### *Develop a Property Security Plan*

By June 30, 2003, the VI was to have completed all reasonable steps to secure all property in warehouses, schools, and other locations from larcenous behavior or inappropriate or unauthorized use by performing a security risk analysis.

ED's Site Visit Report pointed out that \$1.7 million of the 2001 Consolidated Planning Grant of \$7,518,789 allotted to UVI will be for security services to safeguard VI public schools.<sup>24</sup> However, the timelines to implement security measures fall between November 2003 and December 2004, well past the June 30, 2003 deadline. In October 2003, the Governor asked the U.S. Marshals to provide risk analysis training. However, the U.S. Marshals declined the request.

Prior to the Governor's request, VIDE requested security analysis proposals from five different vendors. However, we saw no evidence to support the proposals or the intended risk analysis training. As of October 2004, a document dated June 2004, posted on the Agreement Internet website, indicated that a final risk assessment is expected to be completed in August 2004. The VI should not consider the security analysis proposals prior to assessing the level of risk associated with the inventory and the related structures.

### **SUB-ISSUE 4.2 - COMPETITIVE PROCUREMENT**

VIDE and VI did not complete the two major action steps in Sub-Issue 4.2. The goals were to ensure that school services, supplies, equipment, and other necessary resources are provided in classrooms when they are needed and vendors are paid within 30 days of invoice receipt.

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<sup>24</sup> Additional discussion of the 2001 Consolidated Planning Grant is contained in Attachment A.

**ATTACHMENT D**

**First Major Action Step in Sub-Issue 4.2**

*Develop a Procurement Policy*

Per the Agreement, the procurement management process will include procedures for flexible, timely contractual arrangements, sole source contracts, contract closeout activity, including receipt of goods certification, contracts release, and review of final payment.

VIDE included the procurement policy in its Procurement and Inventory Policy Manual. See Second Major Action Step in Sub-Issue 4.1, above, for findings regarding the manual. We found its procurement policy and implementation plan to be inadequate. As indicated in Finding 4, Sub-Issue 4.2, VIDE still has problems in assuring that, once requisitions are made, the goods are delivered and payments are made within a reasonable time.

**Second Major Action Step in Sub-Issue 4.2**

*Establish Competitive Procurement Process*

By September 30, 2003, the VI was to have revised the system of requiring three bids for each item submitted on a requisition, to reduce the time needed to obtain required items to meet the procurement time lines. VI also is to develop and maintain a short-term emergency by-pass authority/option for items that cost less than \$10,000.

VI did not complete this step. We reviewed documentation for revised steps requiring three bids for each item, including setting up a central store for common supplies and procedures for emergency procurement under \$10,000. However, VI did not provide evidence that these procedures had been implemented.

Proposed Summary Reconciliation Spreadsheet

A	B	C	D	E	F	G	H	I	J	K	L	M	N
GRANT TITLE	Grant Award #	Grant Award Period	CFDA #	Grant Award \$	Funds Drawn (GAPS)	Balance Available	Draws Recorded FMS	Difference with Funds Drawn	Expenditures FMS	Difference with GAPS Funds Drawn	Expenditures Internal	Difference with FMS	Encumbrances Outstanding
						Note # 1		Note # 2		Note # 3		Note # 4	
						Column E - F		F - H		J - F		J - L	
Individual w/Disabilities (Special Education)	H027A010003	07/27/01 - 09/30/02	84.027A	\$9,078,705.00	\$7,670,617.63	\$1,408,087.37	\$7,424,255.26	\$246,362.37	\$8,028,343.86	\$357,726.23	\$8,555,728.47	(\$527,384.61)	\$527,384.61
Individual w/Disabilities (Special Education)	H027A020003	10/1/01 - 09/30/03	84.027A	\$9,391,764.00	\$9,003,805.00	\$387,959.00	\$8,920,420.00	\$83,385.00	\$10,670,270.91	\$1,666,465.91	\$10,998,043.21	(\$327,772.30)	\$327,772.30

**Note # 1:** This figure is the amount available to VIDE for future draws.

**Note # 2:** This figure should be the draws which have yet to be recorded on FMS.

**Note # 3:** This figure should represent the amount that needs to be drawn or the amount that is overdrawn.

**Note # 4:** This figure should equate to FMS' outstanding encumbrances that need to be liquidated.



THE UNITED STATES VIRGIN ISLANDS

OFFICE OF THE GOVERNOR  
GOVERNMENT HOUSE

Charlotte Amalie, V.I. 00802  
340-774-0001

December 31, 2004

Mr. Daniel P. Schultz  
Regional Inspector General for Audit  
U.S. Department of Education  
Office of Inspector General  
75 Park Place  
New York, New York 10007

Dear Mr. Schultz:

The Government of the Virgin Islands has reviewed Audit Report Number ED-OIG/AO2-DOO28, The Virgin Islands Is at Risk of Not Meeting the Goals of the September 2002 Compliance Agreement, dated December 2004. Transmitted for your review and inclusion in the final report are our responses to the draft report.

The Government welcomes audits since they are useful management tools. However, we are concerned with the excessive time that it took for the issuance of the draft audit report. The primary objective of the audit, as stated by the U.S. Department of Education, Office of Inspector General (OIG), was "to determine whether VIDE had met the Year One milestones outlined in the September 23, 2002. Agreement, and the likelihood of VIDE being on target for Years Two and Three". Though this audit started in September 2003, which was the last month of year one, the draft report was not issued until December of 2004, fifteen months after the start of the year one review and three months into year three of the Agreement. This was despite the V.I. Government making numerous verbal and written requests (see attached Exhibit 1) for the results of the audit and a determination of the adequacy of the procurement policies. This late issuance affects the ability of the government to get timely written feedback from OIG on their year one review, the use of the results of the audit as a tool for making management decisions, as well as the implementation of the necessary recommendations in year two of the Agreement.

We are cognizant that the underlining purpose of the Agreement is to insure that the V.I. is able to meet the requirements of the No Child Left Behind Act of 2001. The Government of the Virgin Islands will make its best efforts in this regard.

Sincerely,

A handwritten signature in cursive script that reads "Juell T.R. Molloy".

Juell T.R. Molloy  
Chief of Staff, Office of the Governor

Enclosure

**Government of the Virgin Islands Response to the Draft Audit Report,  
Dated December 2004, Control Number ED-OIG/A02-D0028, The  
Virgin Islands Is at Risk of Not Meeting the Goals of the September  
2002 Compliance Agreement**

Executive Summary

The Government of the Virgin Islands (Government) acknowledges it is behind on some of the major action steps required by the Compliance Agreement. The response as prepared by the Government is attached for your review and inclusion in the final report. The responses were developed to conform to the thirty-day submission timeframe established by the Assistant Inspector General for Audit Services, for inclusion in the report.

This Government is concerned with the excessive period of time it took for the issuance of the draft audit report. The primary objective of the audit as stated by the U.S. Department of Education, Office of Inspector General (OIG), was “to determine whether VIDE had met the Year One milestones outlined in the September 23, 2002. Agreement, and the likelihood of VIDE being on target for Years Two and Three”. Though this audit started in September 2003, which was the last month of year one, the draft report was not issued until December of 2004, which is fifteen months after the start of the year one review and three months into year three of the Agreement. This was despite the government making numerous requests (see attached Exhibit 1) for the results of the audit. This late issuance affects the ability of the government to get timely written feedback from OIG on their year one review, the use of the results of the audit as a tool for making management decisions as well as implement the necessary recommendations in year two of the Agreement.

Additionally, There are concerns with the name of the audit being formulated as a conclusion; *The Virgin Islands Is at Risk of Not Meeting the Goals of the September 2002 Compliance Agreement*. The objective of the audit as indicated in the Executive Summary more accurately reflects what the audit was about. Accordingly, a more accurate depiction of the audit in terms of its title would be: *audit of The Virgin Islands' Progress in Meeting the Compliance Agreement's Year 1 Goals*.

It is our hope that through the process of the Compliance Agreement that the Government will be able to make the necessary improvements that will not only meet the expectations of the U.S. Department of Education but also improve the educational product that we are delivering to the children of the Virgin Islands.

## AUDIT RESPONSES

### Issue 1-Program Planning and Design

#### Finding 1

VIDE and VI did not fully complete three of the four major action steps of the Compliance Agreement

Recommendation Number 1.1. Require VIDE to work more closely with ED to ensure that grant applications are approved in a timely manner.

Response VIDE concurs with this recommendation. The FFY 2003 Consolidated Grant Application was submitted late. However, after submitting the FFY 2003 application, almost three (3) months elapsed prior to our receipt of any written feedback relative to concerns from ED. Beyond that, there were several exchanges of information before a notice of grant award (NOGA) was made on July 14, 2004. This represented a six and a half month lag between the submission of the grant application and the receipt of the NOGA.

Though the department made great strides in improving the quality of our application, the FFY 2004 Consolidated Grant Application was submitted later than anticipated because of the implementation of the new requirement for developing the application. This required the development of school-wide, district-wide and territory-wide improvement plans, which served as the basis for the application. In addition to all schools developing school improvement plans, both districts developed similar plans; and all activity centers at the territorial level developed operational plans that were combined to form the territory's improvement plan.

VIDE is committed to more effectively and efficiently completing applications and responding to concerns raised by ED. Now that we have implemented the use of school-wide, district-wide and territory-wide improvement plans as a paradigm for our application, we are confident that our timeliness will improve. We are hopeful that we would receive timely feedback from ED relative to our FFY 2004 application so that we do not have as lengthy a time lag with the receipt of the NOGA for this application as we had for the FFY 2003 application.

Implementation Date: Spring 2005

Recommendation 1.2. Require VIDE to work together with ED to ensure that the 2001 grant obligations are liquidated within the extended liquidation period.

Response VIDE concurs. We have been working with ED to ensure timely liquidation of the FFY 2001 Consolidated Grant. However, VIDE recognizes that additional time is needed beyond the current June 30, 2005 liquidation period – an

initial extension that was requested and granted. Currently, VIDE has contractual obligations under aforementioned grant as follows:

- Learning Point Associates for the development of school-wide, district-wide and territory-wide improvement plans -- expires 8/31/06
- Two MOAs with UVI- a) Payment to teachers, administrators, and other school improvement staff for assisting in the development of the school-wide plans and the procurement of materials, which includes contracting for surveillance for an enhanced security system in schools; and, b) The development of an accountability system for VIDE (subcontract: Education Alliance at Brown University). Both MOAs expire 9/15/06.

Based on the above, it will be necessary for VIDE to request additional time to liquidate the 2001 Planning Grant funds. VIDE pledges its full cooperation in ensuring complete liquidation of all outstanding obligations. To date, thirty four percent (34%) of the 2001 funds for these contracts and MOAs have been liquidated. VIDE will submit a letter to ED by 12/31/04 requesting an extension of the liquidation period, based on the current contract and MOAs.

Implementation Date: 12/30/06

Recommendation 1.3 Require VIDE to monitor the progress of the contractors in developing the comprehensive, statewide plan; clarify how Brown University is going to provide support or assistance to UVI, and determine how security services are going to be procured.

Response We concur. Currently, the Superintendents monitor the day-to-day activities of the comprehensive plans. The Office of Federal Grants and Audit has specifically assigned an employee to examine the billing of the contracts and the processing of requisitions for allowability. Brown University will be providing assistance to VIDE. Security services will be provided consistent with the response to recommendation 4.2.

Implementation Date: On-going

Recommendation 1.4. Require VIDE to involve managers in the semi-annual certification and reconciliation and to take steps to assure that the reported amounts correspond to each other.

Response VIDE concurs. As of October 2004, VIDE began sharing the reconciliation report on a monthly basis with Program Managers so that projects'

narratives are tied to spending patterns of the programs. It is anticipated as we refine the process that managers will be more involved with the reconciliation. Managers will be given their own copy of each reconciliation report for use and reference.

Implementation Date: January 30, 2005

**Issue 2-Financial Management**

**Finding Number 2**

VIDE and VI did not complete six of the ten Year One major action steps for Financial Management

**Response to Finding 2.1 on Credible Financial Management System**

We do not concur. The vision document of a Credible Central FMS (CFMS) was completed by March 2003, as required in the Compliance Agreement with the submission of the CFMS implementation plan to the U.S. DOE. However, the U.S. DOE did not submit a formal response regarding concurrence with or approval of the submitted plan to the V.I. until August 2003. This delay caused the document to be revised three times. Despite this delay, the V. I. has made substantial progress in the execution of the CFMS. One of the significant measures, to have a needs assessment performed by an independent contractor, has begun.

As of September 2004, the Virgin Islands began to conduct a comprehensive needs assessment on the existing FMS by an independent party. Workshops were held with stakeholders, particularly the core FMS users within the various departments and agencies. The needs assessment contractor, Government Finance Officers Association (GFOA) has made two site visits to gather relevant information regarding FMS issues, including detailed information on stand alone systems currently in use by other departments. A survey is also being conducted for the purpose of gathering additional information. The scheduled completion of the needs assessment is February 2005.

**Response to Finding 2.1 on GAPS**

We concur. "The VI completed the first action step by providing certain employees training and appropriate access to ED's GAPS system to monitor drawdowns." However, we do not concur with the statement that new users were given access without receiving GAPS training. The initial GAPS training took place in December of 2002 and VI staff (who received access for the first time) at the Office of Management and Budget, and the Department of Finance, received written notification of their access and/or access limitations due to maximum user caps, by correspondence dated February 21, 2003.

Subsequently the follow-up GAPS training occurred in December of 2004. However because of a departmental reassignment in OMB, only one (1) employee, who is assigned to VIDOH (not VIDOE) received GAPS training subsequent to receiving GAPS access.

Nonetheless, this employee was provided with copies of the prior training manual and he had access to other VIOMB (GVI) employees in the unit (Federal Grants Management Unit – FGMU) who received the prior GAPS training from USDOEd (ED).

Response to Finding 2.2 on Indirect Cost

- We do not concur. The VI did establish a written policy regarding unused leave for separating employees from federally funded positions. This policy document dated August 24, 2004 is attached as Exhibit 2.
- We concur. VIDE has not submitted a budget to VIOMB to address expenditure of its departmental indirect cost of \$482,054. This budget should be submitted by January 30, 2005.
- We concur. However, while use of a hybrid Fixed with Carry forward method for Indirect Cost would be more complex, it would more accurately derive the proper amount of indirect cost. Accordingly, GVI would be short-changing itself by simply using the Predetermined Cost method indefinitely.
- We do not concur at this time. While it might be inferred, there is no specific requirement in the Compliance Agreement that indirect cost be computed automatically (e.g. systematically), only applied correctly. Beginning with FY 2004, VIOMB/VIDOF made a decision (after meetings and training sessions) to compute indirect cost manually (outside of the system – FMS) first, to ensure the accuracy before subsequently turning back on this feature on the FMS (subsequent to any needed enhancement). In short, we are trying to get it right first, or it will simply mean, “Garbage In Garbage Out”.
- While the requirement to have all underlying problems dealing with Indirect Cost eliminated was unrealistic, GVI in fact, had minimum finding pertaining to indirect cost during recent Single Audits. Additionally the RFP for the new rates for FY 2006-2008 was issued and we anticipate addressing some concerns during the negotiation process.

Recommendation 2.1. Require VIDE and Special Education program to use a third-party fiduciary, effective with the next grant approved and funded by ED, to ensure that funds are obligated and spent in a timely manner.

Response VIDE does not concur that a third-party fiduciary relationship is necessary based on our spending Special Education Funds. Extensive work has been done with the Special Education Program and as a result, the Fiscal Year 2004 (“R” grant that will expire 9/05) grant has less than 10% of funds to draw and Fiscal Year 2003 (“Q” grant that will expire 1/05) has a zero balance remaining as per the GAPS report (see Exhibit 3). This demonstrates that VIDE has been obligating and spending grant funds timely.

Implementation Date: not applicable

Recommendation 2.2 VI to provide, in coordination with ED, GAPS training to new users before giving them access to the system.

Response We concur. At the time that this audit was performed new users to the ED's GAPS system had been using the system to monitor drawdowns. Subsequent to the audit, all new users have received proper GAPS training; and reconciliations are being performed using the information from GAPS, the FMS and the department's internal records.

Recommendation 2.3 VI to move forward in implementing a fully functional central FMS based on an independent party performing a needs assessment of the system.

Response We concur. As of September 2004, the Virgin Islands began to conduct a comprehensive needs assessment on the existing FMS by an independent party. Workshops were held with stakeholders, particularly the core FMS users within the various departments and agencies. The needs assessment contractor, Government Finance Officers Association (GFOA) has made two site visits to gather relevant information regarding FMS issues, including detailed information on stand alone systems currently in use by other departments. A survey is also being conducted for the purpose of gathering additional information. The scheduled completion of the needs assessment is February 2005.

Recommendation 2.4. Require VIDE to improve its cash management capabilities by:

- a. Implementing the newly proposed reconciliation summary schedule when preparing the required reports, and reporting on all grants for one reconciliation period past the funds availability or expiration period.

Response We concur. VIDE has already adopted this format for its reporting period beginning for March 2004, and on-going (see Exhibit 4).

Implementation Date: March 2004

- b. Using the reconciliation schedule to manage the federally funded programs and simultaneously reduce lapsed funds.

Response VIDE concurs. VIDE has created an internal review panel and procedures to assure complete and accurate reconciliation (see Exhibit 5). Currently, VIDE does utilize the information gathered for assisting in managing its federal funds. The reconciliation reports alert VIDE of grants approaching the end of grant periods and pending close out dates after the liquidation period is scheduled to end. These reports also validate information previously collected on monthly reports of expenditures vs. draws with additional information as to what is posted in the FMS vs. what is posted in the internal records. The reports are also used by VIDE to monitor adjustments to ensure

that they are made timely. The reports also assist reviewers to gauge the information to determine whether adjustments from one grant to another are being conducted correctly and timely. Additionally, the reconciliation reports help ensure that deposits into VIDE's checking account appear in the official accounting records of the V.I. Government and enable VIDE to know how timely these postings are occurring. Finally, the reports allow VIDE to provide program managers with more accurate and timely information concerning their programs.

Implementation Date: March 30, 2004

c. Assuring that the GAPS balances used on the reconciliation schedule coincide with the period of the reconciliation.

Response VIDE concurs. VIDE has insured that the Business Office Directors are utilizing the appropriate GAPS report that coincides with the period being reconciled.

Implementation Date: March 30, 2004

d. Assuring that program managers receive the reconciliation so they can be involved in fiscal monitoring.

Response VIDE concurs. As we refine the reconciliation process, managers will be brought in and be provided with feedback and guidance on expenditures or pending obligations to assist in timely obligating and liquidating their federal funds.

Implementation Date: January 30, 2005

Recommendation 2.5, Require VIDE to submit a budget(s) to VIDF so the indirect cost funds can be used.

Response VIDE concurs. For Fiscal Year 2004, VIDE has been granted an allocation. Upon receipt of the cost of single audits from OMB, a budget will be submitted utilizing the remaining funds.

Implementation Date: December 30, 2004

Recommendation 2.6 VIDF to ensure that indirect cost computations are automatically computed within the FMS and posted to the appropriate accounts.

Response We do not concur. While it might be inferred, there is no specific requirement in the Compliance Agreement that indirect cost be computed automatically (e.g. systematically). Beginning with FY 2004, VIOMB/VIDOF made a decision (after meetings & training sessions) to compute indirect cost manually (outside of the system – FMS) first, to ensure the accuracy before subsequently turning back on this feature on the

FMS (subsequent to any needed enhancement). In short, we are trying to get it right first, before considering the automation aspect.

Recommendation 2.7 VI and VIDE to use a three-year, pre-determined indirect cost rate cycle rather than the fixed-with-carry-forward hybrid rate type until the system for capturing, budgeting, and spending indirect costs is fully functional.

Response We concur at this time. While use of a hybrid Fixed with Carry forward method for Indirect Cost would be more complex, it would more accurately derive the proper amount of indirect cost. Accordingly, GVI would be short-changing itself by simply using the Predetermined Cost method indefinitely.

### **Issue 3-Human Capital**

#### Finding 3

VIDE and VI have made significant strides by completing four of the nine major action steps

#### Response to Finding on Sub-Issue 3.1 Hiring and Recruitment

We concur. However, the United States Department of Education should consider that the Board has already outlined in its certification policy an alternate route to certification to accommodate some of the teachers to whom a HOUSSE proposal would be addressed—teachers already in our system who do not meet the traditional certification guidelines. The present policy requires that teachers being considered under this alternate route complete a subject area examination in the area in which they wish to teach. The examination provided for in this policy is the PRAXIS II. At present, the Board is actively moving to fully implement this policy. We have been working with the Educational Testing Service to arrange for the validation of the PRAXIS II, which is available for subject area as well as pedagogical assessment. That process should be completed in the Spring of 2005.

In addition, the University of the Virgin Islands has formulated a new student teaching course at the Board's request that will allow veteran teachers who have not met the student teaching requirement set out in the certification criteria to do so without having to leave their classrooms. The course will be offered on both campuses of the University beginning in January 2005. Many of our teachers, particularly on the secondary level, are lacking this requirement. The availability of this course will mean that teachers being considered under the traditional certification route will stand a greater chance of being certified within the five-year period of the strategic plan.

It also bears mention that the University now requires that students who are seeking to enter its education division pass the PRAXIS I examination first. The PRAXIS I examination is the proficiency instrument that must be administered to all Virgin Islands teachers hired after September 30 1996. We have had a low pass rate with this

examination thus far, which has also adversely impacted the pool of candidates eligible for certification. It is our expectation that as more teaching candidates come from the University having already passed the PRAXIS I, the Board will be presented with fewer candidates who are deficient in the certification requirements.

While the certification of our teachers presents a major challenge for the Virgin Islands, the landscape appears brighter when all these factors are taken into consideration.

Recommendation 3.1. VIDE to ensure an accurate and complete teacher qualification and personnel database is developed and maintained, including expediting the teacher certification process.

Response VIDE concurs. VIDE updates database on a daily basis to ensure accuracy and completeness of data. To further support this teacher qualification initiative, the staff audits the data by counseling, interviewing and writing to teachers as well as other school-based personnel included in our databases. This provides us with up to date information as well as an opportunity to make projections regarding highly qualified status. We also communicate requirements and available assistance pertaining to teacher quality. Other project initiatives include: monitoring online Praxis preparation tutorials, providing opportunities for classes that will lead to highly qualified status and developing and populating a professional development database. In addition, we have become the repository for teacher quality data. For security and accountability purposes file audits are completed on a hard copy file before being inputted into the system. New funding will support our efforts to image each personnel file and link it directly to each data base screen. By having data readily available, we can provide the VIBE with appropriate updates of individual teachers' credentials.

Implementation Date: On-going

Recommendation 3.2 VIDE, VIOMB and VIPD to work to extend the period covered by NOPAs to two or more years.

Response VIDE concurs. This is already happening for new hires on local funds. This is also done for new hires on federal funds when funding is available beyond a one-year period.

Implementation: Ongoing

#### **Issue 4-Property Management and Procurement**

##### Finding 4

VIDE and VI did not complete the five major action steps

##### Response to Findings

Sub-Issue 4.1 Property Management

The audit report concludes that VIDE and VI did not complete the five major action steps of the Compliance Agreement's Issue 4 – Property Management and Procurement. We do not concur with the finding.

The Performance Measures for Issue 4.0 and 4.1 of the Compliance Agreement require that the VIDE and VI do the following:

1. The VI will provide the Department with an inventory policy and implementation plan of the inventory management system by June 30, 2003.
2. The VI will take immediate action to the extent possible to secure all property, in warehouses, schools, and other locations from larcenous behavior or inappropriate or unauthorized use. By June 30, 2003, the VI will complete all reasonable steps to secure all property, in warehouses, schools, and other locations from larcenous behavior or inappropriate or unauthorized use.
3. An inventory policy and system will be fully implemented by December 30, 2004. The policy and system will include that all property purchased with Federal program funds will be tagged, entered into a tracking system, and delivered to the appropriate location within 3 calendar days of receipt.
4. By March 31, 2005, all unaccounted-for items will either be returned to their intended locations, or their full value will be reimbursed to the U.S. Department of Education.
5. By the end of the second year of the Compliance Agreement, the inventory management system will reflect minimal losses due to theft.
6. By the end of the Compliance Agreement, audits will show minimal unaccounted-for property.

The audit finds that the "VI did not implement a government-wide inventory system." This finding is inaccurate because the VI has always had an inventory policy and an inventory control system.

The VI was late in revising and providing the Department with an updated inventory policy addressing all relevant elements agreed to in the Compliance Agreement. Initially, there was a misinterpretation of exactly what was expected under the compliance agreement; therefore the VI missed the June 30, 2003 target

date for implementing the revised inventory management system. Nonetheless, this performance measure was subsequently completed. Currently, a revised, written, inventory policy addressing all relevant elements of the Compliance Agreement is in effect. The same is true for an inventory management system. A training seminar and workshop was held with members of all government departments and agencies. A Property Management Handbook was made available to all in attendance for use and reference. The handbook was also posted on the Internet, and forwarded to ED for review (refer to Exhibit 1). Additionally, all departments and agencies were directed to submit purchasing records to VIDPP for conversion to the WIN ASSETS system, inventory verification, and reconciliation.

In the audit, reference was made to the VIDPP using WIN ASSETS II, as opposed to WIN ASSETS, for the VI government-wide inventory system. It seemed to suggest that this represented a change in the inventory software. Such a characterization is misleading, and it does not reflect the real nature, purpose, or reason for the software upgrade.

WIN ASSETS and WIN ASSETS II are essentially the same software. It is customary and expected that enhancements, maintenance releases, new feature sets, functions, capabilities, and user interfaces are periodically made available for all software. The use of WIN ASSETS II represents an evolution of the system, not a change of the software as suggested. WIN ASSETS II is an upgraded version of WIN ASSETS, which provides all of the features of WIN ASSETS and more. Its use only increases the effectiveness of the overall inventory management system, and should not be a point of concern.

The audit finds that the inventory conducted by American Appraisal Associates as of September 30, 2002 to establish a baseline for the government-wide inventory was not transferred into an assets database, and therefore depreciated asset values cannot be calculated annually. The statement is false. The inventory has been uploaded into the FMS Fixed Asset Module where it merged with the rest of the VI's fixed assets to be depreciated and valued accordingly.

The VI fixed assets threshold for inventory items is set at \$5,000.00. However, for tracking purposes, property items must meet the following three criteria:

1. Any single unit item or piece of equipment that has a cost or value of \$5,000.00 or more.
2. All computer systems, laptops, notebooks, and monitors regardless of price.

3. Certain electronic equipment such as fax machines, televisions, printers, scanners, multifunction systems, digital cameras, DVD players/recorders, VCR players/recorders, and other audio/visual equipment having a value of \$500.00 or more.

For this reason, the concerns expressed in the audit report that “most of VIDE’s purchases would not be captured and accounted for in VI’s inventory” is overly pessimistic.

Additionally, VIDPP contracted with American Appraisal Associates to account for the VI’s inventory as of September 30, 2002, as a baseline for the government-wide inventory. Using a \$5,000 threshold as the minimum value of equipment to be included in the inventory, American Appraisal Associates produced a Summary Appraisal Report. The report cited location, equipment cost, purchase date, depreciation and net book value. This information has not been entered into an asset database so that depreciation and asset values could be calculated annually.

The Department of Finance has taken steps to ensure all central government capital property is duly recorded within the FMS, through the implementation of the Fixed Assets Module. Capital items include land, buildings, infrastructure and personal property that equal to or exceed a \$5,000 threshold (established for GASB reporting).

The module is a subsystem of the current DILOG (FMS) suite. This Fixed Assets system is designed to track capital assets that are placed in service, include the voucher number to track the expenditure (account, cost center and fund), as well as the responsible low-level organization, and the useful life of the assets (see attached data capture frames). Asset condition is also maintained in the module. The system can also accommodate custom reporting to facilitate the need for detailed reports on capital items.

The Fixed Assets Module test system was implemented October 2003; however the information was not transferred to the live system until September 2004. To date all capital items (within the established threshold) purchased up to fiscal year 2003 have been added to the database (see Exhibit 6).

#### Sub-Issue 4.2 – Competitive Procurement

VIDPP disagrees with the audit report’s statement that the “VI’s procurement policy is inadequate.” It is our position that the VI has a functional procurement process that is outlined in the Procurement Manual. A copy of this manual has been provided to all agencies with the expectation that the procedures will be followed. Any deviation noted at VIDE requires a direct response from them.

Additionally, in letter dated September 2, 2004, Mr. Marc A. Biggs, Director of Property and Procurement, of the Government of the Virgin Islands requested a

determination from Mr. Glen Perry, Director, Contracts & Purchasing Operations, U.S. Department of Education, for his determination of whether or not the Virgin Islands Government's Department of Property and Procurement's Official Policy and Procedures Manual satisfies the United States Department of Education's mandate in the Compliance Agreement to implement a complete procurement management process by September 2004. No response was received from Mr. Perry or other official within the U.S. Department of Education. A second letter of request dated September 29, 2004, was sent to Mr. Perry (see Exhibit 1), again, no response was receive.

In letter dated September 30, 2004 (see Exhibit 1), Mrs. Juel T.R. Molloy, Chief of Staff of the Office of the Governor and Co-Chair of the Compliance Agreement Task Force, wrote to Mr. Phil Maestri, CFO, Fiscal Improvement & Post Audit Operations, U.S. Department of Education, requesting a response to the request made by the Director of Property and Procurement of the Government of the Virgin Islands. No response was received from Mr. Maestri or Mr. Perry to this request.

Having no determinations to the contrary, the Government of the Virgin Islands must proceed under the assumption that its Official Policy and Procedures Manual satisfies the United States Department of Education's mandate in the Compliance Agreement.

Recommendation 4.1 Implement the WIN ASSETS II system to account for government-wide inventory for use by all government departments.

Response This has already been done.

Recommendation 4.2 Contract for a security analysis to complete all reasonable steps to secure all property in warehouses, schools, and other locations.

Response We concur. The Virgin Islands Department of Education in conjunction with University of the Virgin Islands has made great strides in providing electronic security to all public schools in the territory. A list of steps taken to address this recommendation follows.

1. A Request For Proposal was advertised on May 17, 2004 to have a complete school security assessment done for all public schools and warehouses in the territory. Alert #1 International Inc. was selected to conduct the risk assessment.
2. The risk assessment was submitted to the Department of Education and the University of the Virgin Islands on August 23, 2004 (see Exhibit 7).

3. Based on the assessment, a Request for Quotations was advertised on November 1, 2004 (see Exhibit 8). The final proposals were submitted on December 20, 2004. We are in the process of evaluating those bids and should select a vendor by January 14, 2005.
4. We expect service to begin on January 21, 2005. The estimated timeframe for completion of the project is 5 to 6 months.

Implementation Date: January 21, 2005

Recommendation 4.3 Work with VIDE to consolidate and/or eliminate multiple approval steps in the requisition and payment process.

Response We concur. This item has been completed. VIDE has been provided with copies of the VI property and procurement policies and manuals. VIDE has developed two procedures to assist in the expediting of the requisitioning and payment processes: 1) Procedures for emergency by-pass authority/option and 2) Procedures for the utilization of Supply Contracts and Central Stores. In addition, by Legislative Act 6533 sec 9(b), VIDE has the authority to purchase up to \$50,000 in materials and supplies without going to the Department of Property and Procurement. This procedure eliminates a step, thus shortening the time needed to process a document.

Implementation Date: September 30, 2003

Recommendation 4.4 Ensure the process of obtaining three bids for each requested item is implemented.

Response VIDE concurs and will do everything possible to abide by this requirement.

Implementation Date: Ongoing

Recommendation 4.5 Determine whether to implement CIMS or VI's WIN ASSETS II inventory system.

Response WIN ASSETS II is the official VI inventory system.

Recommendation 4.6 Determine whether to implement CIMS with FMS, if CIMS is to be used.

Response Not relevant since WIN ASSETS II is the official VI inventory system.

Recommendation 4.7 Clarify and implement its Procurement and Inventory Policy Manual.

Response The Department of Property and Procurement has made enhancements to the government-wide inventory system (WIN ASSETS II) and establishment of policies and procedures to govern that system for the entire government. VIDE has reverted to using the government-wide manual since WIN ASSETS II is the official VI inventory system.

Implementation Date: June 30, 2004