



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

32 Old Slip, 26th Floor

Financial Square

New York, NY 10005

PHONE: (646) 428-3860 FAX: (646) 428-3868

January 30, 2007

Control Number
ED-OIG/A02F0023

Dr. Lauren Larsen
Acting Commissioner
Virgin Islands Department of Education
No. 44-46 Kongens Gade
St. Thomas, VI 00802

Dear Acting Commissioner Larsen:

This **Final Audit Report**, entitled *Virgin Islands Department of Education Administration of the Learning Point Associates Contract*, presents the results of our audit. Our objective was to determine whether the Virgin Islands Department of Education (VIDE) ensured that Learning Point Associates (LPA) adequately met contract deliverables in accordance with the contract prior to payment by VIDE, and complied with applicable laws and regulations, for the period of September 15, 2003, through September 30, 2005.

We provided a draft of this report to VIDE. In its response to our draft, VIDE concurred with the finding and the recommendations. The response is included in its entirety as an attachment to this report.

BACKGROUND

As a result of serious and recurring deficiencies in the administration of various Federally funded programs by the Government of the Virgin Islands (VI), the U.S. Department of Education (ED) designated VIDE as a "high-risk grantee" under 34 C.F.R. § 80.12. Serious deficiencies were found in many key aspects of procurement, financial management, and proper record keeping. Several ED-Office of Inspector General (OIG) audit reports cited numerous weaknesses in management controls over ED programs and funds. ED has worked closely with the VIDE and with other VI government agencies to address these major issues, but the problems could not be corrected by the VI immediately. As a result, ED entered into a comprehensive, three-year Compliance Agreement with the VI on September 23, 2002.

The Compliance Agreement contained four areas of crosscutting issues including: (1) Program Planning, Design, and Evaluation, (2) Financial Management, (3) Human Capital, and (4) Property Management and Procurement. Under Program Planning, Design, and Evaluation, the VI was required to develop a comprehensive, school-based, statewide plan by seeking the

assistance of expert consultants and other grantees to provide hands-on guidance in completing the comprehensive planning process. The VI was required to develop, prepare, and submit to ED a State application in conformance with the requirements of each program for which funds were to be expended.

The expected outcomes were greater site-based authority, enhanced school site-based management, implementation of programs to fit the needs of the individual school population, and to bring the VI into compliance with statutory and regulatory requirements for ED programs.

VIDE entered into a \$7.4 million fixed-price contract with LPA on September 15, 2003, to develop a comprehensive, territory-wide plan to give schools greater site-based authority to determine needs and apply funding; enhance school site-based management through greater community involvement and accountability; implement individual school programs; bring the VI into compliance with requirements for ED programs; and utilize quantitative data for decision-making at the school level. The plan would be based on information derived from each of the territory's 34 schools and the district plans.

The plans were to be updated to reflect changes and improvements in each program year. LPA was to submit to VIDE a monthly interim progress report summarizing accomplishments, status of progress, exceptions to planned activities, a financial report for the reporting period, and any difficulties encountered.

AUDIT RESULTS

VIDE did not ensure that LPA completed contract deliverables in accordance with the contract. Although LPA did complete the contract deliverables, VIDE did not have sufficient controls over its contract with LPA to ensure that the contract deliverables were completed timely, accurately, and prior to payment of LPA invoices. Further, VIDE did not ensure that its contract with LPA contained sufficient Federal guidelines to ensure that contract services were completed in accordance with Federal requirements.

Auditee Comments

VIDE concurred with the findings and recommendations in the draft report. VIDE stated that they had an employee who was responsible for tracking the work of LPA during the contract period, but did not have formal contract administration policies and procedures in place. Further, meetings between VIDE officials and LPA did not include a regular review of the deliverables completed by LPA. The response stated that VIDE will develop a formal Contract Administration Policy and Procedure Manual by June 2007 that will meet the requirements of 34 C.F.R. § 80.40.¹

¹ VIDE contracted with Alvarez & Marsal Public Sector Services, LLC in August 2006 to provide third party fiduciary services in the areas of financial management, procurement, inventory, and asset management.

FINDING – VIDE Did Not Adequately Monitor the LPA Contract

VIDE did not adequately manage its contract with LPA to ensure that the contract deliverables were adequately completed. VIDE had insufficient controls written in the contract, and did not perform sufficient contract monitoring to ensure that contract deliverables were delivered timely, in accordance with the contract, and prior to payment of the LPA invoices. VIDE did not provide documentation to OIG to show that the deliverables were completed by the deadlines contained in the contract. Key employees approved payment of the invoices, but they did not verify that the deliverables were completed before LPA invoices were paid.

34 C.F.R. § 80.40(a) states, “Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity.”

According to the contract, the 13 deliverables included: (1) selecting a planning team; (2) conducting needs assessments for all 34 schools; (3) describing goals and measurable objectives to achieve adequate yearly progress; (4) ensuring instruction by highly qualified teachers; (5) identifying strategies to increase parental involvement; (6) creating strategies to assist preschool children in the transition from early childhood programs; (7) taking steps to include teachers in decisions regarding the use of academic assessments; (8) developing strategies to assist students with academic difficulties; (9) coordinating federal, state, and local services and programs; (10) describing strategies to continually evaluate outcomes of the plan; (11) developing district-wide plans for implementing school-wide plans; (12) developing a state-wide plan for implementing school-wide and district-wide plans; and (13) continuing to assist VIDE in updating school-wide plans.

VIDE had no means to measure the timeliness of the deliverables completed by LPA and could not determine whether the contract deliverables were timely. Further, VIDE had no assurance that the services received were in accordance with the contract.

LPA should have commenced work in August 2003 according to the original implementation plan in the contract.² However, the contract was not executed until September 15, 2003, and LPA started the work later than expected.³ We requested any revised deliverable schedules and implementation plans showing the new dates of completion from VIDE. Despite repeated requests, VIDE did not provide documentation to establish that the deliverable schedules and implementation plans were revised. We were later provided updated implementation plans for the three years of the contract by LPA at the end of our audit.

Initially, VIDE could not provide OIG with documentation showing if the deliverables were completed. OIG performed additional work by obtaining documentation from LPA to determine

² In February 2003, VIDE started the procurement process by issuing a Request for Proposal from eligible bidders. The negotiations with LPA began in May 2003 and were completed in July 2003.

³ ED-OIG report, *The Virgin Islands Is At Risk of Not Meeting the Goals of the September 2002 Compliance Agreement*, ED-OIG/A02-D0028, issued in February 2005, stated that “Due to the late approval of the 2001 grant, VIDE delayed entering into a contract with LPA . . . to develop a comprehensive, territory-wide plan based on the information derived from individual school and district plans.”

that the deliverables were completed. However, we could not determine and VIDE did not provide documentation that showed when the deliverables were completed. As a result, we were unable to determine when the deliverables were actually completed, or whether the deliverables were completed in accordance with the milestones in the contract.

VIDE did not adequately monitor the contract deliverables because it did not have any contract administration policies and procedures in place. Despite the critical importance of the contract deliverables for VIDE's Compliance Agreement with ED, VIDE did not establish procedures to monitor LPA and did not ensure that the LPA contract had sufficient controls and information reporting requirements for VIDE to meet its monitoring obligations. As a result, VIDE had no assurance that the contract deliverables were timely and had no means to measure the timeliness of the deliverables completed by LPA. VIDE had no assurance that the services received were in accordance with the contract. Further, VIDE had no assurance that the \$6.4 million paid to LPA for contract services was spent efficiently in order to improve the territory's educational system.⁴

Recommendations

We recommend that the Assistant Secretary for OESE require VIDE to:

1. Develop and implement adequate contract administration policies and procedures.
2. Ensure that future contracts contain adequate controls and information reporting requirements to permit monitoring by VIDE as required by 34 C.F.R. § 80.40.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to determine whether VIDE ensured that LPA adequately met contract deliverables in accordance with the contract prior to payment by VIDE, and VIDE complied with applicable laws and regulations, for the period of September 15, 2003, through September 30, 2005. We tested to ensure that VIDE complied with 34 C.F.R. § 80.40.

To accomplish our audit objective, we:

- Reviewed the September 15, 2003, contract and the implementation plans between VIDE and LPA;
- Interviewed VIDE officials to obtain an understanding of the payment process for LPA invoices and the monitoring procedures;
- Reviewed LPA invoices and miscellaneous disbursement vouchers;
- Reviewed the school improvement plans;
- Reviewed the monthly interim progress reports and monthly financial reports;
- Reviewed the Continuous Improvement Plans;
- Reviewed the September 23, 2002, VI Compliance Agreement;
- Interviewed school administrators to determine the level of satisfaction with the school plans;

⁴ VIDE has paid LPA \$6.4 million as of June 2006 on the \$7.4 million contract.

- Reviewed the FY 2004 grant application to determine if certain contract deliverables were met;
- Interviewed the LPA project manager; and
- Interviewed officials at the VI Department of Property and Procurement to determine the contract award procedures.

We performed our fieldwork at VIDE and the Department of Property and Procurement on St. Thomas, Virgin Islands between August 2005 and March 2006. We performed a limited review of the internal controls relating to the administration of the LPA contract. Our audit disclosed significant internal control weaknesses that affected VIDE's ability to administer the contract with LPA. Specifically, VIDE did not have adequate controls over contract monitoring to ensure that contract deliverables were completed timely.

VIDE had 15 payment vouchers containing a total of 20 invoices, totaling \$4,278,777 during the period of May 2004 through July 2005. We judgmentally selected and reviewed the 7 largest payment vouchers, encompassing 12 invoices, totaling \$3,580,410.

To complete our audit objective, we relied, in part, on computer processed data from the VI Financial Management System (FMS). We verified the completeness and accuracy of the data by comparing the source records with the computer generated check history inquiry form from the FMS. Based on our testing, we determined that the computer-processed data was reliable for the purpose of our audit.

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

ADMINISTRATIVE MATTERS

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

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

Raymond Simon
Deputy Secretary
U.S. Department of Education
400 Maryland Avenue, SW
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/

Daniel Schultz
Regional Inspector General for Audit

Attachment

Attachment 1: VIDE Response



TEL.: (340) 774-0100

Government of the United States Virgin Islands
Department of Education
Office of Commissioner
1834 Kongens Gade
St. Thomas, U.S. Virgin Islands 00802-6746

FAX: (340) 779-7153

19 December 2006

Daniel P. Schultz
Regional Inspector General for Audit
United States Department of Education
Office of Inspector General
32 Old Slip, 26th Floor
Financial Square
New York, NY 10005

Control Number: ED-OIG/A02F0023

Dear Inspector General Schultz:

First allow me to apologize for the delay in responding to the Draft Audit Report, entitled *Virgin Islands Department of Education Administration of the Learning Point Associates Contract* which was received in my office on November 9, 2006. Shortly after receiving the draft audit report, I was out on sick leave for two weeks. Subsequent to my return, I again became ill and was tremendously slowed down in various areas at work.

Notwithstanding, I would like to acknowledge the extension received for submitting a response to the draft audit report. The Virgin Islands Department of Education entered into a contract with Learning Point Associates (LPA) in September 2003. Due to ongoing negotiations after the contractor was selected, the anticipated start date had to be modified. We concur that we failed to provide the revised timetable for the completion of deliverables based on the revised start time. However, we believe that the information provided later during the audit process regarding the revised timeline for deliverables should be considered when the audit report is being finalized.

With respect to the audit finding – VIDE did not adequately monitor the LPA Contract, we concur. Although we had employed a Compliance Monitor whose responsibility included, among other tasks, tracking the work of LPA during the contract period, we indeed, did not have formalized Contract Administration Policies and Procedures in place to be followed by the employee.

Mr. Daniel P. Schultz
19 December 2006
Page Two

Further, although regular meetings were held between the Project Manager for LPA and the Commissioner of Education regarding progress on the overall contract, as well as regular meetings between the Superintendents and the Project Manager for LPA, we did not follow a specific rubric that resulted in our regular review of deliverables during said meetings.

Thus, we also concur with the recommendations and will make every effort, during the first six (6) months of calendar year 2007, to develop the recommended document – a Contract Administration Policies and Procedures Manual so that we can have adequate controls and meet the information reporting requirements for monitoring contracts as required by 34 C.F.R. section 80.40. The development and implementation of the Contract Administration Policies and Procedures Manual will be the responsibility of the Deputy Commissioner for Fiscal and Administrative Services. We commit to having the Manual developed by 30 June 2007.

We continue to be committed to providing quality educational services to our students and to using all funds, both local and federal, as effectively and efficiently as we can.

Sincerely,



Noreen Michael, Ph.D.
Commissioner

pc: Donna Frett-Gregory, MBA
Deputy Commissioner, Fiscal & Administrative Services

Leslie E. Turner, Esq.
Legal Counsel