



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Audit Services
Region IV

August 17, 2009

Control Number
ED-OIG/A04I0042

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

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

Dear Governor deJongh/Dr. Terry:

This **Final Audit Report**, entitled *Virgin Islands Department of Education's Administration of Property Purchased with Federal Funds*, presents the results of our audit. Our audit objectives were to determine whether the Virgin Islands Department of Education (VIDE) had adequate policies and procedures in place to account for property purchased with U.S. Department of Education (Department) funds; properly accounted for the property purchased; and delivered the property purchased to the appropriate locations. The scope of the audit was Fiscal Year (FY) 2005 grants.¹

BACKGROUND

In 1998, the Department designated the Virgin Islands (VI) a "high-risk" grantee under 34 Code of Federal Regulations (C.F.R.) § 80.12 because of a history of unsatisfactory performance. As a result, on September 23, 2002, the Department entered into a 3-year comprehensive Compliance Agreement with the VI. The Compliance Agreement contained several key components to be satisfied such as Program Planning, Design and Evaluation; Financial Management; Human Capital; and Property Management and Procurement.

¹ VIDE's grants are awarded 2 years behind schedule. As a result, the FY 2005 grant was available for expenditure in FY 2007, or on October 1, 2006.

Under the Property Management and Procurement component of the Compliance Agreement, the VIDE was required to implement an inventory system that complied with Federal regulations. The system was to include steps for tagging, tracking, and delivering to the appropriate location all property purchased with Federal funds within 3 days.

VIDE did not comply with the terms of the Compliance Agreement. As a result, the Department required the VI to hire a third-party fiduciary to manage all grant funds awarded to VIDE. In August 2006, VIDE signed a 32 month, \$7.8 million contract with Alvarez & Marsal Public Sector Services (A&M) to provide the required third-party fiduciary services, starting with the FY 2004 grants.

As the third-party fiduciary, A&M was required to manage property purchased by VIDE with Department funds in excess of \$500 in accordance with the requirements of 34 C.F.R. Using FY 2005 grant funds, A&M processed 1,683 purchase orders totaling \$15,417,380 on behalf of VIDE.

AUDIT RESULTS

VIDE did not have adequate policies and procedures in place and an effective property management system to properly account for property purchased with Department funds. As a result, it did not properly account for property purchased with a total value of \$298,636. We located 319 of 345 items reviewed at the respective locations. As such, VIDE delivered those items to the appropriate locations, however, we could not determine whether the property was delivered in a timely manner and we were unable to locate 4 items valued at \$4,304.²

In addition, A&M did not manage the property purchased by VIDE with Department funds in accordance with contract requirements; and the Government of the Virgin Islands (GVI) did not provide proper oversight of A&M's contract to ensure that it complied with all the contract deliverables.

In its comments to the draft report, GVI stated that VIDE concurred with Finding No. 1 and had implemented corrective measures. In addition, we initially reported 26 items as missing because we were unable to locate them during our audit. In an attachment to GVI's comments, VIDE provided additional documentation accounting for 18 of the 26 items, and provided evidence to support that another 4 had been stolen, leaving 4 items that remained missing. As a result, we revised Finding No. 1 and Recommendation 1.1 to reduce our questioned costs for missing items from \$43,077 to \$4,304. GVI also concurred that the third-party fiduciary did not manage the property pursuant to the contractual agreement. However, it did not concur that it did not provide proper oversight of the third-party fiduciary's contract. GVI provided no additional information to support its assertion that it had provided proper oversight, but rather acknowledged that it did not initially have adequate/dedicated resources to provide the type of oversight necessary for a contract of that

² During our audit, we were unable to locate 26 items valued at \$43,077. In its comments to the draft report, the Government of the Virgin Islands (GVI) provided additional documentation, reducing the number of items that we were unable to locate to 4 items valued at \$4,304. As such, we revised the numbers in finalizing this report based on the documentation provided.

magnitude and scope. As a result, we did not change Finding No. 2 or any related recommendations. GVI's comments are summarized after the recommendations section of each finding. The full text of its comments to the draft report is included as an attachment to the report. Copies of the attachments that were included with the response are available upon request.

FINDING NO. 1 – VIDE Did Not Have Adequate Policies and Procedures to Properly Account for Property

VIDE did not have adequate policies and procedures in place to properly account for property purchased with Department funds. Specifically, we found that VIDE lacked adequate controls over recording inventory; processing shipments; reporting stolen equipment; and safeguarding property. As a result, VIDE did not properly account for \$298,636 of property purchased with Department funds. The lack of adequate controls created opportunities for mismanagement and theft of the property purchased.

The September 23, 2002, Compliance Agreement required VIDE to develop and implement an effective property management system that complied with Federal regulations. Those regulations, contained in 34 C.F.R § 80.32, require that a physical inventory be taken and reconciled with property records every 2 years and that property records be maintained that include a description of the property, serial or other identification number, source, acquisition date, cost, location, and use and condition of the property. The regulations also require that a control system be developed to ensure adequate safeguards to prevent loss, damage, or theft of property.

VIDE did not implement an effective property management system that complied with Federal regulations. As a result, of the 345 items reviewed, VIDE did not properly account for 70 items valued at \$298,636, or 20 percent of our sample. Of the 70 items, 4 were laptops valued at \$4,304 that were missing from the locations we visited, and 66 items valued at \$294,332 were classified as unaccounted property.³ The unaccounted items consisted of 20 items valued at \$13,656 that were recorded as received in the purchase orders but were not recorded in VIDE's inventory records, 9 items valued at \$9,379 that were not recorded in A&M's inventory records, 4 items valued at \$6,380 that were not tagged,⁴ and 33 items valued at \$264,917 for which there were no inventory records. The unaccounted items included laptops, printers, promethean boards, and projectors.

Summary of Missing and Unaccounted Items^{Note 1}

Items	Number of Items	Value
Missing Items	4	\$4,304
Unaccounted Items –		
- Not Recorded in VIDE's Inventory Records	20	\$13,656
- Not Recorded in A&M Inventory Records	9	\$9,379
- Not Tagged	4	\$6,380
- No Inventory Records	33	\$264,917
Total Unaccounted Items	66	\$294,332
Total	70	\$298,636

Note 1: Exhibit 1 details all the missing and unaccounted items and their respective value.

³ We classified all items not properly reconciled to VIDE's and/or A&M's inventory records and items with no inventory records as unaccounted property.

⁴ A property tag is a unique identifying number affixed to each piece of equipment.

Prior to January 2008, VIDE used the procedures contained in the Department of Property and Procurement Manual and United States Virgin Islands Department of Education's Procurement Guidance for Federal Grants. However, these manuals did not contain any guidelines for property and inventory management. VIDE enacted property management procedures in January 2008, but the procedures were inadequate because they did not contain requirements for conducting a physical inventory, maintaining and reconciling property records, reporting stolen equipment, and safeguarding and securing property.

In August 2008, VIDE developed new equipment policies and procedures to further address inventory issues and comply with Federal regulations and local requirements. These included – conducting physical inventories at least once every 2 years; developing adequate procedures to maintain the property in good condition; transferring and disposing of equipment; and reporting stolen, missing, or damaged equipment. However, VIDE has not yet implemented these procedures.

We identified the following issues regarding VIDE's controls over recording inventory; processing shipments; reporting stolen equipment; and safeguarding property. These issues have been identified previously in two prior OIG audits. However, VIDE has not addressed the recommendations from the previous audit reports.

Recording Inventory

VIDE had no central repository of inventory records, and the records it had were inaccurate and not reconciled to property records. In order to determine items ordered, received, and inventoried at the 12 schools and offices selected for review, we had to obtain property records from three different sources – A&M's financial records, A&M's purchase order inquiry reports, and VIDE's warehouse inventory records.

Processing Shipments

VIDE did not have an adequate system in place for processing shipments when they were received in the warehouse. Although the purchased property we located was delivered to the appropriate locations, we found that items received routinely sat on the warehouse floor unattended for long periods of time until a receiving officer processed the shipments; and there was no deadline for recording and tagging the property. A warehouse employee acknowledged that processing shipments was a vulnerable area, especially at the beginning of every school year when the warehouse receives a high volume of goods to supply the schools. The risk of loss is further increased by the issues identified below regarding unreported stolen equipment and the lack of safeguards and security in the warehouse.

Reporting Stolen Equipment

VIDE did not have a policy for reporting stolen equipment and VIDE's new property management procedures, which have not yet been implemented, do not contain requirements for reporting stolen equipment. During our site visit to the VIDE warehouse, we found that the warehouse had not been notified that two laptops had been stolen from a school reviewed. VIDE warehouse officials were unaware that the items had been stolen even though the school had filed a police report. In addition, VIDE did not have a warehouse tracking system to track inventory and property movement between receipt and delivery to the final destination. During our site visits, we were told by officials at two

schools that three laptops had been transferred to the Information Technology (IT) Division for repair. However, VIDE did not have any documentation to verify the transfer. Although we attempted to locate the laptops at the IT Division, we were not able to find them.

Safeguarding Property

VIDE did not have an internal control system to safeguard and secure property. During our visits to the warehouse, we observed non-warehouse personnel accessing the warehouse through a hallway from adjoining offices, using the warehouse as a shorter route to an adjoining parking lot. The unrestricted access exposed property to an uncontrolled number of people. Although VIDE officials indicated that computer equipment was kept in a locked security cage, we found that not to be the case. During a tour of the warehouse, we observed that the security cage was unlocked and accessible to anyone entering the warehouse.



Unlocked security cage at VIDE's warehouse containing electronic equipment

We also noted that the warehouse was in poor condition. It was disorganized, cluttered, and not air-conditioned. The extreme heat increased the risk of damage to computers and other sensitive equipment.

Without complete and accurate inventory records; prompt shipment processing, including recording, tagging, and delivering the property to the appropriate locations; procedures for reporting stolen equipment and tracking inventory; and proper safeguarding of property, the property purchased with Department funds is at risk of being lost, stolen, or damaged.

Recommendations:

We recommend that the Assistant Secretary for the Office of Elementary and Secondary Education (OESE) require VIDE to –

- 1.1 Account for all the missing items, or return to the Department \$4,304 for the value of the property;
- 1.2 Implement adequate controls to ensure that property purchased with Department funds is properly and accurately recorded;
- 1.3 Conduct a full physical inventory, establishing the total cost of lost property and reconciling the results with property records to ensure that all property is accounted for;
- 1.4 Return to the Department funds equal to the value of all property unaccounted for after the completion of a full physical inventory;
- 1.5 Develop and implement policies and procedures for promptly processing shipments received in the warehouse;
- 1.6 Implement a policy for reporting stolen equipment to the appropriate authorities;
- 1.7 Implement a warehouse tracking system; and
- 1.8 Implement internal controls to safeguard and secure property in a suitable environment.

GVI Comments

GVI responded that VIDE concurred with our finding and had implemented corrective measures. Specifically, GVI stated that

1. VIDE accounted for \$32,692, or 18 of the 26 items valued at \$43,077. Of the remaining 8 items, 4 items valued at \$6,081 were stolen and 4 items with an aggregate value of \$4,304 could not be located.
2. In FY 2008, VIDE implemented its “Property, Procurement, and Auxiliary Services Standard Operating Procedures Manual” providing guidance and direction in the proper handling of inventory.
3. VIDE was conducting physical inventories at all schools and upon completion, the results would be reconciled with the property records.
4. Upon completion of the inventories, VIDE would have an assessment of the value of the property that could not be accounted for, so the GVI could have a better determination about returning funds to the Department and/or explore other feasible options or arrangements that are mutually agreeable to both parties, in order to address recommendation 1.4. Further, GVI stated that it intended to complete the physical inventory every 2 years in accordance with EDGAR.
5. VIDE developed and implemented a policy/procedure for the distribution of equipment received by its Division of Property, Procurement, and Auxiliary Services. VIDE is attempting to process all items within 5 days of arrival at the warehouse – inventoried, tagged, and delivered

to the designated locations, to ensure that items are processed and distributed to each school on a weekly basis.

6. VIDE implemented a policy for reporting stolen equipment to the appropriate authority.
7. VI addressed tracking equipment in its Equipment Distribution and Location Policy and its Property, Procurement, and Auxiliary Services Standard Operating Procedures. The weekly warehouse delivery schedule was also updated/revised.
8. VIDE fully implemented a security system that provides surveillance and monitoring services with cameras and monitors for all schools and warehouses in all districts. In addition to the security system, padlocks were provided for the warehouse gates, and VIDE identified responsible persons in charge of ensuring that the gates are locked and secured. Further, a security guard was stationed at the warehouse in St. Thomas and St. Croix, and VIDE was going to hire a locksmith to configure the security gates of both warehouses so that they both close and lock automatically.

OIG Response

We revised the finding and recommendation 1.1 to reduce our questioned costs from \$43,077 to \$4,304 to adjust for the 18 items that VIDE located valued at \$32,692 and the 4 items that were stolen valued at \$6,081. However, despite GVI's assertion that VIDE had implemented corrective actions to address our concerns, we did not modify the remaining recommendations based on the following information.

According to an A&M representative, there are issues developing in the current inventory scanning process and the information was not reconciling. He stated that the warehouse manager is e-wasting⁵ property, but it does not appear that the property is always being scanned before removal from the warehouse, which may be affecting the inventory; and the warehouse manager is not tagging all new assets. He stated that he intends to go back and re-inventory to get a good credible starting point for the property on hand.

In addition, we are not convinced that adequate controls have been implemented to address our concerns for proper safeguarding of property purchased with Department funds. For example, GVI stated that VIDE had fully implemented a security system that included locked gates, a monitored surveillance system, and a security guard stationed at the warehouse. However, the A&M representative stated that he routinely passes by the warehouse and that the gates are not locked; the surveillance system is not monitored; and the security guard routinely naps in the back. Without adequate safeguards in place, we maintain that property remains at risk of being lost, stolen, or damaged.

FINDING NO. 2 – The Third-Party Fiduciary Did Not Manage Property in Accordance with its Contractual Requirements

VIDE's third-party fiduciary, A&M, did not manage the property purchased by VIDE with Department funds in accordance with its contractual requirements. In addition, the VI government did not provide proper oversight of the third-party fiduciary contract to ensure that A&M complied with all the contract deliverables.

⁵ E-waste is disposal of property and removal from the islands.

According to 34 C.F.R. § 80.32, a control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Further, any loss, damage, or theft shall be investigated. In its contract with VIDE to provide third-party fiduciary services, A&M was required to manage property valued at \$500 or more in accordance with the requirements of 34 C.F.R. However, A&M did not develop a property management system to ensure that equipment purchased on behalf of VIDE with Department funds was properly managed and, as such, did not adhere to the requirements of 34 C.F.R. Instead, A&M allowed VIDE to continue to manage property in the same manner as VIDE had done prior to the A&M contract.

The purpose of the third-party fiduciary contract was to provide greater accountability of Department funds awarded to VIDE, a designated high-risk grantee. In addition, VIDE had been cited in two prior audits from the Department for having almost \$3 million in missing inventory. Therefore, A&M should have exercised greater prudence to ensure that it fulfilled its contractual requirements. Allowing VIDE to continue the same practices that occurred prior to the third-party fiduciary contract defeated the purpose of the contract and was contrary to the goals of the Department. As a result, equipment purchased with Department funds remained subject to the same level of increased risks of theft, abuse, and misuse that occurred prior to the third-party fiduciary contract.

Further, GVI was responsible for contract oversight, having established the contract with A&M. As such, GVI was responsible for ensuring that A&M complied with all contract deliverables. Although VIDE officials had raised concerns regarding the oversight of the third-party fiduciary contract, GVI did not provide the proper oversight of the contract to ensure that all deliverables were met, including those related to property management. As a result, the contractor did not manage the property in accordance with contract requirements and did not ensure that property purchased with Department funds was properly accounted for, as detailed in Finding No. 1.

Recommendations:

We recommend that the Assistant Secretary for OESE require the GVI to –

- 2.1 Ensure that A&M and any future third-party service providers implement property and inventory management procedures that comply with 34 C.F.R; and
- 2.2 Properly monitor future third-party contracts to ensure that all deliverables are met.

GVI Comments

GVI responded that it concurred that the third-party fiduciary did not manage the property pursuant to the contractual agreement. However, GVI added that the third-party fiduciary's response to the draft report 1) contended that it made significant efforts to achieve the deliverable and any failure to fully achieve it was not for lack of effort; 2) suggested that there was uncertainty within GVI regarding the third-party fiduciary's role in establishing property management policy; 3) noted that it provided consultative input regarding the current on-going physical inventory; 4) committed to working closely with VIDE to ensure the accuracy of the inventory and the fiduciary's role in establishing property management policy; and 5) indicated that it intended to fully satisfy the contract deliverable before the end of the contractual engagement.

GVI did not concur that it did not provide proper oversight of the third-party fiduciary's contract. However, GVI acknowledged that it did not initially have adequate/dedicated resources to provide the type of oversight necessary for a contract of that magnitude and scope. According to GVI, circumstances beyond its control precluded it from ensuring the third-party fiduciary's compliance with all of the contract deliverables. GVI added that it expended a significant amount of effort and time addressing contractual requirements. GVI stated that from the inception of the contract, it had concerns about the contract language, which was overly broad, ambiguous, subject to different interpretations, and contradictory in some parts. This led to disagreements between GVI and the third-party fiduciary, which required the Department to resolve disputes. According to GVI, the disputes were not resolved in a timely manner. GVI stated that it hired a Project Manager and dedicated 2 positions in its commitment to improving the compliance monitoring process.

OIG Response

GVI provided no additional information to support its assertion that it had provided proper oversight. Although GVI recently added a Project Manager and two additional positions to monitor contract compliance, GVI acknowledged that it did not initially have adequate/dedicated resources to provide the type of oversight necessary for a contract of that magnitude and scope. As a result, we did not change Finding No. 2 or any related recommendations.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objectives were to determine whether VIDE-St. Thomas properly accounted for property purchased with Department funds, had adequate policies and procedures in place to account for the property purchased, and delivered the property purchased to the appropriate locations. The scope of the audit was FY 2005 grants. We performed our fieldwork at VIDE in St. Thomas and St. John between April 2008 and March 2009.

We selected a judgmental sample of 22 purchase orders⁶ valued at more than \$3,500 totaling \$635,410 obtained from A&M's financial records to determine whether VIDE had adequate inventory controls. From this sample, we reviewed items valued at more than \$250 and computer monitors and digital cameras valued at more than \$150, consisting of a total of 345 property items.⁷ In addition, we reviewed the shipment of the property that was received at the beginning of the 2007 school year (between July and October), consisting of 68 items from 11 of the 22 sampled purchase orders, to determine whether the property purchased was delivered to the appropriate locations.⁸

We conducted site visits to 17 schools (15 in St. Thomas and 2 in St. John); the administrative offices of Special Education; the Office of Planning, Research, and Evaluation; and the Office of

⁶ The purchase orders judgmentally selected were based on information that came to our attention during the audit.

⁷ VIDE and A&M did not reconcile inventory and receipt information and did not maintain complete inventory information for the purchase orders. As a result, the exact amount of property received could not be determined and verified with total accuracy.

⁸ The value of the equipment purchases on the 11 purchase orders totaled \$87,661.

Curriculum, Assessment, and Technology, to determine whether VIDE delivered the equipment to the appropriate locations.

To complete our audit objectives, we –

- Interviewed VIDE’s Deputy Commissioner of Fiscal and Administrative Services, the Director of Federal Grants, the Federal Grants Manager, the Director of Business Affairs, the Director of Property, Procurement, and Auxiliary Services, the Territorial Procurement Specialist, the Warehouse Manager, and receiving officers to determine the property management procedures and inventory system used by VIDE;
- Reviewed VIDE’s property and inventory management procedures for equipment purchased with Department funds to determine whether those procedures were adequate to protect the equipment purchased;
- Reviewed the property management procedures that A&M developed to determine whether they had implemented a property and inventory system, as required under its contract with VIDE;
- Interviewed A&M officials to determine the property management procedures used in accounting for property purchased with Department funds;
- Reviewed financial reports provided by A&M to determine the type of equipment purchased, cost, quantity ordered, and amount received;
- Reviewed purchase order inquiry reports from A&M’s financial management system to determine the items and amount received for each purchase order line item;
- Obtained inventory records from VIDE to determine the content of property records and the location of the equipment;
- Conducted site visits to verify whether the equipment was delivered to the appropriate locations;
- Verified the equipment, property tag numbers, and serial numbers, to determine whether they agreed with VIDE’s inventory records;
- Obtained signed copies of the receiving reports from the schools and offices to determine the date the property was received; and
- Visited VIDE’s IT Division to verify whether property was at the location for repair.

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

ADMINISTRATIVE MATTERS

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

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

Thelma Melendez
Assistant Secretary
Office of Elementary and Secondary Education
U.S. Department of Education
400 Maryland Ave., 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/

Denise M. Wempe
Regional Inspector General
for Audit

Exhibit 1

Missing Items

Item	Quantity	Unit Cost	Total Cost
Lenovo Laptop (15")	1	1,319	1,319
Lenovo - Think Pad Notebook	3	995	2,985
Total	4		\$ 4,304

Unaccounted Items

Item	Quantity	Unit Cost	Total Cost
Laptop (1GB)	20	\$ 550	\$ 11,000
Laptop	1	1,197	1,197
HP Desktop Computer	3	649	1,947
HP Printer- Color Laserjet 3800	1	1,003	1,003
2000 Data Projector	7	995	6,965
Epson Projector	1	2,889	2,889
Scanner	4	280	1,120
Promethean Boards and Support Equipment	33	Varied	264,917
Activote	4	1,595	6,380
Micronet Platinum NAS 2.0	2	1,207	2,414
Total	66		\$ 294,332

Exhibit 2

Acronyms/Abbreviations Used in this Report

A&M	Alvarez & Marsal
C.F.R.	Code of Federal Regulations
Department	United States Department of Education
GB	Gigabytes
GVI	Government of the Virgin Islands
IT	Information Technology
OESE	Office of Elementary and Secondary Education
VI	Virgin Islands
VIDE	Virgin Islands Department of Education

Exhibit 3



THE UNITED STATES VIRGIN ISLANDS

OFFICE OF THE GOVERNOR
GOVERNMENT HOUSE

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

July 7, 2009

Ms. Denise M. Wempe
Regional Inspector General for Audit
United States Department of Education
Office of the Inspector General
61 Forsyth St., Room 18T71
Atlanta, GA 30303

Dear Ms. Wempe:

The purpose of this correspondence is twofold. First, we thank you for the extensions granted (until Tuesday, July 7, 2009) to the Government of the U. S. Virgin Islands ("GVI") to respond to the United States Department of Education's draft audit report "Virgin Islands Department of Education's Administration of Property Purchased with Federal Funds," Control Number Ed-OIG/A04I0042. GVI is in receipt of new Special Conditions for education grants for which the third party fiduciary has oversight responsibilities, and finds itself in a position of not only trying to expedite negotiation of a new third party fiduciary contract, but also having to re-negotiate/amend the existing third party contract to address this and related matters. The U. S. Department of Education has required that the new Special Conditions be implemented immediately and we are grappling with this most recent challenge to avoid any delayed receipt of funding including the State Fiscal Stabilization Funds which impact the Territory's FY 2009 and 2010 Budgets, and must be formally applied for by August 1, 2009.

Secondly, transmitted herewith is our response (Exhibit I) to the aforementioned draft audit report. The Territory is cognizant of the importance of securing and safeguarding all assets, including those procured with funds awarded by the U.S. Department of Education (USED); and appreciates the insight and recommendations provided by USED's Inspector General. We look forward to holistically addressing matters relating to property management and procurement with the current and future third party fiduciaries, and once again thank you for your input which will assist us in our efforts to enhance, improve, and strengthen our practices in this area.

Sincerely,

John P. de Jongh, Jr.
Governor

Attachments

GVI Draft Response

to

Draft Audit Report by U.S. Department of Education's Inspector General
Virgin Islands Department of Education's Administration of Property Purchased with Federal Funds
Control Number ED-OIG/A04I0042, dated May 18, 2009.

FINDING #1: NO ADEQUATE POLICIES AND PROCEDURES TO PROPERLY ACCOUNT FOR PROPERTY

VIDE did not have adequate policies and procedures in place to properly account for property purchased with Department funds. Specifically, we found that VIDE lacked adequate controls over recording inventory; processing shipments; reporting stolen equipment; and safeguarding property.

Recommendations (V. I. Department of Education (VIDE)):

1. Account for all the missing items, or return to the Department \$43,077 for the value of the property.
2. Implement adequate controls to ensure that property purchased with Department funds is properly and accurately recorded.
3. Conduct a full physical inventory, establishing the total cost of lost property and reconciling the results with property records to ensure that all property is accounted for.
4. Return to the Department funds equal to the value of all property unaccounted for after the completion of a full physical inventory.
5. (a) Develop and (b) implement policies and procedures for promptly processing shipments received in the warehouse.
6. Implement a policy for reporting stolen equipment to the appropriate authorities.
7. Implement a warehouse tracking system.
8. Implement internal controls to safeguard and secure property in a suitable environment.

Government's Response

VIDE concurs and will implement and/or has implemented the following corrective measures. Additionally, VIDE will collaborate with the V. I. Department of Property and Procurement (VIP&P) and will utilize VIP&P's updated forms (e.g. Report of Survey, Missing or Stolen Property Report, etc.) and its expertise in this area. Similarly coordination would be essential between applicable parties and the current and/or future third-party fiduciary.

Corrective Action – V. I. Department of Education (VIDE)

1. VIDE has accounted for \$32,692.22 or 18 of the 26 items valued at \$43,077. The disposition of the remaining eight (8) items is as follows: Four (4) items valued at \$6,081.00 were stolen and four (4) items with an aggregate value of \$4,304.00 cannot be located. Upon completion of the overall physical inventory, VIDE should be in a better position to address the remaining items that are currently unaccounted for (See Attachment I).
2. In FY 2008, VIDE implemented using its "Property, Procurement and Auxiliary Services Standard Operating Procedures (SOP) Manual," which provides guidance and direction in the proper handling of inventory. The manual addresses the following areas: (a) Equipment Policies and Procedures, (b) Physical Inventory, (c) Transfer of Equipment, (d) Disposition of Equipment, and (e) Stolen, Missing or Damaged Equipment (See Attachment II).
3. VIDE is currently conducting physical inventories at all schools. In accordance with VIDE's SOP for its Property, Procurement and Auxiliary Services, upon completion of the physical inventories the results will be reconciled with the property records.
4. VIDE is aggressively pursuing completion of the physical inventories referenced in #3 above. Upon completion of the inventories, VIDE will have an assessment of the value of property that cannot be accounted for, and the Government of the U.S. Virgin Islands (GVI) can make a better determination about returning funds to the U.S. Department of Education and/or exploring other feasible options or arrangements that are mutually agreeable to both parties, in order to address this recommendation (Recommendation #4 – Finding #1). Further, it is GVI's intention to complete the physical inventory every two (2) years in accordance with EDGAR.

5. VIDE has developed and implemented (effective November 1, 2008) a policy/procedure regarding the distribution of equipment received by its Property, Procurement and Auxiliary Services (See Attachment III). To ensure that items are processed and distributed to each school on a weekly basis, VIDE endeavors to process all items within five-days of arrival at the warehouse – inventoried, tagged, and delivered to the designated locations.
6. VIDE has implemented a policy for reporting stolen equipment to the appropriate authority. The policy which is entitled Lost or Stolen Items Policies and Procedures was revised as of June 2009 and requires notification to the Virgin Islands Police Department, in addition to VIDE's Division of Property, Procurement and Auxiliary Services units. Further, the policy is also included in VIDE's "Property, Procurement and Auxiliary Services SOP Manual," under the caption Stolen, Missing or Damaged Equipment which begins on page 4 of the aforementioned manual.
7. VIDE addresses tracking equipment in its Equipment Distribution and Location Policy (Attachment III – Memorandum dated October 15, 2008 and effective November 1, 2008) and in its Property, Procurement and Auxiliary Services Standard Operating Procedures (Attachment II – IV Distribution). The weekly warehouse delivery schedule was also updated/revised as of June 2009.
8. VIDE has fully implemented a security system. The system provides 24 hours surveillance and monitoring services with CCTV cameras and monitors for all schools and warehouses in all districts (St. Thomas/St. John District; St. Croix District) on all three (3) islands. In addition to the security system, padlocks had already been provided for the warehouse gates, and VIDE has identified responsible persons who are charged with ensuring that the gates are locked and secured. Further, a security guard is stationed at the warehouses, and no thefts have occurred from these locations. However, to further strengthen its controls to safeguard its assets, VIDE will also hire a locksmith to configure the security gates for both warehouses so that they will both close and lock automatically.

Recommendation No.	Implementation Date	Due Date	Responsible Party (primary party in bold)
			Commissioner, Department of Education and:
1	Attachment I	09/30/09	Assistant Commissioner, VIDE Directors-Property, Procurement & Auxiliary Services, VIDE
2	FY 2008 & on-going	N/A	Assistant Commissioner, VIDE Directors-Property, Procurement & Auxiliary Services, VIDE Deputy Commissioner for Property, VIDP&P Third Party Fiduciary
3	FY 2009 WIP	09/30/09	Assistant Commissioner, VIDE Directors-Property, Procurement & Auxiliary Services, VIDE Deputy Commissioner for Property, VIDP&P Third Party Fiduciary
4	N/A	TBD	Assistant Commissioner, VIDE Directors-Property, Procurement & Auxiliary Services, VIDE
5a	11/01/08	N/A	Assistant Commissioner, VIDE Directors-Property, Procurement & Auxiliary Services, VIDE Third Party Fiduciary
5b	11/08 & on-going	N/A	Assistant Commissioner, VIDE Directors-Property, Procurement & Auxiliary Services, VIDE
6	06/2009 & on-going	N/A	Assistant Commissioner, VIDE Directors-Property, Procurement & Auxiliary Services, VIDE Insular Superintendents, VIDE Deputy Commissioner for Property, VIDP&P Third Party Fiduciary
7	11/01/08 & on-going	N/A	Assistant Commissioner, VIDE Directors-Property, Procurement & Auxiliary Services, VIDE Deputy Commissioner for Property, VIDP&P Third Party Fiduciary
8	5/19/08 & on-going	9/30/09 Security gate	Assistant Commissioner, VIDE Directors-Property, Procurement & Auxiliary Services, VIDE Insular Superintendents, VIDE Third Party Fiduciary

N/A – not applicable

WIP – work in progress

TBD – to be

determined/decided

(Attachment V – P&P forms)

FINDING #2: PROPERTY NOT MANAGED IN ACCORDANCE WITH CONTRACTUAL REQUIREMENTS

VIDE’s third party fiduciary did not manage the property purchased by VIDE with Department funds in accordance with its contractual requirements. In addition, the VI Government did not provide proper oversight of the third party fiduciary contract to ensure that the third party complied with all the contract deliverables.

Recommendations (Government of the Virgin Islands (GVI)):

1. Ensure that the current third party fiduciary and any future third party service providers implement property and inventory management procedures that comply with 34 C.F.R.
2. Properly monitor future third party contracts to ensure that all deliverables are met.

Government’s Response

The V. I. Office of Management and Budget (VIOMB) proffers the following response, on behalf of GVI, while recognizing that there were extenuating circumstances beyond the parties’ control.

Addendum 1 (Statement of Work) of the contract executed on August 25, 2006 between the Government of the Virgin Islands and the Third Party Fiduciary required the Third Party Fiduciary to provide services that included the following: (i) Identify a methodology to periodically monitor fixed assets inventory previously procured by the VI grantee agencies as well as assets acquired during the term of this contract, (ii) Identify and implement improved approaches, if necessary, to physically secure fixed assets; (iii) Manage property procured under the USDE grants, with a purchase price of \$500 or greater, in accordance with the requirements of 34 CFR 80.32(a) and (c)-(g). Accordingly, GVI concurs that the third party fiduciary did not manage the property pursuant to the contractual requirements. However, the third party fiduciary: (a) contends that it “made significant efforts to achieve this deliverable and any failure to fully achieve it was not for lack of effort”; (b) suggests that there was uncertainty within GVI regarding the third party fiduciary’s role in establishing property management policy; (c) notes that it is providing consultative input regarding the current on-going physical inventory which will culminate in a reconciliation of assets to the system; (d) commits to working closely with VIDE’s designee to ensure the accuracy of the final inventory number; (e) notes that it has implemented the inventory module from Tyler Munis and looks forward to reconciling the federally funded assets with VIDE’s physical inventory list; (f) further notes that it has developed a program that lists all purchases over \$500; and (g) indicates its intent to fully satisfy this contract deliverable before the end of the contractual engagement in 2009.

The Government of the Virgin Islands (GVI) does not concur that it did not provide “proper” oversight of the third party fiduciary contract. While there were circumstances beyond GVI’s control that precluded GVI from ensuring the third party fiduciary’s compliance with all of the contract deliverables, GVI expended a significant amount of effort and time addressing contractual requirements and matters germane thereto.

GVI entered into a contract with a third party fiduciary to ensure the continuity of federal funds to the Territory for educational purposes for the children of the Virgin Islands. The U. S. Department of Education (USED) was instrumental in developing the language for the contract. From inception, GVI had concerns about the contract language which was overly broad, ambiguous, subject to different interpretations and contradictory in some parts. This led to disagreements between GVI and the third party fiduciary; and pursuant to the terms of the contract, USED was contacted to resolve the disputes. Weekly conference calls were held to address various matters; however, responses received were generally not timely, and for a period of time the conference calls were discontinued. GVI reduced its major issues to

writing (see Attachment VI) to USED, but the response to GVI was not timely. GVI hired a Project Manager, albeit not at the beginning of the process. GVI is prepared to house some third party fiduciary staff within VIDE, and is committed to improving the compliance monitoring process. Two positions, one of which already exists, have been identified for this purpose. Funds will be needed to address the cost of the other position.

In short, the Government of the Virgin Islands (GVI) has spent a significant amount of time and effort addressing third party fiduciary and/or compliance agreement matters. Thus, while we agree that GVI did not initially have adequate/dedicated resources to provide the type of oversight that should be necessary for a contract of this magnitude and scope (e.g. broad & encompassing scope), oversight was provided within the constraints of the resources that were available to the Territory of the U. S. Virgin Islands on a timely basis.

Additionally, GVI will implement and/or has implemented the following measures to enhance and strengthen its monitoring/oversight third party fiduciary responsibility.

Corrective Action – V. I. Office of Management and Budget (VIOMB)

1. GVI/VIOMB will hire a Project Manager to replace the individual who recently held the position. GVI will also utilize the contract negotiation process to focus on property and inventory management as a key area, and work closely with its Department of Property and Procurement, VIDE, etc. to meet separately with the future and the current third party fiduciaries to ensure compliance with local and federal procurement requirements. If technical assistance is needed from the U. S. Department of Education on this issue, GVI will also pursue that avenue and request a similar forum for a meeting/discourse between USED and GVI and the applicable third party fiduciary. As an outgrowth of these sessions (e.g. meetings, workshops), GVI hopes to develop a tool for the Project Manager to monitor compliance. GVI/VIOMB would also like to explore having some third party fiduciary staff working out of VIDE, in addition to the Project Manager working out of VIDE and/or spending the majority of his or her time in the field at various VIDE sites for monitoring purposes.
2. In addition to the Project Manager referenced in #1 above, GVI/VIOMB would like to bring on board a Contract/Compliance Monitor who would be housed in VIOMB and would work closely with the Project Manager, etc. to holistically address monitoring of all deliverables in third party fiduciary contracts and the compliance agreement, in order to bring the U. S. Virgin Islands in substantial compliance with the terms of the Compliance Agreement and out of high risk status. Funds would be needed to cover the cost of this position. A similar forum utilizing the heads of applicable GVI departments to address other key fiduciary contractual requirements/compliance agreement performance measures would be used to conduct meetings and workshops with the third party fiduciary team and generate a mechanism/tool for regularly monitoring compliance with contractual deliverables, many of which are also tied to key issues of performance within the aforementioned Compliance Agreement.

Due Date:

4th quarter FY 2009 – 2nd quarter FY 2010 & on-going

Responsible Party(ies):

Director - Office of Management and Budget, Commissioner - Department of Education, Commissioner - Department of Property and Procurement, Project Manager (VIOMB/VIDE) & Contract/Compliance Monitor (VIOMB); applicable GVI Dept. Heads