



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

JUL 17 2001

THE INSPECTOR GENERAL

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

Dear Governor Turnbull:

This *Final Audit Report* (Control Number ED-OIG / A04-B0013) presents the results of our audit of the Virgin Islands Department of Education, Special Education Payroll.

We reviewed management controls over payroll processing, and the distribution of payroll checks and direct deposit warrants for Special Education employees. Our audit covered the period January 1998 through June 2000.

AUDIT RESULTS

Our audit revealed the following weaknesses in the management controls over payroll processing and the distribution of payroll checks and direct deposit warrants for Special Education employees:

- VIDE did not maintain adequate documentation over employee time and attendance and payroll processing.
- VIDE did not maintain adequate controls over the distribution of payroll checks and direct deposit warrants.
- VIDE did not maintain adequate controls to assure employees did not receive leave in excess of their accrued balances.

The Virgin Islands concurred with our findings and recommendations in written comments and in subsequent conversations with VI officials. Their written comments are provided as an Attachment to the report.

We discuss these findings and our recommendations below.

Finding No. 1 – VIDE did not maintain adequate documentation over employee time and attendance for payroll processing.

Our review of the Special Education payroll process revealed a lack of documentation for payroll costs, and a failure to consistently maintain time and attendance records. IDEA, Part B grantees are required to maintain proper accounting records and source documentation for all costs charged to the grant, including payroll. The Department's regulations state at 34 CFR §80.20:

(a) A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as subgrantees...must be sufficient to:

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and*
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.*

We reviewed 10 separate payrolls from the period between January 1, 1998 and June 15, 2000. There were 186 Special Education employees' salaries charged to the grant during this period. Our review encompassed the entire payroll process, including: source documentation, time and attendance records, data input, and all aspects of record keeping pertaining to payroll processing.

There were two major categories of payroll deficiencies.

- VIDE personnel at schools and offices failed to maintain source documentation for payroll, including the employee bi-weekly time sheets; and they did not always properly complete and certify the bi-weekly time sheets that were maintained.
- Numerous differences existed between the various source documents for payroll costs.

Specifically we noted:

- The bi-weekly employee time sheets and other payroll documentation did not always agree.
- Employee bi-weekly time sheets could not be located at some schools and offices.
- Employees did not properly complete time sheets; some time sheets were left blank, or unsigned.
- Copies of the bi-weekly payroll time and attendance records were not available at all schools and offices.

- Employees did not always work at the school shown in the payroll records.
- The Division of Finance in St. Thomas did not send a copy of the Hours Entry Control Log to the St. Croix Payroll Office for 2 of the 10 pay periods that we reviewed. The Hours Entry Control Log is the primary source document for the Payroll Register.

Many of the discrepancies found between employee bi-weekly time sheets, time and attendance records, and official payroll documents were caused by employees taking paid leave that they had not accrued. When paid leave was taken and recorded, the Payroll Office staff at the time of data input verified through the computerized data entry system that the employee had enough accrued leave to cover the time off. If the accrued leave was not sufficient, the employee was charged UPT, or unpaid time. The payroll register would then reflect unpaid time. However, the employee's time and attendance records would show that the employee had taken paid leave.

We visited two VIDE offices and four schools in St. Thomas, and one VIDE office and six schools in St. Croix. During our site reviews at schools and offices, we attempted to compare the copies of on-site payroll time and attendance rosters and individual employee bi-weekly time sheets to the payroll documentation previously scheduled.

The majority of the Special Education payroll problems occurred in the schools and offices that did not maintain adequate documentation for the hours worked by Special Education teachers and staff. During the site reviews at schools and VIDE component offices, we found that employee time sheets were missing or not signed by the employees, the supervisor, or both. Other employees' time sheets were blank, or only showed paid time-off hours.

The errors and missing documentation may have occurred because the VIDE has not provided the payroll offices or the schools and offices with a standardized procedures manual for recording and maintaining employee time and attendance, and processing the payroll documents. The forms and methods used to record time and attendance varied among the schools and offices we visited. The VIDE has not emphasized the importance of payroll documentation and record-keeping for its schools and offices. Therefore, each school was left to devise its own records and forms.

Additionally, the Division of Finance in St. Thomas did not always send the Hours Entry Control Log to St. Croix along with the payroll checks, direct deposit warrants, and the Time and Attendance Roster. The St. Croix Payroll Office Director stated that approximately five times a year St. Thomas does not send the log.

The Hours Entry Control Log was the primary backup documentation for the Bi-weekly Payroll Register. This documentation is essential for the Payroll Office staff in St. Croix to verify employee wages, cost centers charged, supplemental salary, and leave accrued and used. Without the Hours Entry Control Log the functions of the St. Croix Payroll Office were hampered.

According to 34 CFR §80.20(b)(6) the financial management systems of grantees must meet a standard for source documentation. “Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records....”

Without payroll documentation, such as fully completed and certified employee bi-weekly time sheets, we do not have complete assurance that payroll charges were accurate, or were paid to employees who worked on the IDEA, Part B grant.

Recommendation:

We recommend the Assistant Secretary for Special Education and Rehabilitative Services require VIDE to:

1.1 Establish standard written procedures for Payroll Offices, schools and VIDE offices. At a minimum, the procedures should include:

A requirement for the two payroll offices to input time and attendance data within set time periods, and in the same format.

A requirement that all schools and offices retain copies of employees’ Payroll Time and Attendance forms.

A requirement that schools and offices establish and maintain standardized individual bi-weekly time and attendance sign-in sheets certified by both the employees and supervisors.

A requirement that time distribution records for employees who work on more than one program and have a portion of their salary charged to a federal program be maintained, in accordance with OMB Circular A-87, Attachment B, §11.

The Virgin Islands concurred with our finding and recommendation. Their comments are provided as an Attachment to the report.

FINDING NO. 2 –VIDE did not maintain adequate controls over the distribution of payroll checks and direct deposit warrants.

The schools and VIDE offices did not have proper controls over the payroll check and direct deposit warrant distribution process. Employees picked up payroll checks, or direct deposit warrants for co-workers, but did not provide any authorization letters that allowed such actions. However, school administrative personnel assured us that such written authorizations were a requirement. The Department’s regulations state at 34 CFR §80.20(a) that a state must account for grants funds in accordance with its own laws and procedures.

At a school in St. Thomas, we observed that the administrative staff did not consistently require employees to provide written approval for picking up other staff members’ payroll checks or

direct deposit stubs. One employee was denied access to another employee's payroll check, due to lack of written authorization. However, another employee picked up direct deposit stubs for several employees and a third employee picked up payroll checks for other employees. Neither employee provided any authorization or written consent.

At one VIDE office, employees picked up their payroll checks and direct deposit warrants without signing any distribution or control list.

We also noted that some employees waited almost until the 6-month expiration date before they picked up their payroll checks. The school staff did not require employees to pick up their payroll checks within a certain time frame.

Two employees had not claimed and negotiated payroll checks as of November 2000. One check, issued on January 13, 2000, was for an employee who died in May 2000. The other check was issued on September 19, 1999, to a valid VIDE employee. VI Finance did not routinely determine whether checks were outstanding.

Some employees did not pick up their direct deposit warrants on a timely basis because their pay was deposited directly into their bank accounts. From the initial day of distribution, the unclaimed direct deposit warrants for nine of 38 employees were placed into an unlocked drawer. The direct deposit warrants had not been claimed 6 days later, and were in the same unlocked drawer.

These examples of inadequate controls over payroll distribution occurred because the VIDE has not provided the schools and offices with standardized procedures for distributing payroll checks and direct deposit warrants. Each school and office was allowed to develop its own method for distributing payroll documents and safeguarding unclaimed payroll checks and direct deposit warrants.

The Department's regulations state at 34 CFR §80.20(b):

(2) Internal Control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

The lax internal controls in the payroll distribution process could lead to loss, theft or fraud involving payment of IDEA, Part B grant funds.

Recommendations:

We recommend the Assistant Secretary for Special Education and Rehabilitative Services require:

- 2.1 VIDE to establish formal written procedures for the distribution of payroll checks and direct deposit warrants at schools and VIDE offices. At a minimum the procedures should include:

A requirement for employees to provide written approval for picking up other staff members' payroll checks or direct deposit warrants.

A requirement that payroll checks and direct deposit warrants be distributed only during a set period. Additionally, any unclaimed checks and direct deposit warrants should be delivered to the employee, returned to VIDE Payroll for further processing, or returned to VI Payroll.

- 2.2 VI Finance to routinely reconcile checks issued with checks negotiated and act to void the checks after a specific period.

The Virgin Islands concurred with our finding and recommendations. Their comments are provided as an Attachment to the report.

FINDING NO. 3 – VIDE did not maintain adequate controls to assure employees did not receive leave in excess of their accrued balances.

Nineteen (19) employees, or 10 percent of those funded with IDEA, Part B grant funds, had negative sick leave balances of more than 2 days, ranging from negative 17 to negative 270 hours. Only two employees had any type of documentation to show that they obtained approval for advanced or donated sick leave. One employee received 30 days of advanced sick leave, and the other employee received 320 hours of donated sick leave from her sister. The two employees still had substantial amounts of negative sick leave, 49 and 244 hours, respectively. There are no provisions for granting advanced leave in the VI Employee Handbook.

Employees had negative balances of sick leave because the information on the Financial Management System (FMS) is not accurate and leave is granted without verification of the balances. At one time, the VI Finance Office personnel tried to update the FMS data, but it was never completed. The official leave balances are kept manually on paper cards in the VI Finance Payroll Office.

The VI Government was previously cautioned in a non-federal audit report about allowing employees to take leave in excess of the amounts accrued. The report stated that as of September 30, 1994 employees had taken an excess of accrued leave at a cost of \$410,000. The audit report also recommended that the Department of Finance establish procedures to prevent employees

from taking leave in excess of the amount accrued. The VI Government has not yet implemented this recommendation.

VIDE paid Special Education employees for sick leave that was neither earned, nor accrued. The result is that the VIDE improperly charged salaries to the IDEA, Part B grant when it paid employees sick leave, even though they had negative leave balances. The Department's regulations state at 34 CFR §80.22(a) that grant funds may be used only for allowable costs of the grantees.

Recommendation:

We recommend the Assistant Secretary for Special Education and Rehabilitative Services require VI Department of Finance to:

- 3.1 Update the system for tracking employees' accrued leave and establish procedures to prevent employees from taking annual and sick leave in excess of amounts accrued or authorized.

The Virgin Islands concurred with our finding and recommendation. Their comments are provided as an Attachment to the report.

BACKGROUND

VIDE is the State Education Agency (SEA) for the Virgin Islands (VI) that is responsible for administering all state educational programs for children with disabilities. The VI has two local education agencies: the school districts of St. Thomas/St. John and St. Croix. According to VIDE's records, the Department awarded VIDE about \$4.8 million for fiscal year 1998, \$7.8 million for fiscal year 1999, and \$8.8 million for fiscal year 2000 to administer their IDEA, Part B grant. VIDE budgeted over 70 percent of these funds to pay salaries and related fringe benefits to its Special Education employees during our audit period.

OBJECTIVES, SCOPE AND METHODOLOGY

The purpose of our audit was to determine whether VIDE administered IDEA, Part B grant funds properly. Specifically, we reviewed management controls over payroll processing and the distribution of payroll checks and direct deposit warrants for Special Education employees. Our audit covered the period January 1998 through June 2000.

To achieve our objectives we performed the following tasks:

- Reviewed internal accounting controls over the payroll process for Special Education.

- Reviewed documentation regarding whether Special Education employees charged to the grant were only working on Special Education projects.
- Verified that Special Education employees who were charged to the grant existed and were valid employees of VIDE.
- Interviewed VIDE officials to determine and review policies and procedures covering the payroll and personnel functions effecting the payment of salaries to Special Education employees.
- Reviewed and tested the VIDE salary and related fringe benefit expenditures and related cost center charges recorded by the VI Department of Finance for the period January 1998 through June 2000.
- Reviewed the time and attendance records for Special Education employees at VIDE Payroll, VI Department of Finance Payroll, Special Education offices and selected schools.
- Observed the payroll distribution procedures at the VI Department of Finance Payroll, VIDE offices and selected schools.
- Reviewed leave balances recorded by VI Department of Finance Payroll for Special Education employees.
- Reviewed the propriety of payroll checks paid to Special Education employees.

We randomly selected 10 payroll periods during our audit period. For each pay period, we compared financial, payroll and personnel data that we collected from each VI Government office involved for each Special Education employee. Our audit covered the period January 1998 through June 2000. We performed a total of five two-week, on site visits at VI Government offices in St. Thomas and St. Croix, VI from June 20, 2000 through December 7, 2000.

STATEMENT ON MANAGEMENT CONTROLS

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

For the purpose of this report, we assessed and classified the significant controls into the following categories:

- Employee time and attendance and payroll processing.
- Distribution of payroll checks and direct deposit warrants.
- Negative leave balances.

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the management controls. However, our assessment disclosed management control weaknesses which adversely affected VIDE's ability to administer the IDEA, Part B grant funds. These weaknesses included

inadequate controls over the documentation for employee time and attendance and payroll processing, the distribution of payroll checks and direct deposit warrants, and the receipt of leave in excess of balances accrued.

ADMINISTRATIVE MATTERS

This report incorporates the comments you provided in response to the audit finding point sheets that were provided to you. 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 U.S. Department of Education official, who will consider them before taking final Departmental action on the audit:

Mr. Frank Corrigan
Office of Special Education
and Rehabilitative Services
400 Maryland Ave., SW, MES 3006
Washington, D.C. 20202-2500

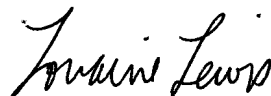
Office of Management and Budget Circular A-50 directs federal agencies to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, we request receipt of your comments within 30 days.

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. Determinations of corrective action to be taken will be made by appropriate Department of Education officials.

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

Please refer to the audit control number ED-OIG / A04-B0013 in all correspondence relating to this report.

Sincerely,



Lorraine Lewis

Attachment

ATTACHMENT

Virgin Islands' Response to Draft Report

FINDING NO. 1:

VIDE did not maintain adequate documentation over employee time and attendance for payroll processing.

There were two major categories of payroll deficiencies:

VIDE personnel at school and offices failed to maintain source documentation for payroll and the employee Bi-weekly time sheets, and they did not properly complete and certify the time sheets. Numerous differences existed between the various source documents for payroll costs.

RECOMMENDATION:

We recommend the Assistant Secretary for Special Education and Rehabilitative Services require VIDE to

1.1 Establish standard written procedures for Payroll Offices, schools and VIDE Offices in St.Thomas, and St. Croix; to set record-keeping requirements. At a minimum the procedures should include.

A requirement for the two Payroll offices to input Time and Attendance data within set time periods, and in the same format.

A requirement that all schools and offices retain copies of employees' Payroll Time and Attendance forms.

A requirement that schools and offices establish, and maintain, standardized individual Bi-weekly Time and Attendance sign-in sheets certified by both the employee and supervisors.

MANAGEMENT RESPONSE:

VIDOE concurs with the finding. Please see a copy of Memorandum dated May 7, 2001 regarding time and attendance preparation, recordkeeping, and retention.

FINDING NO. 2

The schools and VIDE offices did not have proper controls over the payroll check and direct deposit warrants' distribution process. Employees did pick up payroll checks, or direct deposit warrants for co-workers, but did not provide any authorization letters that allowed such actions.

RECOMMENDATION:

We recommend that the Assistant Secretary for Special Education and Rehabilitative Services require:

2.1 VIDE to establish formal procedures for distribution of payroll checks and direct deposit warrants at schools and VIDE offices. At a minimum the procedures should address the problems found in our review and include:

A requirement for employee to provide written approval for picking up other staff members' payroll checks, or direct deposit warrants.

A requirement that payroll checks and direct deposit warrants be distributed only during a set period. Additionally, any unclaimed checks and direct deposit warrants should be returned to VIDE Payroll Section for further processing, delivered to the employee, or returned to the VI Department of Finance.

- 2.2 VI Finance to routinely reconcile checks issued with checks negotiated and act to void the checks after a specific period.

MANAGEMENT RESPONSE

- 2.1 VIDE concurs with finding. Memorandum #02-01 dated May 7, 2001 is attached delineating written procedures for check and direct deposit warrants distribution, safeguarding and processing when unclaimed for more than two working days.
- 2.2 VI Department of Finance will respond to this finding under separate cover.

FINDING NO. 3

Nineteen (19) employees, or 10 percent of those funded with IDEA, Part B grant funds, had negative sick leave balances of more than 2 days, ranging from negative 17 to negative 270 hours. Only two employees had any type of documentation to show that they obtained approval for advanced, or donated, sick leave. One employee received 30 days of advanced sick leave, and the other employees still had substantial amounts of negative sick leave, 49 and 244 hours, respectively.

RECOMMENDATION:

We recommend the Assistant Secretary for Special Education and Rehabilitative Services require VIDE to:

- 3.1 Update the system for tracking employees' accrued leave and establish procedures to prevent employees from taking annual and sick leave in excess of amounts accrued.

MANAGEMENT RESPONSE:

- 3.1 VIDE concurs with the finding for fiscal year 2001. VIDE payroll office will implement a procedure for recording leave balance information for its employees. This information will be reconciled regularly by the Division of Payroll. Each quarter 150 federal employees' leave balances will be reconciled with the Department of Finance until leave balances for all employees paid out of federal funds become current. Thereafter, leave balances will be reconciled quarterly with the Department of Finance.

Official Responsible: Tomas Alejandro, Acting Director of Payroll
Targeted Completion Date: March 30, 2002



Government of the U.S. Virgin Islands of the United States

Department of Education
Office of the Commissioner
#44-46 Kongens Gade
St. Thomas, U.S. Virgin Islands 00802

Telephone - (340) 774-0100

FAX - (340) 779-7153

POLICY MEMORANDUM 02-01

Assistant Commissioner
Insular Superintendent STT/STJ
Insular Superintendent STX
Deputy Commissioner for Curriculum & Instruction
Acting Deputy Commissioner Fiscal & Administrative Services
Directors

FROM: Ruby Simmonds, D.A.
Commissioner of Education

DATE: May 07, 2001

Check Distribution Policy


Please be advised that employee payroll checks and direct deposit warrants should be distributed only by the person(s) designated by the Activity Center Head to handle these checks. Employee checks should be kept secure at all times to prevent theft and fraud. Any employee check or direct deposit warrant not collected two working days from the date of check distribution should be returned to the Payroll Office. Personnel in the Payroll Office will attempt to distribute any remaining checks over the subsequent four (4) working days. Any checks still not claimed will be returned to the Department of Finance. Beginning with the pay period ending May 19, 2001 this procedure is to be implemented by all Activity Center Heads.

Further, anyone who wishes to have another employee or family member pick up her/his check must provide that person with a letter of authorization. This letter of authorization must be an original document dated and signed by the employee whose check is being picked up. There will be no exceptions to this requirement.

Your cooperation in the above mentioned matter is needed in order to comply with federal mandates regarding unclaimed checks and direct deposit warrants, checks for distribution, and safeguarding of checks and direct deposit warrants. Should you have any questions regarding the above mentioned policies please contact Ms. Sonia Clendinen, Acting Deputy Commissioner, Fiscal & Administrative Services at 774-0100 Extension 3009 for clarification.

**Government of the U.S. Virgin Islands of the United States*****Department of Education*****Office of the Commissioner****#44-46 Kongens Gade****St. Thomas, U.S. Virgin Islands 00802****Telephone - (340) 774-0100****FAX - (340) 779-7153****POLICY MEMORANDUM # 01-01**

TO: Assistant Commissioner
Insular Superintendent STT/STJ
Insular Superintendent STX
Deputy Commissioner for Curriculum & Instruction
Acting Deputy Commissioner Fiscal & Administrative Services
All Directors

FROM: Ruby Simmonds, D.A.
Commissioner of Education 

DATE: May 7, 2001

RE: **Time & Attendance Recordkeeping**

To ensure compliance with audit requirements for proper financial recordkeeping, it is imperative that time sheets be prepared and maintained for every employee of the Department of Education. These documents should be completed accurately and signed by both the employee and the employee's supervisor. (Please see attached copy of the official time sheet for the Department.) Copies of time sheets should be maintained at the activity center in the event of an audit or any other administrative review. It is advisable that these documents be filed in alphabetical order by pay-period and by fiscal year. These files should be kept current at all times.

It should be emphasized that only the Department's official time sheet should be used. Deviations will result in audit exceptions for the Department. Therefore, all Activity Center Heads are hereby requested to ensure the use of the Department's official time sheet, effective immediately.

Finally, please be mindful that time and attendance records, like any other records, are subject to audit and should be retained and available for up to seven years beyond the fiscal year being considered. Additionally, it is necessary to retain all time and attendance records as long as there are unresolved audit findings that may require further review of records, or for three years after the final Financial Report (SF-269) is submitted; whichever is greater.

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