



**U.S. Department of the Interior  
Office of Inspector General**

# **AUDIT REPORT**

**ADMINISTRATION OF FEDERAL GRANTS,  
UNIVERSITY OF THE VIRGIN ISLANDS**

**REPORT NO.00-I-216  
FEBRUARY2000**



V-IN-VIS-007-99-M

# United States Department of the Interior

OFFICE OF INSPECTOR GENERAL  
Washington, D.C. 20240

**FEB 16 2000**

Dr. Orville Kean  
President  
University of the Virgin Islands  
No. 2 John Brewers Bay  
Charlotte Amalie, Virgin Islands 00802

Subject: Audit Report on the Administration of Federal Grants, University of the  
Virgin Islands (No. 00-I-216)

Dear Dr. Kean:

This report presents the results of our audit on the administration of Federal grants by the University of the Virgin Islands.

Section 5(a) of the Inspector General Act (Public Law 95-452, as amended) requires the Office of Inspector General to list this report in its semiannual report to the U.S. Congress. In addition, the Office of Inspector General provides audit reports to the Congress.

Please provide a response to this report by March 17, 2000. The response should provide the information requested in Appendix 3 and should be addressed to our Caribbean Office, Federal Building - Room 207, Charlotte Amalie, Virgin Islands 00802.

Sincerely,

Earl E. Devaney  
Inspector General

## **EXECUTIVE SUMMARY**

**Administration of Federal Grants,  
University of the Virgin Islands,  
Report No. 00-I-216  
February 2000**

### **BACKGROUND**

The University of the Virgin Islands is an instrumentality of the Government of the Virgin Islands that was created in March 1962 and offers 2-year associate degrees in arts and occupational programs; 4-year liberal arts degrees; and masters degrees in teacher education, business administration, and public administration. The University has approximately 3,000 full- and part-time students on campuses located on St. Thomas and St. Croix and is accredited by the Commission on Institutions of Higher Education of the Middle States Association of Colleges and Schools. The University receives substantial financial support from the Government of the Virgin Islands. The Legislature of the Virgin Islands appropriated \$21 million to the University in fiscal year 1998 and \$25 million in fiscal year 1999, primarily for salaries and operating expenditures. In addition, as of March 31, 1999, the University had 76 open and active projects funded through Federal grants, totaling about \$10.9 million, primarily from the U.S. Departments of the Interior, Education, Agriculture, and Health and Human Services.

### **OBJECTIVE**

The objective of the audit was to determine whether (1) the University complied with grant terms and applicable laws and regulations; (2) charges made against grant funds were reasonable, allowable, and allocable pursuant to grant agreement provisions; (3) funds received through electronic transfers were appropriately deposited to and accounted for in the University's financial management system; and (4) drawdowns were made in accordance with the Cash Management Improvement Act of 1990. The scope of the audit included a review of grant transactions that occurred during fiscal years 1998 and 1999 (through March 31) and other periods as appropriate.

### **RESULTS IN BRIEF**

We found that requests for reimbursement received through electronic transfers were appropriately deposited to and accounted for in the University's financial management system. However, the University did not effectively administer all of its Federal grant programs. Specifically, the University did not always ensure that (1) pertinent grant award documents were readily accessible; (2) financial status reports, particularly final reports, were filed timely; (3) requests for reimbursement were prepared correctly and reimbursements were received timely; (4) amounts requested in excess of immediate cash needs were returned to the grantor agency; and (5) costs claimed against grant funds were reviewed to ensure that costs were reasonable, allowable, and allocable in accordance with contract and

grant provisions. This occurred because personnel responsible for the University's grants accounting function had disproportionate work loads and did not receive appropriate training on the standards for administration of grants or adequate supervision from the accounting supervisor or the Controller on these duties. As a result, the University did not receive reimbursements totaling more than \$2.2 million for expenditures incurred against grants from the U.S. Department of the Interior (\$490,000), the U.S. Department of Agriculture (\$1.2 million), and the U.S. Department of Health and Human Services (\$550,000). We also found that the University requested about \$1.6 million in excess of its immediate cash needs and therefore incurred an interest liability (to the Federal Government) of about \$16,000 for US, Department of Education grants. In addition, we took exception to costs of \$53,000 related to U.S. Department of the Interior grants, and the Virgin Islands Office of Management and Budget disallowed claimed costs of an additional \$46,000 against the same Department of the Interior grants.

## **RECOMMENDATIONS**

We made 11 recommendations to the President of the University to address the deficiencies noted. These recommendations included steps to improve the recordkeeping and the reimbursement process related to grant awards and to provide adequate grants management training to employees.

## **AUDITEE COMMENTS AND OIG EVALUATION**

The University's Vice-President for Administration and Finance, in response to the draft report, generally concurred with the recommendations and indicated that corrective actions had been or would be taken. Based on that response, we considered nine recommendations resolved and implemented and requested additional information for two recommendations.

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# **INTRODUCTION**

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## **BACKGROUND**

The University of the Virgin Islands is an instrumentality of the Government of the Virgin Islands that was created in March 1962 by Act No. 852 as an institution of higher education. The University offers 2-year associate degrees in arts and occupational programs; 4-year liberal arts degrees; and masters degrees in teacher education, business administration, and public administration. The University has approximately 3,000 full- and part-time students on campuses located on St. Thomas and St. Croix and is accredited by the Commission on Institutions of Higher Education of the Middle States Association of Colleges and Schools.

General management and control of the affairs of the University are vested in a 17-member Board of Trustees, which, according to the Virgin Islands Code (17 V.I.C. §456), is responsible for (1) determining the courses of study to be offered, (2) granting academic degrees and honors, (3) granting sabbatical and other kinds of leave, and (4) establishing standards for scholarships to needy and worthy students. The President of the University serves as the University's Chief Executive Officer.

With respect to Federal grants and contracts, the Vice President of Business and Financial Affairs directs the activities of the Controller's Office, which is primarily responsible for the financial operations of the University. The staff of the Controller's Office consists of the Controller, the Assistant Controller, an accounting supervisor, a grant accountant, and 10 other accounting and administrative personnel.

The University receives substantial financial support from the Government of the Virgin Islands. Based on information contained in the Government's executive budgets, we found that the Legislature of the Virgin Islands appropriated \$2 1 million to the University in fiscal year 1998 and \$25 million in fiscal year 1999, primarily for salaries and operating expenditures. In addition, as of March 31, 1999, the University had 76 open and active projects funded through Federal grants, totaling about \$10.9 million, primarily from the U.S. Departments of the Interior, Education, Agriculture, and Health and Human Services.

## **OBJECTIVE AND SCOPE**

The objective of the audit was to determine whether (1) the University complied with grant terms and applicable laws and regulations; (2) charges made against grant funds were reasonable, allowable, and allocable pursuant to grant agreement provisions; (3) funds received through electronic transfers were appropriately deposited to and accounted for in the University's financial management system; and (4) drawdowns were made in accordance with the Cash Management Improvement Act of 1990. The scope of the audit included a review of grant transactions that occurred during fiscal years 1998 and 1999 (through March 3 1) and other periods as appropriate.

To accomplish our audit objective, we compiled a list of the 76 open and active projects that were funded through Federal grants. We reviewed the summaries of expenditures, as detailed in the University's financial management system, that were claimed against the Federal grants; the requests for electronic fund transfer reimbursements that were processed through the University's restricted bank account; and the Financial Status Reports (SF-269) that were submitted to the Federal grantor agencies. The audit was conducted from May through August 1999 at the University's Office of Business and Financial Affairs.

The scope of our review was limited because business office personnel were unable to provide us with lists of the specific expenditures associated with each drawdown for grants from the U.S. Departments of Education, Agriculture, and Health and Human Services. As a result, we were not able to review specific charges made against these grants to determine whether the charges were reasonable, allowable, and allocable pursuant to the grant agreement provisions. In addition, because the University operated on a cost-reimbursable basis, the provisions of the Cash Management Improvement Act to minimize the time elapsing between transferring funds from the U.S. Treasury and paying out those funds by the University for program purposes were not applicable except as discussed in Finding B.

Our review was made, as applicable, in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances.

Our review included an evaluation of internal controls to the extent we considered necessary to accomplish the audit objective. The internal control weaknesses identified were related to the establishment of an effective grants management system within the University to monitor the financial and compliance aspects of the Federal grants. The control weaknesses are discussed in the Findings and Recommendations section of this report. The recommendations, if implemented, should improve the internal controls in this area.

## **PRIOR AUDIT COVERAGE**

During the past 5 years, neither the General Accounting Office nor the Office of Inspector General has issued any audit reports on the University's management of Federal grants. However, related audit reports were issued as follows:

- In December 1996, an independent accounting firm issued the single audit report on the University for the fiscal year ended September 30, 1996. The report stated that the financial statements presented fairly, in all material respects, the financial position of the University as of September 30, 1996. Regarding the University's major Federal grant programs, the report stated that the University complied, in all respects, with the specific requirements applicable to major Federal grant programs. However, the report presented immaterial instances of noncompliance with the requirements contained in Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and the Compliance Supplement for Audits of Institutions of Higher Learning and Other Non-Profit Institutions. Among the conditions contained in the report

were the following: (1) Federal financial reports were submitted late for some grants and were not submitted for others, (2) computer equipment valued at more than \$25,006 was purchased on a sole-source basis without prior approval of the grantor agency, and (3) expenditures as shown in the University's project activity reports did not match the expenditures shown in the Federal financial reports.

- In March 1996, the Office of Inspector General issued the survey report "Accounting Controls for Disaster Assistance Funds, University of the Virgin Islands" (No. 96-E-468). The report stated that the University had implemented a system of accounting procedures and controls to ensure that disaster assistance funds were safeguarded and accounted for in accordance with Federal Emergency Management Agency requirements and other applicable laws and regulations.



## **FINDINGS AND RECOMMENDATIONS**

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### **A. GRANT ADMINISTRATION**

The University of the Virgin Islands did not effectively administer all Federal grants awarded by the U.S. Departments of the Interior, Education, Agriculture, and Health and Human Services. Specifically, (1) pertinent grant award documents were not always readily accessible; (2) financial status reports, particularly final reports, were not always filed timely; and (3) follow-up actions were not always taken to ensure that reimbursements were received timely. U.S. Office of Management and Budget Circular A-110,<sup>1</sup> "Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals and Other Non-Profit Organizations," provides standards for the administration of grants to and agreements with institutions of higher education. However, deficiencies occurred because personnel responsible for the University's grants accounting function had disproportionate work loads and did not receive appropriate training or adequate supervision from the accounting supervisor or the controller on these duties. As a result, the University (1) did not have an accurate, current, and complete list of Federal grant awards; (2) had not filed final financial status reports for at least 50 closed projects, awarded primarily by the U.S. Department of Agriculture; and (3) had not been reimbursed for about \$488,000 from the U.S. Department of the Interior for grant-related expenditures and for about \$65,000 improperly charged to inactive U.S. Department of Agriculture grants. The amounts not reimbursed were absorbed by the University's operating account. (The monetary impact of the \$488,000 and the \$65,000 is in Appendix 1.)

#### **Grant Documents**

The University did not always comply with the provisions of Circular A-110 regarding grant documentation. Subpart C, Section .21(2), "Standards for Financial Management Systems," of Circular A-110 states that a recipient's financial management system must provide for the following: "Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest." Subpart C, Section .53(b), "Retention and Access Requirements for Records," of the Circular states, "Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report." Further, Subpart C, Section .53(e), of the Circular states, "The Federal awarding agency, the Inspector General, Comptroller General of the United States, or any of their duly authorized representatives, have the right of timely

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<sup>1</sup>Regulations outlined in U.S. Office of Management and Budget Circular A-110 are reiterated in the Code of Federal Regulations under the titles pertaining to each grantor agency in the sections entitled "Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations." The applicable section of the Code for U.S. Department of the Interior grants is Title 43, Subtitle A, Part 12, Subpart F; for U.S. Department of Education grants, Title 34, Subtitle A, Part 80; for U.S. Department of Agriculture grants, Title 7, Chapter XXX, Part 30 16; and for U.S. Department of Health and Human Services grants, Title 45, Subtitle A, Part 74.

and unrestricted access to any books, documents, papers, or other records of recipients that are pertinent to the awards, in order to make audits, examinations, excerpts, transcripts and copies of such documents.”

**Grant Files.** We found that files for grants awarded by the U.S. Departments of the Interior, Education, Agriculture, and Health and Human Services were not accurate, current, or complete. Specifically, for the files reviewed, we found that the following documents were not always included: (1) the notification of grant award, (2) approved project budgets, (3) liquidation records to summarize the costs claimed against the grant, (4) source documents to support all expenditures claimed against the grant, (5) documentation to support requests for reimbursement, and (6) correspondence to corroborate all activities associated with the grants. The incomplete documentation occurred primarily because the University adopted the policy of placing into storage all documents older than 3 years. This policy was not amended to consider the retention requirement contained in Circular A-110, which is 3 years from the submission of the final expenditure report. In addition, we found, primarily for grants awarded by the U.S. Departments of Education, Agriculture, and Health and Human Services, that the University did not place hard copies of expenditure documents in the grant files but instead maintained separate accounts payable files arranged by vendor. Moreover, when requests for reimbursement were made, the expenditures associated with each request were not documented to allow verification to the source documents. Accordingly, while the University’s financial management system maintained a summary of the expenditures associated with each grant award, the expenditure information was not documented in the grant files and could not be associated with specific requests for reimbursement.

**Grant Listing.** In May 1999, at the start of our audit, we requested a list of all open and active Federal grants awarded to the University. Business office officials provided us with three different lists of grant awards, with the final list provided on June 15, 1999. That final list contained 160 projects funded through Federal grants.\* Of that amount, we excluded 11 projects from our review because they were either memoranda of agreement, grants awarded for Federal Emergency Management Agency disaster assistance, or University revenue accounts. Our analysis of the remaining 149 projects showed that 50 projects were classified as closed by the University but that final financial status reports had not been filed with the grantor agencies, 23 projects required followup actions because the grant periods had expired, and only 76 projects appeared to be active.

We believe that the University should (1) maintain all essential grant-related documents in its business office until 3 years after the final financial status report has been submitted by the University and approved by the grantor agency; (2) place, summary expenditure

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<sup>2</sup> The University established a unique number for each project funded through a Federal grant. We found that a single Federal grant could have a series of related fund numbers (or projects). However, the University was unable to provide us with the exact number of Federal grants associated with the fund numbers. In addition, we were unable to corroborate this information during our audit review. Accordingly, for reporting purposes, we have referred to University fund numbers as “projects.”

information in the corresponding grant file when a request for reimbursement is approved; and (3) maintain an accurate, current, and complete list of its Federal grants.

## **Financial Status Reports**

The University did not always comply with the requirements in Subpart C, Section .51 (b), "Monitoring and Reporting Program Performance," of Circular A-110, which states that financial status reports are to be submitted no later than 30 calendar days after the end of each reporting period for quarterly and semiannual reports and within 90 calendar days after the end of each reporting period for annual and final reports,

**Quarterly, Semiannual, and Annual Reports.** Regarding U.S. Department of the Interior grants, we found that quarterly financial status reports were generally filed timely for 12 of the 17 grants that were included in the University's June 15, 1999, list of Federal grants. However, there was no evidence that quarterly financial status reports had been filed for the other five grants.

Financial status reports were not required for U.S. Department of Education grants. The Financial Reports section of the grant award's "Special Grant Terms and Conditions for Financial and Performance Reports" stated, "Unless the item below is checked a Financial Status Report (SF-269) is not required for this grant." The item requiring a financial status report was not checked. As such, financial status reports did not have to be filed.

Regarding U.S. Department of Agriculture grants, we found that 22 financial status reports were submitted late for the period ending September 30, 1997. These reports were submitted in either December 1997 or April 1998, or as many as 4 months after the reporting deadline (January 1, 1998). However, the University's June 15, 1999, list of Federal grants contained 40 open and active U.S. Department of Agriculture projects. Therefore, financial status reports may not have been filed for as many as 18 other projects for the period ended September 30, 1997. Moreover, there was no documentation to support that financial status reports had been submitted for fiscal years 1998 or 1999.

Regarding U.S. Department of Health and Human Services grants, we found that eight financial status reports were submitted for various reporting periods during fiscal year 1998. Of these eight reports, one was submitted timely and seven were submitted from 4 months to 1 year after the reporting deadline. Additionally, there was no documentation to support that financial status reports had been submitted for fiscal year 1999.

**Final Financial Status Reports.** The University had not filed final financial status reports for 12 U.S. Department of Education projects, 20 U.S. Department of Agriculture projects, 10 U.S. Department of Health and Human Services projects, and 8 U.S. Geological Survey (U.S. Department of the Interior) projects included in the University's June 15, 1999, list of Federal grants. Based on information provided by the University, we determined that these grants ended during calendar years 1995, 1996, and 1997. Business office officials said that final financial status reports needed to be filed for these 50 projects.

**Federal Cash Transactions Reports.** Each quarter, the U.S. Department of Agriculture sent the University a Federal cash transactions report (SF-272). The report contained columns for grant award amount, cumulative net disbursements through the prior quarter, cumulative net disbursements through the current quarter, and Federal grant number. The University was required to fill in the column for the cumulative net disbursements for the current quarter and return the report to the U.S. Department of Agriculture. The report for the quarter ended March 31, 1999, contained 54 grants. However, according to program representatives at the University's Agricultural Experiment Station, 37 of the 54 grants were considered inactive and closed. These grants were awarded to the University between fiscal years 1983 and 1996 but continued to be included on each Federal cash transactions report because the University had not filed final financial status reports for any of the 37 grants. Of the 37 inactive grants, 17 had unexpended balances, totaling about \$282,000 (the monetary impact of this amount is in Appendix 1).

We further found that about 20 inactive U.S. Department of Agriculture grants were included in the University's financial management system as active grants. Business office officials told us that in order to "deactivate" these grants, a manual change needed to be made to the grant account but that this manual change had not been accomplished. During fiscal years 1998 and 1999, the University charged expenditures totaling about \$65,000 to closed grants. These amounts were paid from the University's operating account and were not requested for reimbursement through the U.S. Department of Agriculture. Accordingly, these amounts were absorbed by the University's operating account.

We believe that the University should (1) establish a schedule as to when financial status reports are required to be filed so that University grants accountants and supervisory personnel are aware of the filing dates, (2) file final financial status reports for its inactive grants, and (3) deactivate the related inactive grant accounts in its financial management system.

## **Requests for Reimbursement**

During the period of June 1991 to June 1996, the University received eight grants, totaling \$551,340, from the U.S. Department of the Interior. Two of the eight grants had local matching requirements totaling \$198,000 that were funded by the Government of the Virgin Islands, and one of the eight grants had a local matching requirement totaling \$4,620 that was funded by the University. Therefore, the total funded amount for these eight grants was \$753,960. Seven of the eight grants were subawarded through the Government of the Virgin Islands, and one grant was awarded directly by the U.S. Department of the Interior. For the grants subawarded through the Government of the Virgin Islands, the University was required to submit requests for reimbursement through the Virgin Islands Office of Management and Budget for review and approval. The Virgin Islands Office of Management and Budget forwarded the requests for reimbursement to the Department of the Interior.

We found that because of a lack of monitoring and followup actions associated with these grants, the University was not reimbursed as much as \$488,000 of the total grant amount. This occurred because the University (1) did not timely submit proper financial status reports

and requests for reimbursement to the Virgin Islands Office of Management and Budget in order for that office to forward the information to the U.S. Department of the Interior for approval and processing of the reimbursement payments, (2) did not resubmit information regarding expenditure claims to the Office of Management and Budget after that office classified the claims as incorrect, and (3) made expenditure claims against grants that had been terminated by the U.S. Department of the Interior. In addition, we found that the Government's local share was not paid by the Department of Finance and that amounts approved for reimbursement by the U.S. Department of the Interior and sent to the Government of the Virgin Islands were not forwarded to the University. Examples of the lack of monitoring and of followup actions are as follows:

- In December 1992, a Federal grant was awarded for \$156,500 with a local matching requirement of \$128,500. Regarding the Federal share, U.S. Department of the Interior officials terminated the grant in April 1998 and deobligated the \$156,500 because no requests for reimbursement were received. Regarding the local share, Virgin Islands Office of Management and Budget officials told us that although these funds may have been budgeted by the Government of the Virgin Islands, no appropriations were made to satisfy the funding source. Therefore, the University was not reimbursed for expenditures claimed against either the Federal or local shares. Based on information compiled by the University, we noted that expenditures against this grant totaled \$129,596, of which \$71,278 was classified as Federal funds and \$58,318 was classified as local funds. We concluded that the University spent \$129,596 of its own funds because financial status reports and requests for reimbursement were not properly prepared or timely submitted to the Virgin Islands Office of Management and Budget and because the Government of the Virgin Islands did not appropriate funds to provide the local matching share.

- In November 1993, a Federal grant was awarded for \$8,000, with a local matching requirement of \$4,620. The grant provided for a training program during the period of November to December 1993. Through September 1994, the University incurred expenditures totaling \$6,141 against the Federal share. This amount was reimbursed to the University by a Miscellaneous Disbursement Voucher from the Department of Finance in March 1997. During the period of April 1 to June 30, 1995, the University incurred expenditures totaling \$4,235 against the local share. In February 1996, the U.S. Department of the Interior deobligated the unused Federal fund balance of \$1,859 (\$8,000 minus \$6,141). However, in September 1998, the University charged expenditures totaling \$2,349 against the Federal share, an amount that was in excess of the available grant balance and that was incurred after both the grant had been terminated and the funds had been deobligated. Therefore, these costs were not reimbursed to the University.

We believe that the University should (1) review its accounts receivable balances for U.S. Department of the Interior grants in order to determine the amounts approved for reimbursement by the grantor agency and (2) determine the amounts reimbursed by the U.S. Department of the Interior by contacting the Department's Office of Insular Affairs in Washington, D.C. In addition, the University should determine the reimbursement amounts sent to the Government of the Virgin Islands by the grantor agency but not forwarded to the

University and make appropriate requests for reimbursement of these amounts through the Department of Finance.

## **Administrative Issues**

With respect to Federal grants and contracts, the University's business office staff consisted of an accounting supervisor, a grant accountant, and two accounting assistants. These employees were responsible primarily for establishing the Federal budgets on the University's financial management system when grant agreements were executed; posting grant expenditure information to the appropriate grant accounts; filing pertinent grant-related documents into project or agency folders; and preparing financial status reports, requests for reimbursement, and other reports as appropriate. However, we found that the grant accountant was assigned a disproportionate share of the work load. Specifically, this individual was responsible for all of the Federal grants awarded by the U.S. Departments of Education, Agriculture, and Health and Human Services (about 65 active projects). In contrast, one of the accounting assistants was responsible for the U.S. Department of the Interior grants (about six active projects), and the other accounting assistant was primarily responsible for clerical functions such as checking the financial management system for fund availability prior to approving grant-related expenditures for payment.

We also found that the accounting supervisor assumed this position in November 1998; the grant accountant assumed this position in July 1998; and the accounting assistants assumed their positions in calendar years 1997 and 1999, respectively. However, only the grant accountant and one accounting assistant received any type of formal training. Moreover, we found that neither the grant accountant nor the two accounting assistants were provided the University's Policies and Procedures Manual for Financial Management, which was prepared in October 1992, and the employees said that they were not aware that there was a manual. The Manual has a section on grants and contracts administration, and the Manual's Introduction section states:

The Policies and Procedures Manual (the Manual) has been developed to document the practices of [the] University of the Virgin Islands Controller's Office and Purchasing and Receiving Department. The Manual provides staff and other interested parties with detailed information regarding the defined policies, established procedures, and related forms required for accounting and financial processing and reporting. In addition, the Manual serves as a training tool for new personnel and as an instructional tool for current employees performing new tasks.

We believe that the University's Controller should reassess the staffing and work load assignments of the grants and contracts personnel to more proportionately distribute the work load. In addition, we believe that the grants and contracts personnel should be provided basic grants management training to assist them in their day-to-day administrative duties and that the University's Policies and Procedures Manual should be made available to all employees of the Controller's office.

## Recommendations

We recommend that the President of the University require the Vice President of Business and Financial Affairs to:

1. Establish and maintain, in accordance with Office of Management and Budget Circular A- 110, grant program files for each Federal grant award received. At a minimum, the grant files should contain documentation of grant awards and authorizations, obligations, outlays or expenditures, unobligated balances, income, assets, and liabilities. In addition, expenditure documents, in summary format from the University's financial management system, should be attached to each request for reimbursement to establish a documented record of the expenditures associated with each request for reimbursement.
2. Establish and maintain an accurate, current, and complete list of open and active Federal grant awards. At a minimum, the list should contain the University's fund number and program code; the Catalog of Federal Domestic Assistance number; the grant award number, name, effective period, and amount; and the grantor agency's name.
3. Prepare a schedule of required financial status reports for each Federal grant that indicates whether reports are required to be filed quarterly, semiannually, or annually and periodically review the schedule to ensure that the requisite reports are filed timely.
4. Review the Federal grants list prepared as of June 15, 1999, and the U.S. Department of Agriculture's Federal cash transactions report and identify all grants that the University has classified as inactive. In addition, final financial status reports should be prepared and submitted for all of the inactive grants, and the related fund numbers in the University's financial management system should be deactivated so that further expenditures cannot be charged to these grants.
5. Review accounts receivable balances for all U.S. Department of the Interior grants, determine the amounts reimbursed by the U.S. Department of the Interior by contacting the Department's Office of Insular Affairs, determine the amounts sent to the Government of the Virgin Islands by the grantor agency but not forwarded to the University, and request payment from the Virgin Islands Department of Finance for reimbursed amounts not forwarded to the University.
6. Provide the employees who process grant- and contract-related transactions with basic grant management training and make the University's Policies and Procedures Manual for Financial Management available to all employees of the Controller's office.
7. Reassess the work load assignments of the three employees who process grant and contract-related transactions to more proportionately distribute the work load or consider reallocating other Controller's office employees to assist in processing grant- and contract-related transactions.

## **University of the Virgin Islands Response and Office of Inspector General Reply**

The January 12, 2000, response to the draft report (Appendix 2) from the University's Vice-President for Administration and Finance generally concurred with the recommendations and indicated that corrective actions had been or were being taken. Based on the response, we consider Recommendations 1 through 7 resolved and implemented (see Appendix 3).



## **B. FINANCIAL ACCOUNTABILITY**

Although we found that requests for reimbursement received through electronic transfers were appropriately deposited to and accounted for in the University's financial management system, we found that the University of the Virgin Islands did not always provide adequate financial accountability over Federal grants. Specifically, the University (1) did not return amounts requested in excess of immediate cash needs to the grantor; (2) did not always correctly prepare requests for reimbursement; and (3) did not always ensure that costs claimed against grant funds were reasonable, allowable, and allocable in accordance with contract and grant provisions. U.S. Office of Management and Budget Circular A-110 provides the standards for the administration of grants, Circular A-21 provides the cost principles for grants, and the Code of Federal Regulations provides requirements for implementation of the Cash Management Improvement Act. However, the University's grant accountants did not comply with these standards because they had not received grant-related training or had not been adequately supervised. As a result, the University requested about \$1.6 million in excess of its immediate cash needs and incurred an interest liability of about \$16,000 (to the Federal Government) for U.S. Department of Education grants. The University also did not request reimbursements totaling about \$900,000 in fiscal year 1998 and \$300,000 in fiscal year 1999 for expenditures incurred against U.S. Department of Agriculture grants and about \$392,000 in fiscal year 1998 and \$154,000 in fiscal year 1999 for expenditures incurred against U.S. Department of Health and Human Services grants. In addition, we took exception to costs of \$53,000 related to U.S. Department of the Interior grants, and the Virgin Islands Office of Management and Budget disallowed additional claimed costs of \$46,000 against the same Department of the Interior grants. (The monetary impact of the \$16,000, the \$2.1 million, the \$546,000, and the \$99,000 is in Appendix 1.)

### **U.S. Department of Education Grants**

At the beginning of fiscal year 1998, the University had a carry-forward amount of about \$900,000 that was due from the U.S. Department of Education as reimbursement for grant-related costs that were incurred during fiscal year 1997. During fiscal year 1998, expenditures incurred against Department of Education grants totaled about \$3.3 million. Accordingly, grant expenditures requiring reimbursement during fiscal year 1998 totaled about \$4.2 million (\$900,000 plus \$3.3 million). However, requests for reimbursement during fiscal year 1998 totaled \$5.8 million, or about \$1.6 million in excess of the cash needed for Department of Education grant purposes. This excess reimbursement occurred because, in December 1998, the University's grant accountant made a request for reimbursement totaling \$3.3 million from the Department of Education to cover expenditures for the period of May 1 to September 30, 1998. However, the grant accountant told us that she inadvertently included expenditures of \$1.6 million that had been reimbursed for the period of October 1, 1997, to April 30, 1998.

Business office officials told us that after the \$3.3 million reimbursement was received in December 1998, they became aware of the \$1.6 million overdraw. The officials further told us that instead of returning the funds to the Department of Education, the University deposited the funds into its restricted savings account (an interest-bearing account) until

sufficient expenditures were incurred to cover the \$1.6 million excess drawdown amount. We found that the University incurred expenditures of about \$1.6 million during the period of October 1, 1998, through April 30, 1999. Therefore, the University held Department of Education funds in its interest-bearing savings account for up to 5 months during the period of December 1998 to April 1999.

The Department of Education's Grant Administration and Payment System provides financial management support services to grantees such as the University. Regarding payment adjustments, the System provides that once a bank account contains an overdrawn amount, the grantee may "spend the overdrawn amount on another grant as long as it can be done within three business days of receipt of the overdrawn payment and as long as another grant has sufficient funds from which to draw." Further, the System provides that if the money cannot be spent on another award, the grantee should return the excess cash amount to the Department of Education by check or by the transfer of electronic funds. Further, the System requires the grantee to specify the grant award to which the refund is to be applied.

In addition, Subpart C, Section .22(a), of Circular A-110 requires that payment methods minimize the amount of time elapsing between the transfer of funds from the U.S. Treasury and the payout of those funds by the recipients. Section .22(a) states, "Payment methods of State agencies or instrumentalities shall be consistent with Treasury-State [Cash Management Improvement Act] agreements or default procedures codified at 31 [Code of Federal Regulations] part 205." The Code (31 CFR 205.12) states, "A State will incur an interest liability to the Federal Government if Federal funds are in a State account prior to the day the State pays out funds for program purposes." Accordingly, we conservatively estimated that the University earned about \$16,000 in interest during the 5-month period during which the \$1.6 million remained in the University's bank account. To compute the interest liability, we applied a 2.5 percent annual interest rate (the interest rate used by the University's bank) to the \$1.6 million for a 5-month period.

## **U.S. Department of Agriculture Grants**

At the beginning of fiscal year 1998, the University had a carry-forward amount of \$385,000 that was due from the U.S. Department of Agriculture as reimbursement for grant-related costs during fiscal year 1997. During fiscal year 1998, expenditures incurred against Department of Agriculture grants totaled about \$3 million. Of that amount, \$835,000 was transferred for payment to the University's operating account in order to meet the local match share. Accordingly, expenditures requiring reimbursement during fiscal year 1998 totaled about \$2.5 million (\$385,000 plus \$3 million minus \$835,000). However, requests for reimbursement during fiscal year 1998 totaled only \$1.6 million, or about \$900,000 less than the University needed for grant purposes.

Similarly, at the beginning of fiscal year 1999, the University had a carry-forward amount of \$900,000 that was due from the Department of Agriculture as reimbursement for grant-related costs during fiscal year 1998. During the period of October 1, 1998, to March 31, 1999 (the first 6 months of fiscal year 1999), the University incurred expenditures against Department of Agriculture grants totaling about \$1.2 million. Of that amount, about

\$400,000 was transferred for payment to the University's operating account to meet the local match share. Accordingly, expenditures requiring reimbursement during the first 6 months of fiscal year 1999 totaled \$1.7 million (\$900,000 plus \$1.2 million minus \$400,000). However, requests for reimbursement during the first 6 months of fiscal year 1999 totaled only \$1.4 million, or about \$300,000 less than the University needed for grant purposes.

Our analysis of the reimbursement process showed that the University did not monitor the expenditures claimed against Department of Agriculture grants in order to request the proper amounts for reimbursement in a timely manner. Business office officials told us that they generally made requests for reimbursement every quarter to cover the expenditures incurred during the quarter, but the records of drawdowns did not corroborate this statement. For example, during the period of August through November 1998 (a period of 4 months), there were no requests for reimbursement.

The grant accountant also showed us in-house spreadsheets that she used to compute amounts due for reimbursement. However, our analysis of these spreadsheets showed that the amounts requested for reimbursement did not equal the sum of the carry-forward amount for the prior period plus the amount of the current period expenditures, which left a continuous accounts receivable balance due for reimbursement. For example, in December 1997, the University requested a reimbursement amount of \$150,000. However, the in-house spreadsheet showed a carry-forward amount of \$141,000 and a current expenditure amount of \$122,000, for a total of \$263,000, that should have been requested for reimbursement. By requesting only \$150,000, an account receivable of \$113,000 remained. Business office officials stated that this account receivable balance resulted from insufficient grant funds being available for reimbursement at the time of a request for reimbursement, but the quarterly program statements prepared by the grantor agency did not support this statement. For example, the quarterly program statements for the quarter ending December 31, 1997, showed that grants had all undrawn authorizations available for expenditures.

## **U.S. Department of Health and Human Services Grants**

At the beginning of fiscal year 1998, the University had a carry-forward amount of \$161,000 that was due from the U.S. Department of Health and Human Services as reimbursement for grant-related costs during fiscal year 1997. During fiscal year 1998, expenditures incurred against Department of Health and Human Services grants totaled \$782,000, and there was a minor adjustment of an additional \$1,000. Accordingly, expenditures requiring reimbursement during fiscal year 1998 totaled \$944,000 (\$161,000 plus \$782,000 plus \$1,000). However, requests for reimbursement during fiscal year 1998 totaled only \$552,000, or \$392,000 less than the University needed for grant purposes.

Similarly, at the beginning of fiscal year 1999, the University had a carry-forward amount of \$392,000 that was due from the Department of Health and Human Services for grant-related costs during fiscal year 1998. During the period of October 1, 1998, to February 28, 1999 (the first 5 months of fiscal year 1999), the University incurred expenditures against Department of Agriculture grants totaling \$271,000. Accordingly, expenditures requiring reimbursement for the first 5 months of fiscal year 1999 totaled

\$663,000 (\$392,000 plus \$271,000). However, requests for reimbursement during the first 6 months of fiscal year 1999 totaled only \$509,000, or \$154,000 less than the University needed for grant purposes.

The University operated its grant programs on a cost-reimbursable basis whereby it paid grant-related expenditures from its operating account and then was reimbursed for those expenditures. We therefore believe that the lack of timely and proper requests for reimbursement to the University's operating account adversely impacted the University's day-to-day operations and its ability to maximize its operations-related cash flow. We believe that the University should reassess its methodology for preparing and processing requests for reimbursement so as to make more timely requests for reimbursement in amounts commensurate with the value of grant expenditures incurred by the University.

## **U.S. Department of the Interior Grants**

During fiscal year 1998 and the first 6 months of fiscal year 1999 (October 1998 through March 1999), the University received 17 reimbursements, totaling \$1.6 million, from 11 grants funded by the Department of the Interior. Of the 17 reimbursements, we reviewed 8 reimbursements, totaling \$1 million, to determine whether costs charged against the grants were reasonable, allowable, and allocable in accordance with grant provisions. We took exception to costs of about \$53,000 that were related primarily to the University's new sports and fitness center. In addition, prior to our review, the Virgin Islands Office of Management and Budget disallowed additional claimed costs of \$46,000 associated with the University's new sports and fitness center before transmitting the University's requests for reimbursement to the Department of the Interior for approval and payment.

**Office of Inspector General Review.** We took exception to costs of \$52,807 as follows:

- During the period of April 17 to August 12, 1996, an architectural firm submitted four invoices, totaling \$25,696, for services associated with the proposed construction of a new sports and fitness center at a site adjacent to the University's Reichold Center for the Arts. The University's Director of Plant Facilities told us that the proposed site was on wetlands and would have required significant preconstruction costs to make the area suitable for the proposed center. In addition, the Director of Plant Facilities stated that the gymnasium proposed for this site would have been no larger than a high school gymnasium. According to the Director of Plant Facilities, the intent of the center was to provide a facility suitable for the University to compete in sports at the collegiate level. Therefore, the site and the plans were determined to be inadequate by University officials, and an alternate site was selected and the plans were developed by a different architect. Accordingly, we took exception to the \$25,696 associated with the original architectural plans that were not used by the University. Additionally, we noted that the University paid the four invoices during the period of May to September 1996 but was not reimbursed by the Department of the Interior until February 18, 1999, or an average of 32 months after the invoices were paid from the University's operating account.

- On May 30, 1997, an engineering firm submitted an invoice totaling \$17,356 for soil investigation at the University's new center. Of that amount, \$2,000 was arbitrarily applied by the engineering firm to the costs related to the University's new music suite. However, because the invoice did not indicate that any work was actually conducted at the music suite, we took exception to the \$2,000. The University paid the invoice on June 24, 1997, but was not reimbursed by the Department of the Interior until April 15, 1998, or about 10 months after the invoice had been paid from the University's operating account.

- During the period of October 1997 to June 1998, five firms submitted seven invoices, totaling \$24,515, for the renovation of five rooms at the University's Harvey Student Center and for trucking services to bring equipment to the renovated rooms. We found that the scope of the renovations included closing off some doors and enlarging other doors to permit access to storage carts and to ensure a weather-tight enclosure for the installation of heavy duty air conditioning units in order to temporarily store a wooden gym floor, two basketball backstops, and a scoreboard at the student center. These items were for the University's unbuilt sports and fitness center, and they were ordered far in advance of when they would have been needed for permanent installation in the sports and fitness center. The University's Director of Plant Facilities told us that in December 1997, the University sponsored a basketball tournament and that the then-athletic director wanted to present the University's existing gymnasium as a venue to conduct athletic competitions. Therefore, the former Athletic Director sought and obtained the approval of the University's Board of Trustees to purchase the new gymnasium floor, basketball backstops, and scoreboard for use during the tournament. After the tournament, the items were removed from the gymnasium and stored in the renovated student center. However, the University neither sought nor obtained approval from the Department of the Interior to use grant funds to renovate the student center to temporarily store the equipment. Section 16 of U.S. Office of Management and Budget Circular A-21, "Cost Principles for Educational Institutions," states, "Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the sponsoring agency." Accordingly, we took exception to costs of \$24,515. The five firms were paid during the period of November 1997 to August 1998, but the University was not reimbursed by the Department of the Interior until March 1999, or 7 to 17 months after the firms were paid from the University's operating account.

- On August 19, 1997, a vendor submitted an invoice for \$596 for parking signs. However, the \$596 was duplicated by the University in its listing of expenditures claimed against the sports and fitness center. Accordingly, we took exception to the \$596. The University paid the vendor on May 19, 1998, but was not reimbursed by the Department of the Interior until March 11, 1999, or about 10 months after the vendor was paid from the University's operating account.

**Office of Management and Budget Review.** For the quarterly periods ended September 30, 1997, through December 31, 1998, the University submitted five requests for reimbursement of costs, totaling \$733,000, for the sports and fitness center. The requests were submitted to the Virgin Islands Office of Management and Budget for review and forwarding to the Department of the Interior for approval and payment. As early as October

1997, the Office of Management and Budget requested that the University provide all supporting documentation for costs claimed against the sports and fitness center 'grant. However, the University did not comply with this request until January 1999. After Office of Management and Budget officials reviewed the supporting documents, they required the University to revise and resubmit financial status reports for the quarterly periods ended September 30, 1997, through December 31, 1998. In March 1999, the University resubmitted an adjusted claim for these time periods totaling \$687,000, or about \$46,000 less than the original submission of \$733,000. Office of Management and Budget officials told us that expenditures for the sports and fitness center could be incurred only for design, demolition, and construction and that the disallowed costs of \$46,000 represented administrative expenditures, such as travel and advertising costs, and other costs for which the University did not provide sufficient supporting documentation.

We found that the University's grant accountants checked the grant budgets on the University's financial management system to ensure that funds were available to pay for expenditures incurred against the grants but that the grant accountants did not review the grant award documents to ensure that claimed costs were allowable in accordance with the scope, terms, and conditions of the grants. Additionally, the University's operating account was not reimbursed timely because Business office personnel did not respond timely to the Office of Management and Budget's requests for information. We found that it took 7 to 32 months for the University to be reimbursed for grant-related expenditures.

## **Recommendations**

We recommend that the President of the University require the Vice President of Business and Financial Affairs to:

1. Remit to the U.S. Department of Education interest of \$16,000 earned on excess Federal funds drawn down against grant accounts during fiscal year 1999.
2. Reevaluate the methodology for processing requests for reimbursement against Federal grants and make the procedural changes needed to allow requests to be made in a more timely manner and in the appropriate amounts.
3. Provide the U.S. Department of the Interior's Office of Insular Affairs with supporting documentation for the cost exceptions of \$52,807 so that the grantor agency can make a final determination as to the allowability of those costs.
4. Establish procedures to ensure that amounts claimed for-reimbursement against Federal grants are allowable in accordance with the scope, terms, and conditions of the grant award.

## **University of the Virgin Islands Response and Office of Inspector General Reply**

The January 12, 2000, response to the draft report (Appendix 2) from the University's Vice-President for Administration and Finance generally concurred with the recommendations and indicated that corrective actions had been or were being taken. Based on the response, we consider Recommendations 2 and 4 resolved and implemented and requested additional information for Recommendations 1 and 3 (see Appendix 3).

## CLASSIFICATION OF MONETARY AMOUNTS

| <u>Finding Area</u>                               | <u>Funds To Be Put<br/>To Better Use</u> | <u>Questioned Costs<br/>(Cost Exceptions)</u> |
|---|--|---|
| A. Grant Administration                           |  |   |
| Financial Status Reports                          | \$282,000*                               |   |
| Requests for Reimbursement:                       |  |   |
| Grant-Related Expenditures                        | 488,000*                                 |   |
| Improperly Charged Expenditures                   | 65,000*                                  |   |
| B. Financial Accountability                       |  |   |
| Department of Education Grants                    | 16,000**                                 |   |
| Department of Agriculture Grants                  | 1,200,000*                               |   |
| Department of Health and Human<br>Services Grants | 546,000*                                 |   |
| Department of the Interior Grants                 | <u>          </u>                        | <u>\$99,000*</u>                              |
| Total   | <u>\$2,597,000</u>                       | <u>\$99,000</u>                               |

\*Amount represents Federal funds or amounts paid from local funds that should have been reimbursed with Federal funds.

\*\*Amount represents local funds.





# UNIVERSITY OF THE VIRGIN ISLANDS

*Office of the Vice President for Administration and Finance*

January 11, 2000

Mr. Arnold E. VanBeverhoudt, Jr.  
Director of Insular Area Audits  
**Office** of Inspector General  
St. Thomas, U. S. Virgin Islands 00802

Dear Mr. VanBeverhoudt:

The University is pleased to be given the opportunity to respond to the Preliminary Audit Report on the Administration of Federal Grants. The objective of the audit was to determine whether (1) the University complied with grant terms and applicable laws and regulations; (2) charges made against grant funds were reasonable, allowable, and allocable pursuant to agreement provisions; (3) funds received through electronic transfers were appropriately deposited to and accounted for in the University's financial management system; and (4) drawdowns were made in accordance with the Cash Management Improvement Act of 1990.

The following are the responses of the University to the draft audit report issued on November 24, 1999.

Recommendation No 1: Establish and maintain, in accordance with the Office of Management and Budget Circular A-110, grant program files for each Federal grant award received. At a minimum, the grant files should contain documentation of grant awards and authorizations, obligations, outlays or expenditures, unobligated balances, income, assets, and liabilities. In addition, expenditure documents, in summary format from the University's financial management system, should be attached to each request for reimbursement to establish a documented record of the expenditures associated with each request for reimbursement.

**Response No 1:** For each Federal award the University maintains a file which contains among other items: (1) the award notification, (2) a copy of the approved proposal, (3) copies of all filed required financial reports, (4) approved budget and project changes, (5) federal grant number and (6) new award set-up checklist.

The University also maintains for each Federal award an analysis of expenditures to date, amounts requested for reimbursement, amounts received from the grantor as an advance or, as in most cases, payment made against a reimbursement request.

## UNIVERSITY of the VIRGIN ISLANDS

The University acknowledges that, in some cases, grant documents were missing or not properly filed, but this was not the case for all grant files examined. The University will (1) implement a procedure in its computerized financial management system that would provide more detailed reporting and (2) make the periodic review all of its program files for compliance with Federal regulations a regular part of the responsibility of the Grants Supervisor.

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**Recommendation No 2:** - Establish and maintain an accurate, current, and complete list of open and active Federal grant awards. At a minimum, the list should contain the University's fund numbers and program code; the catalog of Federal Domestic Assistance number; the grant award number, name, effective period, and amount; and the grantor agency's name.

**Response No 2:** - The finding on which this recommendation is made indicates that the University did not maintain a list of active federal grants. As a matter of course, all University grants are recorded in the University's financial management information system and information on these grants can be retrieved when needed, despite the fact that a separate manual list is not maintained. The University will revise its system for keeping records of active and inactive grants to bring it in line with the recommendation.

\*\*\*\*\*

**Recommendation No. 3** – Prepare a schedule of required financial status reports for each Federal grant that indicates whether reports are required to be filed quarterly, semiannually, or annually and periodically review the schedule to ensure that the requisite reports are filed timely.

**Response No. 3:** Although there are cases in which reporting deadlines are missed, the University has a good record of meeting more than 90% of the deadlines for the filing of financial status reports on grants. While all deadlines should be met, it is important to state for the record that missed deadlines are the exception rather than the rule. The University has already taken steps to develop a more comprehensive reporting schedule to maintain tighter supervision over the timely filing of all financial status reports for grants.

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**Recommendation No.4** – Review the Federal grants list as of June 15, 1999, and the U.S Department of Agriculture's Federal cash transactions report and identify all grants that the University has classified as inactive. In addition final financial status reports should be prepared and submitted for all inactive grants, and the related fund numbers in the University's financial management system should be deactivated so that further expenditures cannot be charged to these grants.

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**Response No. 4 –** The University acknowledges the need for a closer working relationship between the Land Grant Division and the Accounting office to identify grants to be closed out. Steps have already been taken to submit close-out reports to the U. S. Department of Agriculture for the federal grant awards which meet conditions for closing. We anticipate that the remaining awards that meet the closing criteria will be closed by the end of January. Once closed, we will take the necessary steps to deactivate closed awards in our computerized financial management system.

\*\*\*\*\*

**Recommendation No. 5-** Review accounts receivable balances for all U.S. Department of the Interior grants; determine amounts reimbursed by the U.S. Department of the Interior by contacting the Department of Insular Affairs in Washington, D.C.; determine the amount sent to the Government of the Virgin Islands sent by the grantor agency but not forwarded to the University and request payment from the V. I. Department of Finance for reimbursements amounts not forwarded to the University.

**Response No. 5 –** The University has made numerous attempts to collect these federal grant funds awarded through the Government of the Virgin Islands but, for a variety of reasons, including the Government's failure to put up its share of the funds to match the federal grant, we were not successful. The University finally discontinued several of these programs after collections were not received. Since then, the University has adopted a policy of not continuing any federal program administered through the Virgin Islands Government for which reimbursements are in arrears for more than one quarter. The University will make yet another attempt to collect these amounts from the Virgin islands Government.

\*\*\*\*\*

**Recommendation No. 6 –** Provide the employees who process grants and contract-related transactions with basic grant management training and make the University's Policies and Procedures Manual for Financial Management available to all employees of the Controller's office.

**Response No. 6 -** Policy and Procedure documents do exist and the University is including them in its orientation program of new employees in the Business and Finance area to ensure that employees are fully knowledgeable about policies relating to their areas of responsibility. The Accounting Department has always made training a priority when addressing the professional development needs of its employees. Recognizing that new employees could benefit from more targeted training, a special program of orientation and training will be required of all new employees in the Grants Accounting area. It should be noted that the grants and contract accounting staff recently participated in workshops offered by the U. S. Department of Education and the University of Oklahoma Grants and Contracts Division.

UNIVERSITY of the VIRGIN ISLANDS

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**Recommendation No. 7** -Reassess the work load assignments of the three employees who process grants and contract-related transactions to more proportionately distribute the work load or consider reallocating other controller's office employees to assist in the processing of grants and contract-related transactions.

**Response No. 7** – The Accounting department is currently being reorganized to more fully address the demands on the department. Special attention has been focused on the Grants accounting area to provide for the balancing of workloads. Additionally, the number of employees allocated to the grants and contracts area have been increased from three to four. We believe that this new restructure in the Accounting department would lead to greater efficiency and productivity improvements in grants accounting and administration.

\*\*\*\*\*

**Recommendation No. 8**– Remit to the U.S. Department of Education interest of \$16,000 earned on excess Federal funds drawn down against grant accounts during fiscal year 1999.

**Response No. 8**- The University admits to an error in computing the amounts to be reimbursed that resulted in this overdraw. The reimbursement request for the subsequent quarter was adjusted by the amount of the overdraw. The error in the reimbursement request was attributable to a change in personnel immediately following the resignation of the Grants Accounting Supervisor. Procedures have been tightened to ensure that grant reimbursements are more carefully reviewed before they are submitted, especially when new employees are involved. The amount of interest of \$16,000 will be remitted to the U. S. Department of Education as recommended.

\*\*\*\*\*

**Recommendation No. 9** – Reevaluate the methodology for processing requests for reimbursements against Federal grants and make the procedural changes needed to allow requests to be made in a more timely manner and in the appropriate amounts.

**Response No. 9** – The new organization structure implemented in the grants and contracts area is designed to provide closer and more systematic supervision over the grant documentation, accounting, reporting, and reimbursement. We are confident that the new system will increase the efficiency in the preparation of future requests and the timeliness of these filings. The University has implemented an additional control feature which requires that all reimbursement requests be reviewed and approved by the Assistant Controller before they are forwarded for final approval.

UNIVERSITY of the VIRGIN ISLANDS

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**Recommendation No. 10** – Provide the U.S. Department of Interior's office of Insular Affairs with supporting documentation for the cost exceptions of \$52,807 so that the grantor agency can make a final determination as to the allowability of those costs.

**Response No. 10** – The University makes every effort to ensure that expenditures that are charged against Federal programs are allowable. As recommended, steps will be taken to provide the U.S. Department of Interior's office of Insular Affairs with supporting documentation for the questioned costs of \$52,807 so that the grantor agency can make a final determination as to the allowability of those costs.

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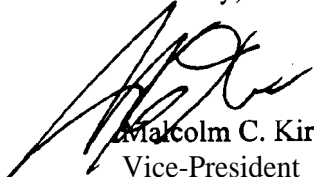
**Recommendation No. 11** – Establish procedures to ensure that amounts claimed for reimbursements against Federal grants are allowable in accordance with the scope, terms and conditions of the grant award.

**Response No. 11** – The University has had a good record of ensuring that amounts claimed for reimbursements against Federal grants are allowable in accordance with the scope, terms and conditions of the grant award. The University believes that this is attributable to effectiveness of established procedures. However, we will continue to review the controls we have in place for weaknesses and take corrective action.

\*\*\*\*\*

We thank you for your recommendations to improve internal controls in the administration of grants and we appreciate being given the opportunity to respond to the draft audit report before it is finalized.

Sincerely,



Malcolm C. Kirwan  
Vice-President  
Administration and Finance

Cc: President  
Controller  
Cabinet  
Finance Committee Chairman

MCK:vs

## STATUS OF AUDIT REPORT RECOMMENDATIONS

| Finding/Recommendation<br>Reference | Status   | Action Required   |
|-------------------------------------|--|---|
| A.1-A.7                             | Implemented.                                       | No further action is required.  |
| B.1                                 | Management concurs; additional information needed. | Provide a target date for remitting the \$16,000 of interest to the U.S. Department of Education. When completed, our Caribbean Office should be provided with documentation showing that the remittance has been made.   |
| B.2 and B.4                         | Implemented.                                       | No further action is required.  |
| B.3                                 | Management concurs; additional information needed. | Provide a target date for submitting supporting documentation for the questioned costs of \$52,807 to the Office of Insular Affairs, U.S. Department of the Interior. When completed, our Caribbean Office should be provided with documentation showing that the supporting documents have been submitted. |

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SHOULD BE REPORTED TO  
THE OFFICE OF INSPECTOR GENERAL**

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