

# **Government of the United States Virgin Islands**

*Government Auditing Standards* Report on  
Internal Control Over Financial Reporting  
and on Compliance and Other Matters  
Year Ended September 30, 2022

# Government of the United States Virgin Islands

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## **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Honorable Governor  
of the Government of the United States Virgin Islands

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Government of the United States Virgin Islands (the Government), which comprise the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information as of and for the year ended September 30, 2022, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2025. We expressed a disclaimer of opinion on the financial statements of the governmental activities, business-type activities, general fund, federal grants fund, unemployment insurance-enterprise fund, aggregate remaining fund information, and aggregate discretely presented component units opinion units based on the circumstances described in our aforementioned report.

Our aforementioned report includes references to other auditors who audited the financial statements of the Virgin Islands Housing Authority (VIHA), Virgin Islands Economic Development Authority (VIDEA), Virgin Islands Waste Management Authority (VIWMA), Virgin Islands Public Broadcasting System (VIPBS), Virgin Islands Housing Finance Authority (VIHFA), and Government Employees' Retirement System of the of the U.S. Virgin Islands (GERS), as described in our report on the Government's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. We audited the financial statements of the Virgin Islands Public Finance Authority (PFA), The West Indian Company Limited (WICO), viNGN, INC. d/b/a Virgin Islands Next Generation Network (viNGN), Tobacco Settlement Financing Corporation (TSFC), and Matching Fund Special Purpose Securitization Corporation (MFSPSC). This report does not include the results of our testing of internal control over financial reporting or compliance and other matters for PFA, WICO, viNGN, TSFC, and MFSPSC which is reported on separately by us.

### **Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Government's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control. Accordingly, we do not express an opinion on the effectiveness of the Government's internal control.

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Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in greater detail in Appendices A and B, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Government's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies identified below and described in greater detail in Appendix A to be material weaknesses.

Finding #	Nature of Finding
2022-001	Year-End Close Process
2022-002	Revenue and Receivables
2022-003	Grants Management
2022-004	Capital Assets and Related Expenditures
2022-005	Recording of Liabilities
2022-006	Management of the Medicaid Program
2022-007	Unemployment Insurance Trust Fund
2022-008	Workers Compensation Program
2022-009	Payroll, Related Accruals, and Other Expenditures
2022-010	Bank Accounts
2022-011	Other Postemployment Benefits Obligation
2022-012	Accounting Standards Implementation
2022-013	Irregularities related to Procurement Activities
2022-014	Procurement Regulations

*A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency identified below and described in greater detail in Appendix B to be a significant deficiency.

Finding #	Nature of Finding
2022-015	Information Technology (IT) Environment



## Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Government's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our auditing procedures disclosed an instance of suspected fraud that is required to be reported in accordance with *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2022-013. Our opinion is not modified with respect to these matters. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* as identified below and described in greater detail in Appendix C.

Finding #	Nature of Finding
2022-013	Irregularities related to Procurement Activities
2022-014	Procurement Regulations
2022-016	Collateral of Depository
2022-017	Landfill Consent Decrees
2022-018	Establishment of a Medical Malpractice Trust Fund
2022-019	Casino Control Commission

## The Government's Response to Findings

*Government Auditing Standards* requires the auditor to perform limited procedures on the Government's responses to the findings identified in our audit and described in Appendices A through C. The Government's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

## Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Government's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Government's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, P.C.

September 30, 2025

## Material Weaknesses in Internal Control Over Financial Reporting

### Finding 2022-001: Year-End Close Process and Financial Deficit

#### A. Timeliness and Methodology of Close Process

**Criteria** - Accounting tasks, such as periodic reconciliations, play a key role in proving the accuracy of accounting data and information included in various interim financial statements and/or reports.

**Condition** - We observed a significant delay in both the year-end closing process and the preparation of year-end financial statements. In numerous instances, account reconciliations were not finalized until the audit process was underway, resulting in a substantial lag relative to the Government's fiscal year-end. As a consequence, detailed schedules supporting general ledger accounts did not consistently reconcile with the respective general ledger balances.

During the audit process, significant post-closing adjustments were identified and provided. It was further noted that these post-closing adjustments were not recorded in the accounting system, but instead were maintained in a manual Excel working trial balance.

During financial reporting walkthrough, we noted the absence of evidence indicating that the Major Fund Calculation worksheet had been formally reviewed and approved. Similarly, during the revenue walkthrough, there was no evidence that year-end closing adjustments had been formally reviewed and approved.

Furthermore, our review of the Government's draft financial statements revealed inconsistencies and/or omissions in the incorporation of disclosures within the footnotes, as well as inconsistencies in the classification and reporting of account balances for component units. Many of the Government components do not have audited financial statements as of September 30, 2022, to include Virgin Islands Port Authority, Virgin Islands Water and Power Authority, Virgin Islands Government Hospital and Health Facilities Corporation (Roy L. Schneider Hospital and Governor Juan F. Luis Hospital and Medical Center), University of the Virgin Islands, Megan's Bay Authority, and University of the Virgin Islands Research and Technology Park Corporation.

**Cause** - The adjustments, omissions, and errors identified appear to result from internal controls not being performed at an appropriate level of precision to prevent, or detect and correct, misstatements in the financial statements, as well as from limited resources among financial personnel.

**Effect or Potential Effect** - Delays in the year-end closing process and the preparation of financial statements increase the risk that errors may remain undetected, thereby compromising the accuracy of financial reporting. When account reconciliations are not completed prior to the audit, stakeholders may be presented with incomplete or inaccurate information, which can adversely affect decision-making. Maintaining post-closing adjustments in a manual Excel file, rather than within the accounting system, elevates the risk of errors and diminishes transparency. The absence of formal review and approval of key financial reporting documents further increases the likelihood that errors will go unnoticed. Inconsistencies and omissions in footnote disclosures and the reporting of component unit account balances may result in misleading financial statements. Collectively, these issues may hinder the Government's ability to comply with applicable accounting standards and may undermine stakeholder confidence in the integrity of its financial statements.

## Material Weaknesses in Internal Control Over Financial Reporting

**Recommendation** - We recommend that management implement and adhere to a comprehensive year-end closing calendar to ensure the timely completion of all closing activities and the preparation of financial statements. All account reconciliations, accruals, and schedules should be prepared and reviewed in a timely manner.

The review process should include tests of mechanical accuracy and tracing of items on the reconciliations to relevant source documents, including confirmation with departments independent of Accounting. The composition of any unreconciled differences should be identified and followed up on, and any necessary journal entries should be recorded as a result. Reconciliation mechanisms should be enhanced to prevent the recurrence of such errors.

Post-closing adjustments should be promptly recorded in the accounting system, to enhance accuracy, transparency, and auditability. Management should establish formal review and approval procedures for all key financial reporting documents, including the Major Fund Calculation worksheet and year-end closing adjustments, with appropriate documentation retained to evidence such reviews.

Furthermore, strict adherence to the year-end closing schedule for the Government and all component units should be required. This will enable the Government and its component units to comply with financial reporting covenants and will make the year-end work and audit preparation process significantly less time-consuming and arduous, without compromising the quality of the accounting records or diminishing existing internal controls. The Government should implement internal controls, policies, and procedures to ensure all components report timely audited information for inclusion in the Government's financial statements in accordance with generally accepted accounting principles.

### **Views of Responsible Officials:**

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - Aggressive timelines are established for a timely year-end process. The Department of Finance (DOF) is in the process of standardizing the reporting necessary to aid in a successful and timely audit by collectively working on templates that will assist the agencies in reporting the necessary data. Accountability measures must be in effect to remove employees that are ineffective, while recruiting for accounting talent. DOF is aware that to achieve uniformity across all agencies on finance matters, DOF will have to assess the needs, skillset, and resources for the agencies and provide a sole position that will be able to monitor the success. Additionally, the Government will establish a formal review and approval process for the Major Funds Calculation.

**Implementation Date** - Fiscal Year 2025

**Person(s) Responsible** - Department of Finance and its Accounting Division, Management Team; Executive Assistant Directors, Directors, and Line Managers.

## **B. Deficits in Unrestricted Net Position**

**Criteria** - A sound financial position is essential for the effective day-to-day operations of the Government. In accordance with generally accepted accounting principles (GAAP) and Governmental Accounting Standards Board (GASB) requirements, the unrestricted net position should be sufficient to meet the Government's operational needs and provide a buffer for unforeseen expenditures.

### Material Weaknesses in Internal Control Over Financial Reporting

**Condition** - Our review of the Government's financial position indicates that it is facing significant financial challenges. The deficit in unrestricted net position is primarily attributable to ongoing operating losses, a substantial level of outstanding debt, and recent bond downgrades, each of which has materially and adversely affected the Government's financial stability.

**Cause** - The significant recovery costs following the 2017 hurricanes have further strained the Government's resources. Additionally, unfunded pension and other postemployment benefit obligations have placed considerable pressure on the Government's finances. The global coronavirus pandemic (COVID-19) has further exacerbated these challenges by disrupting government operations and revenue streams, resulting in additional fiscal constraints.

**Effect or Potential Effect** - Over the past several years, the unrestricted net position has experienced substantial operational losses. This financial condition has necessitated the inclusion of an emphasis of matter paragraph in the audit opinion. Improvement is critical if the Government is to meet its obligations related to debt, pension, and other postemployment benefits, and to maintain access to future bond markets. Continued negative financial results could significantly impact the Government's overall financial position and cash flows.

**Recommendation** - Management has undertaken efforts to stabilize and strengthen the Government's financial position through the implementation of a comprehensive, multi-faceted plan. This plan includes legislative actions to enhance revenue, cost-reduction initiatives, and proposed increases in employee contributions to pension plans. The Government has also received substantial federal assistance in response to the 2017 hurricanes and the COVID-19 pandemic.

We further recommend that management develop future plans and budgets aimed at generating operating income, avoiding ongoing deficits, and rebuilding equity.

#### **Views of Responsible Officials:**

The Government concurs with the auditor's findings and recommendations.

**Action Plan:** The Government is continuing with its recovery efforts of working with federal partners, attracting new industries, improving financial controls, monitoring cash flows, and rebuilding equity.

**Implementation Date:** Ongoing.

**Person(s) Responsible:** The Governor's Financial Team.

### **C. Journal Entries**

**Criteria** - Implementing role-based access controls for recording of journal entries play a crucial role in ensuring the accuracy of accounting data and information included in various interim financial statements and/or reports.

**Condition** - We noted that several individuals possess access rights to create, approve, and post journal entries. Additionally, there were five (5) instances where journal entries are prepared and approved by same person and noted one (1) instance where adequate supporting documentation was not available for review.



### **Material Weaknesses in Internal Control Over Financial Reporting**

**Cause** - The lack of segregation of duties and insufficient oversight in the journal entry process may have resulted from inadequate access control policies and a lack of formalized procedures for review and approval.

**Effect or Potential Effect** - Errors or fraudulent entries may be recorded in the financial records.

**Recommendation** - We recommend that management implement enhanced access controls to ensure segregation of duties in the journal entry process. Additionally, a formal review and approval procedure should be established, requiring documented evidence of oversight by the Department of Finance to ensure the integrity and accuracy of financial records.

#### ***Views of Responsible Officials:***

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - Department of Finance recognized that it needs to have more feet on the ground to be able to approve journals. As such, training has been in effect and there are more people that will be able to assist with journals, especially when people are on leave etc.

Additionally, certain journals are systematically generated, resulting in the same individual serving as both the creator and approver. These typically include year-end closing journals. Moving forward, the Department of Finance will ensure that proper documentation is maintained within the system.

**Implementation Date** - Immediately.

**Person(s) Responsible** - Department of Finance Management Information System Unit, Enterprise Resource Planning (ERP) Project Manager, and Directors.

## Material Weaknesses in Internal Control Over Financial Reporting

### Finding 2022-002: Revenue and Receivables

#### A. Reconciliation of Subsidiary Registers

**Criteria** - The Bureau of Internal Revenue (the Bureau) administers the U.S. Virgin Islands' tax laws, managing income, gross receipts, excise, highway users', hotel room, entertainment, and fuel taxes. The Division of Real Property Tax assesses all taxable properties, prepares and mails tax bills, and collects property taxes. The Government maintains subsidiary registers from its tax systems. A systematic process should be established to regularly reconcile these registers with tax receivable general ledger balances, ensuring consistency, accuracy, and completeness in financial records, in line with best practices.

**Condition** - We noted the following:

- The Government does not reconcile its subsidiary registers with its tax receivable general ledger account balances.
- During our review of the gross receipts tax receivable schedule prepared under the modified accrual basis, we observed that the schedule incorrectly utilized the collection amount from September 2022 instead of October 2022. Furthermore, for the schedules related to income tax, gross receipts, and hotel receivables, we identified that the underlying data supporting these schedules was as of April 2023, rather than September 30, 2022.

**Cause** - The Government does not appear to adhere to established written policies and procedures regarding the proper reconciliation and reporting of revenue and receivables.

**Effect or Potential Effect** - This could lead to improper recording of revenue and receivables, ultimately leading to a potential misstatement in financial statements.

**Recommendation** - To prevent the need for major adjustments to the impacted tax receivable and revenue accounts at the end of each year, we recommend that the general ledger accounts be reconciled to the detailed records on a quarterly basis. A strong control system over receivables, which includes an accurate accounting system that maintains agreement between the receivables ledger and the general ledger, will prevent audit adjustments at year-end.

#### **Views of Responsible Officials:**

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - For purposes of interim financial reporting, the Bureau, Office of the Lieutenant Governor, and the Department of Finance have begun quarterly reconciliation meetings to reduce end of year adjustments, reconcile non-sufficient funds checks in a timely manner, and implement internal safeguards to allow for more efficient reconciliation. In addition, the Government will implement the policy of reconciling tax receivables on a quarterly basis.

**Implementation Date** - Fiscal Year 2025

**Person(s) Responsible** - Assistant Chief of Processing, Tax Collector, and designated staff in collaboration with Director of Treasury and, as needed, the Director of Accounting, Bureau of Internal Revenue, and Department of Finance Accounting Division.

## Material Weaknesses in Internal Control Over Financial Reporting

### **B. Tax Return Processing Method**

**Criteria** - The Government uses a manual process to batch tax returns by type and tax year before entering them into the VITAX system. Best practices and internal control standards require that all data entered into financial systems be thoroughly reviewed and verified for accuracy and completeness. Manual data entry should be regularly checked and validated, to reduce errors and protect the integrity of financial information.

**Condition** - The tax returns' manual data entry is being reviewed on a random sample basis and the Bureau is relying on the system's automated edit check to capture any errors. While the system's automated edit check identifies many errors, it does not guarantee the complete accuracy of the entered information. Relying primarily on automated edit checks and random sample reviews does not fully ensure the accuracy and reliability of the information entered.

**Cause** - The reliance on random sampling and automated edit checks for manual data entry review may result from limited resources and a lack of comprehensive review procedures. This approach may lead to potential inaccuracies, as the system's checks do not ensure complete data accuracy.

**Effect or Potential Effect** - This poses a continued risk of data omissions, typographical errors, entry of information to incorrect fields, and fraudulent data entry.

**Recommendation** - We recommend the Bureau consider an evaluation of its current review procedures around the tax return processing method in an effort to minimize associated risks.

#### ***Views of Responsible Officials:***

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - The Bureau has launched its online gross receipts filing system. The Bureau is in the final testing stage of implementing the online income tax filing system.

**Implementation Date** - Ongoing.

**Person(s) Responsible** - The management team of the Bureau; specifically, the Computer Operations and Processing Branches.

### **C. Real Property Tax**

**Criteria** - Timely preparation of comprehensive and accurate real property receivable aging schedule is key to maintaining adequate control over the Real Property Tax receivables.

**Condition** - We noted the following:

- Tax billings were issued to non-taxable properties owned by the Government and its component units.
- During our testing of real property tax receivables, we sampled and selected five (5) transactions and were unable to recalculate the interest for three (3) of the samples. The Government was unable to determine the cause of the variances.

### Material Weaknesses in Internal Control Over Financial Reporting

**Cause** - The issuance of tax billings to non-taxable properties and the incorrect calculation of penalty interest may be due to inadequate system controls and oversight. These issues could result from outdated property records, insufficient training, or a lack of detailed review processes, leading to errors in billing and interest calculations.

**Effect or Potential Effect** - The issuance of tax billings to non-taxable properties and the incorrect calculation of penalty interest may lead to financial inaccuracies and potential disputes. This could result in overstatement of receivables, misallocation of resources, and diminished trust in the Government's financial management practices.

**Recommendation** - Management should perform a review and identification of the Government's and component units' properties in the tax roll listing to ensure proper tax credits are applied. Management should also implement enhanced controls to ensure tax billings are accurately issued only to taxable properties. Additionally, the calculation process for penalty interest should be reviewed and corrected to reflect the accurate time period. Regular audits and staff training should be conducted to prevent future discrepancies.

#### ***Views of Responsible Officials:***

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - The Office of the Lieutenant Governor will continue to work with appropriate agencies and review its records to remove from its tax rolls any entities that are exempt from paying taxes. The Office of the Lieutenant Governor notes that Government agencies are generally not exempt from paying sewer fees that are collected via the tax bill on behalf of the Virgin Islands Waste Management Authority. Therefore, these entities will receive tax bills for sewer fees only.

**Implementation Date** - Ongoing.

**Person(s) Responsible** - The management team of the Office of the Lieutenant Governor; specifically, the Tax Assessor, Tax Collector, and the Chief of Staff.

### **D. Other Revenues**

**Criteria** - Internal control policies and procedures should clearly outline the methods for storing supporting documentation for all transactions within the Enterprise Resource Planning System (Munis).

**Condition** - The Government was unable to provide readily available supporting documentation for eleven (11) out of thirty-four (34) sampled transactions for charges for services, and twelve (12) out of thirty-six (36) sampled transactions for interest and other revenues.

**Cause** - This condition appears to be the result of inadequate internal control procedures regarding the retention and organization of supporting documentation.

**Effect or Potential Effect** - The inability to provide readily available supporting documentation for sampled transactions increases the risk of errors or irregularities going undetected, which may result in inaccurate financial reporting. This deficiency may also hinder the Government's ability to substantiate the validity and completeness of recorded revenues, potentially leading to audit adjustments or findings.

**Material Weaknesses in Internal Control Over Financial Reporting**

***Recommendation*** - We recommend that the Government establish and enforce standardized procedures for the retention and organization of supporting documentation for all transactions. All relevant documentation should be stored in a centralized and easily accessible location, preferably within the Enterprise Resource Planning System (Munis). Regular reviews should be conducted to ensure compliance with these procedures and to facilitate timely retrieval of supporting documentation during audits or other reviews.

***Views of Responsible Officials:***

The Government concurs with the auditor's findings and recommendations.

***Action Plan*** - In an effort to provide adequate supporting documentation for sampled items, the Government will ensure that the procedures to attach the documents are fully adhered to. The Government will conduct spot checks to ensure employees are adhering to this process.

***Implementation Date*** - Immediately.

***Person(s) Responsible*** - Department of Finance management; specifically, the Director of Treasury.

## Material Weaknesses in Internal Control Over Financial Reporting

### Finding 2022-003: Grants Management

#### A. Control Systems Over the Schedule of Expenditures of Federal Awards

**Criteria** - The Government receives grant and contract funds from various funding agencies, necessitating a robust accounting system to record specific grant and contract activities. The flow of accounting transactions into the ERP system is crucial for designing and maintaining strong controls over the Schedule of Expenditures of Federal Awards (SEFA). It is essential that SEFA expenditures between the Government's ERP system and individual agency or departmental records, where the respective federal programs are managed and administered, are reconciled consistently. Additionally, compliance with laws and regulations associated with any accepted grant or contract must be ensured.

**Condition** - We noted the following:

- Expenses had been charged to grants without sufficient grant award funding availability.
- Significant transactions paid to or transferred to various departments of the Government were erroneously reported as subrecipient transactions.
- Approximately \$13.87 million in expenditures had erroneously been recorded in SEFA, pertaining to fiscal year 2023, requiring an adjustment in Assistance Listing Numbers (ALN) 21.027, *Coronavirus State and Local Fiscal Recovery Funds*.
- Approximately \$0.8 million in expenditures had erroneously been recorded as expenditures in ALN 84.027, *Special Education Grants to States*, requiring adjustment.
- Approximately \$4.7 million in expenditures had erroneously been recorded as expenditures in ALN 84.403, *Consolidated Grant to the Outlying Areas*, requiring adjustment.
- Approximately \$1.6 million in expenditures had erroneously been recorded as expenditures in ALN 84.425, *Education Stabilization Fund (ESF)*, requiring adjustment.
- For ALN 93.563, *Child Support Enforcement*, the drawdown details from the payment management system do not align with the cash receipts details for the program. This discrepancy is due to duplicate receipts being recorded in the cash receipts detail, which were not corrected during the fiscal year.

**Cause** - It appears that internal controls over the SEFA were not properly designed and implemented.

**Effect or Potential Effect** - Expenditures are being charged to incorrect projects, codes, and ALN, resulting in incorrect financial reporting. These issues also impact the roll-forward schedule for the general ledger account titled "Due from Federal Government." These deficiencies may result in inaccurate reporting of grant expenditures, improper allocation of federal funds, and potential noncompliance with grant requirements and federal regulations. Such errors could lead to audit findings, questioned costs, or disallowed expenditures, and may jeopardize future funding opportunities.

## Material Weaknesses in Internal Control Over Financial Reporting

**Recommendation** - The Government should implement regular reconciliations of the SEFA to underlying accounting records and grant documentation to prevent misclassification and erroneous reporting of expenditures. Any discrepancies identified should be promptly investigated and corrected. Additionally, communication and reconciliation mechanisms should continue to be enhanced between the centralized government agency responsible for collecting SEFA information and each individual agency managing federal grant programs, in order to prevent the recurrence of such errors and misclassifications.

### ***Views of Responsible Officials:***

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - The review of ALN, expenditures, and cash receipts postings to grants will occur as part of the quarterly system closings. Continuous reconciliations of the SEFA with departments and agencies will also be implemented.

**Implementation Date** - Fiscal Year 2025

**Person(s) Responsible** - Office of Management and Budget (OMB), Department of Finance's Accounting and Treasury Divisions.

## **B. Federal Grants and Contributions**

**Criteria** - The Government receives grant and contract funds from various funding agencies. These situations necessitate a strong accounting system to record specific grant and contract activities. Consideration must also be given to compliance with laws and regulations that are a component of any grant or contract accepted.

**Condition** - Based on our review of the schedule of grants and contracts, we noted that the Government is not monitoring its outstanding federal receivables on a periodic basis. We observed an improvement in record-keeping, as the Government has implemented a process for establishing discrete and separate receivable balance on a per grant/project basis. However, the following key components are lacking:

- There is no readily verifiable identification regarding the aging and collection of prior-year receivables, nor is there an assessment of the impact on the adequacy of the allowance for uncollectible accounts. Specifically, there is no documentation matching each cash receipt to the related expenses and indicating the period in which the expense was incurred.
- The Government was unable to provide supporting documentation for any of the seventeen (17) sampled transactions to verify the existence and accuracy of the subsequent cash receipts recorded as federal receivable for the fiscal year.
- The Government was unable to provide readily available supporting documentation for eight (8) out of sixty-three (63) sampled transactions for federal grant revenues.

**Cause** - The Government does not appear to have a process in place to adequately monitor federal receivables and does not maintain proper accounting records for financial transactions.

## Material Weaknesses in Internal Control Over Financial Reporting

**Effect or Potential Effect** - This leads to difficulty in establishing individual balances for both receivables and deferrals from grants and contracts may obscure items that have been inactive for many years, and can cause confusion regarding the true level of activity. Additional time and effort were required during the audit process to rectify and reconcile the balances and to locate or identify alternative methods. This also poses an increased risk of fraudulent transactions.

**Recommendation** - We recommend that receivables be tracked by each individual Government agency by performing the following:

- Maintain a drawdown schedule that notes the expenses comprising each drawdown for each federal program, as well as the period in which the expenses were incurred.
- Attach a copy of each drawdown, including evidence of proper approvals, in the ERP system, along with the corresponding bank statement showing the receipt of funds from the federal government.
- Include a listing of expenses supporting the amount drawn down in the ERP system. This detail should include the invoice date, payroll period, and check date.
- Produce and maintain detailed reports and records at specified time intervals for potential analysis by users such as management, independent auditors, or governmental bodies. Management should consider strict adherence to, or revision of, its records retention policy.

### **Views of Responsible Officials:**

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - The Department of Finance monitors the federal receivables and provides the agencies with reports showing outstanding drawdowns. In addition, a private firm has been contracted to work directly with the agencies to reconcile the Government's federal receivables.

**Implementation Date** - Ongoing.

**Person(s) Responsible** - Department of Finance management; specifically, the Director of Treasury.

## **C. Federal Grants Accounting**

**Criteria** - The Government's Treasury Division is responsible for managing grant and contract cash receipts. A strong control system over grants management includes an accurate accounting system that performs timely reconciliations to ensure proper financial reporting.

**Condition** - Based on our review and testing of the schedule of grant revenues, we noted the following:

- Local reimbursements totaling approximately \$10.3 million into the Asset Recovery Fund were improperly reported as federal grant revenue.



### Material Weaknesses in Internal Control Over Financial Reporting

- Approximately \$15.9 million of federal cash receipts had been received in advance for American Rescue Plan Act programs and were recorded as revenues. During the fiscal year, the Government did not incur allowable expenditures for the full amount received and did not properly reclassify the excess amounts to refundable advances.

**Cause** - The Government does not appear to have a process in place to adequately monitor federal revenues and federal cash receipts received in advance.

**Effect or Potential Effect** - Grant revenues could be overstated and liabilities understated due to a lack of timely reconciliations, leading to inaccuracies in the reported financial position.

**Recommendation** - Management should ensure strict adherence to its reconciliation and review policies and procedures and establish a process for regular monitoring of federal cash receipts and expenditures.

#### **Views of Responsible Officials:**

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - The Government has implemented measures to ensure strict adherence to its reconciliation and review policies and procedures.

**Implementation Date** - Ongoing.

**Person(s) Responsible** - Department of Finance Executive Assistant Commissioner, Director of Accounting and Financial Reporting, and Director of Treasury.

### **D. Report Submission**

**Criteria** - 2 CFR 200.512, *Report Submission*, establishes that the audit shall be completed and the data collection form and reporting package shall be submitted to the Federal Audit Clearinghouse (FAC) within the earlier of 30 days after receipt of the auditor's report or nine (9) months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

**Condition** - We noted that the Government did not comply with the required submission date of the data collection form and reporting package to the FAC for the fiscal year ended September 30, 2022.

**Cause** - This appears to be the result of a lack of design and implementation of internal controls to ensure compliance with the reporting requirement.

**Effect or Potential Effect** - Non-compliance can jeopardize the Government's eligibility for current and future federal funding.

**Recommendation** - We recommend that the Government establish controls to ensure the reporting package is submitted to the FAC annually within the required timeframe.

**Material Weaknesses in Internal Control Over Financial Reporting**

***Views of Responsible Officials:***

The Government concurs with the auditor's findings and recommendations.

*Action Plan* - The Government has implemented a plan, in coordination with its external auditor to move to current audits by Fiscal Year 2025. Once audits are current, the Government will provide current submissions to the FAC.

*Implementation Date* - Fiscal Year 2025

*Person(s) Responsible* - Department of Finance Accounting Division.

## Material Weaknesses in Internal Control Over Financial Reporting

### Finding 2022-004: Capital Assets and Related Expenditures

#### A. Record-Keeping

**Criteria** - Governmental Accounting Standards Board (GASB) Statement No. 34 requires capital asset transactions reporting in the government-wide financial statements. The Government's policies and procedures require the timely reporting of all transactions in the ERP system.

**Condition** - We noted the following:

- During our sampling procedures over capital asset additions, we noted that the Government was unable to provide readily available supporting documentation for the two (2) out of two (2) sampled capital asset additions during the year.
- We performed completeness testing procedures for capital asset and construction in progress (CIP) additions during the year; however, the Government was unable to provide supporting documentation for the expenditure databases being analyzed.
- The Government's process for maintaining capital asset records identified expenses that needed to be reclassified as capital outlays in the fund financial statements. However, supporting documentation for these adjustments was not available.

**Cause** - Supervisory reviews and other checks and balances may not be timely or effective in all instances due to manual processes. The Government does not maintain proper accounting records for financial transactions, which may be attributable to insufficient internal controls or oversight of the documentation process for capital asset additions.

**Effect or Potential Effect** - Without proper documentation, the reported values of capital assets may be inaccurate, which could result in potential misstatements in the financial statements.

**Recommendation** - We recommend the following:

- Conduct regular reconciliations and reviews of capital asset and construction in progress records to ensure that all expenditures are properly documented and accurately accounted for.
- Strengthen oversight and approval processes for reclassifying expenses, ensuring that all reclassifications are reviewed and approved by authorized personnel.
- Produce and maintain detailed reports and records at specified intervals to facilitate analysis by management, independent auditors, or governmental bodies. Management should strictly adhere to, or consider revising, its records retention policy to support these practices.

#### **Views of Responsible Officials:**

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - The Department of Finance will review the controls in place and update the necessary manuals to address all of the recommendations set forth.

**Implementation Date** - Immediately.

## Material Weaknesses in Internal Control Over Financial Reporting

*Person(s) Responsible* - The Commissioner, Department of Finance, Director of Accounting, and Fixed Assets Coordinator.

### **B. Reconciliation and Review of Subsidiary Registers**

**Criteria** - The Government maintains a subsidiary asset register for the purpose of calculating depreciation for all assets. A systematic process should be established to regularly reconcile subsidiary asset register to ensure consistency, accuracy, and completeness of records in line with best practices.

**Condition** - Based on our review of the subsidiary asset registers, we noted the following:

- Subsidiary registers for land contained a significant number of properties that are grouped into only few asset numbers instead of being recorded as individual properties.
- Due to the lack of supporting documentation to verify capital asset additions and construction in progress transfers recorded during the fiscal year, we were unable to verify the depreciation expense recorded in the subsidiary ledger.

**Cause** - The Government does not maintain proper supporting documentation to verify the accuracy of the capital asset subsidiary register.

**Effect or Potential Effect** - The practice of grouping a significant number of properties under only a few asset numbers, rather than recording them individually, may result in inaccuracies in asset management and financial reporting. This can lead to difficulties in tracking and valuing individual properties, increasing the risk of misstatements in the financial statements. Additionally, the lack of supporting documentation for capital asset additions and construction in progress transfers impedes the ability to verify depreciation expenses, further compromising the reliability and completeness of the subsidiary ledger.

**Recommendation** - We recommend that the Government reconcile general ledger accounts to detailed records on a quarterly basis to avoid major year-end adjustments. This process should include a review of acquisition dates, depreciation calculations, and asset descriptions. Unique asset numbers and sufficient tagging information should be assigned to all separately identifiable assets. Routine physical counts should be performed and reconciled with asset registers.

Additionally, asset transfers to and from the Government should be monitored promptly, and asset custodians should be regularly reviewed to ensure that all central Government assets are properly accounted for and that formal title transfers have occurred, as applicable.

Detailed reports and records should be produced and maintained at specified intervals for analysis by management, independent auditors, or governmental bodies. Management should strictly adhere to, or revise, its records retention policy as necessary.

### ***Views of Responsible Officials:***

The Government concurs with the auditor's findings and recommendations.

## Material Weaknesses in Internal Control Over Financial Reporting

**Action Plan** - To verify that all assets in the subsidiary register are reviewed and updated with sufficient descriptions, corrected acquisition dates, and recalculated accumulated depreciation, the Capital Assets team - comprising key individuals from various departments and led by the Department of Property and Procurement and the Lieutenant Governor's Office—will identify land assets and confirm what is recorded in the books. An update to the policies and procedures will be expedited to specify how often they are revised and the frequency of working sessions for reconciliations. Revision of the Asset Policy and Procedural Manual is underway, along with continued collaboration between the Department of Finance, Department of Property and Procurement, and Department of Public Works regarding the development of the Capital Assets team.

**Implementation Date** - Ongoing.

**Person(s) Responsible** - Various designated individuals within the Department of Property and Procurement (DPP), Lieutenant Governor's Office, the Department of Public Works, and the Department of Finance to formulate a Capital Assets team.

### **C. Construction in Progress (CIP) Monitoring**

**Criteria** - Effective internal control standards and best practices require that construction in progress be monitored on a regular and systematic basis to ensure that projects are completed on time, within budget, and in accordance with established specifications. Timely analysis and review of project status, as well as the prompt recording of necessary adjustments, are essential to maintaining accurate financial records and supporting sound project management.

**Condition** - During our sampling procedures over construction in progress activity, we noted that the Government was unable to provide readily available supporting documentation for the following:

- Fifteen (15) out of fifteen (15) CIP projects selected for review to assess their status at the year-end.
- Nine (9) out of nine (9) CIP additions selected to verify proper recording during the year.
- Three (3) out of three (3) CIP transfers selected to verify proper recording during the year.

**Cause** - The Government does not maintain proper supporting documentation to verify CIP activity during the fiscal year. Additionally, confirmation procedures were not performed in a timely manner, resulting in outdated or inaccurate CIP information.

**Effect or Potential Effect** - The lack of supporting documentation may result in inaccurate CIP project records, with additions and transfers either not properly capitalized or incorrectly capitalized, leading to potential misstatements in the financial statements.

## Material Weaknesses in Internal Control Over Financial Reporting

**Recommendation** - With the increase in the number of CIP projects, it is imperative to maintain an effective system for recording project costs accurately and timely, and for consistently monitoring project status with the respective project owners. It is critical that the Government reconcile these costs with the reports and records of the respective project managers, related invoices, contracts, and amendments, ensuring agreement with contract costs and capital expenditure budgets. A consistent method should be applied for determining project completion and transferring assets to the appropriate depreciable asset class. Additionally, management should strictly adhere to, or consider revising, its records retention policy.

### **Views of Responsible Officials:**

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - The Department of Property and Procurement (DPP) in collaboration with key individuals in other agencies will provide findings internally for areas where this step was missed, including some accountability. The Capital Assets team has already begun deliberating on how the Government can capture this at the time of final payment. DPP will also review the policy and update accordingly.

**Implementation Date** - Immediately.

**Person(s) Responsible** - The Commissioner, Department of Property and Procurement.

## **D. Capital Assets Impairment Process**

**Criteria** - Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include amongst others, evidence of physical damage.

**Condition** - We noted the following regarding the Government's capital assets impairment process:

- While an annual impairment assessment was performed by DPP, the process to ensure completeness of the impairment assessments across the asset classes was not readily addressed. Moreover, conclusions reached by DPP should be processed and accounted for by the Department of Finance and adjustments recorded in the asset registers, as necessary.
- We noted that some damage assessments for the departments and agencies were informally done, or were not performed at all, until the accounting team requested them. Further, each division or department seemed to have its own separate process or methodology.

**Cause** - Each division or department appeared to have its own separate process or methodology for conducting damage assessments, leading to inconsistencies.

**Effect or Potential Effect** - The lack of coordination between departments may cause delays in processing and accounting for impairment conclusions, resulting in untimely adjustments in the asset registers. Additionally, the use of different processes or methodologies by various divisions or departments can lead to inconsistent impairment data, complicating the comparison and consolidation of information across the organization.

## Material Weaknesses in Internal Control Over Financial Reporting

**Recommendation** - We recommend that the Government implement a standardized, formal process for conducting annual impairment assessments, independent of the external audit. Furthermore, the results of periodic physical counts should be readily available for analysis by external parties and should be compared to the detailed capital asset subsidiary ledger. These results should be communicated to the Department of Finance so that necessary adjustments can be recorded. This will improve the tracking of assets for disposal and impairment purposes. It should also be noted that, as a recipient of federal grant funds, the Government is required to have an inventory management system in place to track items purchased with federal funds.

### ***Views of Responsible Officials:***

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - In an effort to implement a formal process whereby a periodic impairment assessment is conducted and to ensure that all disposals and retirements are consistently processed, the Government will identify key personnel from various departments and agencies to form a Capital Assets team in addition to full implementation of the fixed assets module within the ERP system. There is a project management software that houses all CIP information.

**Implementation Date** - Immediately.

**Person(s) Responsible** - Various designated individuals within the Department of Property and Procurement and the Department of Public Works to formulate a Capital Assets team.

## **E. Capital Assets - Business-Type Activities**

**Criteria** - Capital assets constitute an investment of substantial amounts, thereby, requiring an excellent system of controls for the maintenance and safeguarding of these assets.

**Condition** - The Government is currently utilizing an excel worksheet to monitor capital assets within its business-type activities. The Government began the process of uploading additions into the ERP asset registers in fiscal year 2017. However, the asset register for the beginning balances has yet to be uploaded.

**Cause** - There may be resource constraints, such as insufficient staffing, budget limitations, or lack of technical expertise, hindering the complete transition to the ERP system.

**Effect or Potential Effect** - Manual data entry and maintenance in separate spreadsheets heightens the risk of errors, such as data entry mistakes, formula inaccuracies, and inconsistencies.

**Recommendation** - We recommend the completion of the automation process for these assets and implementation of subsequent review and reconciliation procedures in order to ensure that accurate and timely information is available.

### ***Views of Responsible Officials:***

The Government concurs with the auditor's findings and recommendations.

**Material Weaknesses in Internal Control Over Financial Reporting**

*Action Plan* - The Government will review the recommendations and collaborate with relevant parties.

*Implementation Date* - Ongoing.

*Person(s) Responsible* - Department of Finance, Director of Accounting and Financial Reporting and Capital Asset Coordinator.



## Material Weaknesses in Internal Control Over Financial Reporting

### Finding 2022-005: Recording of Liabilities

#### A. Retroactive Pay Liability

**Criteria** - An effective control system for liability calculation requires an accounting system that performs timely reviews to ensure accurate financial reporting and that all liability transactions are properly recorded and adequately supported. For union employees in various Government departments, salaries are negotiated and agreed upon through Collective Bargaining Agreements (CBAs). The Government is responsible for accurately calculating and recording liabilities arising from unpaid salary increases that have been collectively bargained but not paid to employees. As new and existing contracts are negotiated or renegotiated and signed, it is essential that the accounting system reflects these obligations to ensure the completeness and accuracy of reported liabilities.

**Condition** - We noted that there is currently a \$150.0 million retroactive pay liability reflected in the books and records; however, the supporting schedules can only confirm \$138.3 million, which is based on an analysis of CBAs from the initial retroactive pay wage commission findings. Additionally, approximately 66% of the Government's employees are paid at varying rates based on different CBAs. We also noted that several CBAs have not been evaluated, implemented, ratified, or accrued for.

**Cause** - This discrepancy between recorded and confirmed retroactive pay liabilities may be attributable to errors in calculation, incomplete data, or a lack of proper reconciliation. Additionally, the Government lacks adequate controls and a formalized process for implementing negotiated CBAs.

**Effect or Potential Effect** - The lack of evaluation, implementation, ratification, and accrual for several CBAs may result in further inaccuracies in the Government's financial records. This situation could adversely impact budget planning, financial reporting, and compliance with contractual obligations.

**Recommendation** - We recommend that management conduct a comprehensive review and reconciliation of all retroactive pay liabilities to ensure that amounts recorded in the books and records are fully supported by detailed schedules and analyses. Management should evaluate, implement, ratify, and accrue for all outstanding CBAs to ensure that employee pay rates and related liabilities are accurately reflected. Additionally, management should establish and maintain a centralized master file summarizing pay rates and relevant factors from each CBA, and periodically review this file against authorized rates in personnel records to confirm the appropriateness and accuracy of rates in use. These actions will improve the accuracy of financial reporting, support compliance with contractual obligations, and enhance budget planning.

#### **Views of Responsible Officials:**

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - The Division of Personnel (DOP) will work with the Office of Collective Bargaining (OCB) to develop a master file that will serve as a clearinghouse for CBAs and negotiated pay rates for unionized public sector workers.

### Material Weaknesses in Internal Control Over Financial Reporting

The Government's Chief Negotiator will take the lead in developing the master file containing negotiated pay rates. OCB management will coordinate with DOP's staff, to include the Director and Information Technology/Records Management staff, to first develop a firm number with regard to the Government's retroactive obligation. This process has already started. The Division of Personnel can only confirm the research that was done based on the Retroactive Wage Commission project.

DOP Information Technology staff is ready to work with the Office of Collective Bargaining/Chief Negotiator, designated as the lead, on the development of a master file that will serve as the clearinghouse for all CBAs.

To assist with the past retroactive calculation and ongoing payments to individuals and their respective survivors, the division is designing a central repository portal that will contain total obligations due and payments made to date.

Additionally, on a bi-annual basis, the team will meet in order to compare negotiated employee salary rates to those contained in the official personnel records within the ERP system database. It must be noted that DOP functions as a facilitator with regard to the hiring process and relies on official financial information from OCB and OMB. OCB negotiates and interprets contract language for unionized public sector workers while OMB certifies the availability of funding for the purpose of wage implementation. DOP then reviews, audits, and implements newly negotiated wages.

*Implementation Date* - Ongoing.

*Person(s) Responsible* - The management team of the Division of Personnel; specifically, the Information Technology Manager, Personnel Records Supervisor, OMB Director, and Budget Analysts.

### **B. Medical Malpractice Liability**

***Criteria*** - A fundamental element of a sound system of internal controls is an effective liability calculation process. This process should ensure that all liability transactions are properly recorded, adequately supported, and subjected to supervisory review. Specifically, for the Reciprocal Insurance Fund, all disbursements related to payments of medical malpractice claims must be accurately recorded and supported by appropriate documentation, with oversight to confirm compliance with established policies and procedures.

***Condition*** - The Government has not completed the necessary analysis to determine and record a quantifiable and estimated liability for medical malpractice claims, as required by generally accepted accounting principles.

***Cause*** - Lack of controls and procedures around the Government's claims data process.

***Effect or Potential Effect*** - The Government's inability to gather and generate the necessary information for an actuary to compile an estimated liability at year-end has resulted in records that do not permit, or make it practical to extend, audit procedures sufficiently to determine the extent of impact on Business-Type Activities and Aggregate Remaining Fund Information as of, and for the year ended, September 30, 2022. This oversight may lead to underreported liabilities, adversely affecting the Government's financial position and increasing the risk of noncompliance with accounting standards.

## Material Weaknesses in Internal Control Over Financial Reporting

**Recommendation** - We recommend that the Government undertake a comprehensive analysis to identify, quantify, and record an estimated liability for medical malpractice claims in accordance with generally accepted accounting principles. Management should ensure that all relevant data is collected and maintained to facilitate actuarial assessments and accurate financial reporting. Additionally, procedures should be established to regularly review and update the estimated liability to reflect changes in claim activity and ensure ongoing compliance with applicable accounting standards.

### ***Views of Responsible Officials:***

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - The Department of Health is in the process of submitting a Request for Proposal (RFP) to solicit an actuary to perform the evaluation.

**Implementation Date** - Ongoing.

**Person(s) Responsible** - The Commissioner, Department of Health.

## **C. Health Insurance Accrual**

**Criteria** - A fundamental element of a sound system of internal controls is an effective liability calculation process. This process should ensure that all liability transactions are properly recorded, adequately supported, and subjected to supervisory review.

**Condition** - The Government was unable to provide readily available supporting documentation for the health insurance accrual.

**Cause** - Lack of robust internal controls and oversight over the documentation process for health insurance accruals has resulted in the unavailability of necessary records.

**Effect or Potential Effect** - The Government's health insurance accrual may be misstated, leading to incorrect financial liabilities and affecting the accuracy of the financial statements.

**Recommendation** - We recommend that the Government establish and enforce robust internal controls and procedures to ensure that supporting documentation for health insurance accruals is properly maintained and readily accessible.

Management should conduct regular reviews of the accrual process and documentation to verify accuracy and completeness. Additionally, management should strictly adhere to, or consider revising, its records retention policy.

### ***Views of Responsible Officials:***

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - The Government will maintain supporting documentation for the health insurance accrual for possible analysis by users.

## Material Weaknesses in Internal Control Over Financial Reporting

*Implementation Date* - Ongoing.

*Person(s) Responsible* - Department of Health Commissioner and Chief Financial Officer.

### **D. Accounts Payable**

***Criteria*** - A fundamental element of a sound system of internal controls is an effective liability calculation process. This process should ensure that all liability transactions are properly recorded, adequately supported, and subjected to supervisory review.

***Condition*** - At present, the Government's general ledger control account for accounts payable does not agree with the subsidiary ledger balances throughout the entire fiscal year. This discrepancy also impacts the accuracy of capital asset recordation, as accruals for goods and services received are not properly and timely recorded in the capital asset register, resulting in capital assets being reflected in incorrect periods. Additionally, during our review and inquiry of subsequent disbursements, we noted that accounts payable did not include the accrual of invoices totaling \$5.6 million for services performed as of year-end.

***Cause*** - This is due to the fact that management establishes its accounts payable subsidiary ledger through a manually intensive process, which relies solely on subsequent events during the yearly financial statement close process. This practice is based on a system functionality in which the accounting system does not allow for the recording or accrual of invoices when the obligation is incurred, but only when the corresponding allotment has been approved by OMB.

***Effect or Potential Effect*** - These practices result in significant adjustments during the annual financial statement close process and necessitate manual reconciliation of capital expenditures and accounts payable. Furthermore, supervisory review of the accounts payable reconciliation process and the estimation of accrued liabilities may not be timely or effective in all instances, increasing the risk of inaccuracies in financial reporting and potential misstatements in the financial statements.

***Recommendation*** - Management should consider utilizing the ERP Accounts Payable module more consistently to reduce the manual efforts currently involved in establishing accounts payable. We recommend that controls be enhanced to ensure that all invoices for services performed as of year-end are properly accrued.

Additionally, the Government should strengthen supervisory review of the accounts payable reconciliation process and the estimation of accrued liabilities to improve the accuracy and timeliness of financial reporting.

### ***Views of Responsible Officials:***

The Government concurs with the auditor's findings and recommendations.

***Action Plan*** - The Department of Finance will work with Tyler Munis on utilizing the Accounts Payable Module and will work with OMB to hire an Accounts Payable Analyst who will be solely responsible to make the necessary monthly updates and adjustments while dedicating all of their time to work with Disbursements and Approval on entering invoices in timely. The Accounting Analysts will ensure that the invoices are entered pursuant to Standard of Operating Procedures and Policies (SOPP) 130.

## Material Weaknesses in Internal Control Over Financial Reporting

*Implementation Date* - Fiscal Year 2025

*Person(s) Responsible* - Accounting Director with support from Executive Assistant Commissioner and Commissioner on achieving the funding and Tyler Munis ERP Project Manager.

### **E. Landfill Closure and Post-Closure Costs Liability**

***Criteria*** - The U.S. Virgin Islands landfill closure and post-closure costs liability is recorded as part of the year-end process. A fundamental element of a sound system of internal controls is an effective liability calculation process, which helps ensure that all liability costs are properly calculated and recorded.

***Condition*** - The Government obtains various reports regarding its closure and post-closure cost estimates for the three landfills in the U.S. Virgin Islands. During our review, we noted an additional penalty of \$4.5 million related to the 30-year post-closure period for the Turf landfill in 2022. Furthermore, the post-closure cost estimates for all three landfills for fiscal year 2022 were updated by applying an inflation rate.

***Cause*** - Lack of review of the landfill reports and calculations to ensure the accuracy of the included assumptions.

***Effect or Potential Effect*** - Relying solely on inflation rates to update post-closure cost estimates for the three landfills may result in inaccurate financial projections. This approach could lead to the underestimation or overestimation of future liabilities, affecting budget allocations and financial planning. Inaccurate estimates may also impact compliance with environmental regulations and the Government's ability to adequately fund closure and post-closure activities.

***Recommendation*** - The Government should collaborate closely with the Virgin Islands Waste Management Authority and the third-party engineering firm responsible for calculating the closure and post-closure landfill liability. A report should be prepared to implement monitoring controls and ensure the timely review of all calculations.

While updating landfill closure and post-closure cost estimates using an inflation factor is acceptable, we recommend that the Government conduct a comprehensive review of all reports and calculations to ensure the accuracy of the included assumptions.

### ***Views of Responsible Officials:***

The Government concurs with the auditor's findings and recommendations.

***Action Plan*** - The Government is working with its consultants to review the work and write a report to implement monitoring controls and ensure that all calculations are reviewed timely.

*Implementation Date* - Ongoing.

*Person(s) Responsible* - Waste Management Authority Management Team.

## Material Weaknesses in Internal Control Over Financial Reporting

### **F. Quality of Census Data**

**Criteria** - Maintaining current and accurate records and statistics is an important control for participant data, as well as for compliance with employment laws and regulations. Ensuring the quality of census data is crucial for accurate analysis, decision-making, and reporting.

**Condition** - We noted that the Government's pension census data, submitted to various actuarial service providers, contains significant discrepancies when compared to employee records maintained by the Government and requires substantial adjustments and assumptions before it can be utilized for necessary calculations. We sampled and selected twenty-five (25) individuals from the census data, including both active employees and retirees, and noted the following:

- For three (3) employees, we identified discrepancies between the hire dates listed in the census data and those recorded in the most recent Notice of Personnel Action (NOPA) records.
- For four (4) employees, there were inconsistencies in both hire dates and salary information when comparing the census data to the latest details in the NOPA records.
- For four (4) retirees, detailed NOPA records were not available. However, we conducted alternative procedures by verifying their hire and employment status in Munis, which confirmed that these individuals were former employees who have since retired.

**Cause** - There may be a lack of standardized processes, formats, and controls for collecting and submitting census data, resulting in inconsistencies and errors.

**Effect or Potential Effect** - This introduces a greater level of uncertainty to the actuarial calculations. The time required to make significant adjustments and assumptions may lead to delays in the completion of actuarial reports and the submission of financial statements.

**Recommendation** - We recommend that internal controls be developed to ensure the accuracy of all active employee and retiree census data before submission for future valuations, calculations, or analysis. Additionally, adequate resources should be allocated to properly evaluate all census information provided to various actuarial service providers, as this data is essential for calculating related liabilities. It is imperative that employee data in the census information be accurate.

#### ***Views of Responsible Officials:***

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - A request for proposal is currently being advertised to obtain a vendor who will provide a census data management system to assist with maintaining current and accurate records.

**Implementation Date** - Ongoing.

**Person(s) Responsible** - The management team of the Government Employees' Retirement System Department of Finance and Division of Personnel; specifically, Administrator, Director, Member Services, and Director of Information Technology.

**Material Weaknesses in Internal Control Over Financial Reporting****G. Income Tax Refunds Payable**

**Criteria** - Paragraph 102 of GASB Statement No. 62, as amended, requires that a loss contingency be accrued when (a) information available prior to the issuance of the financial statements indicates it is probable that an asset has been impaired or a liability has been incurred as of the date of the financial statements (with the implicit condition that it is probable one or more future events will occur confirming the fact of the loss), and (b) the amount of the loss can be reasonably estimated. Loss contingencies may include pending, threatened, or unasserted litigation, claims, or assessments as of the financial statement date. Governmental funds should recognize expenditures and related fund liabilities for claims and judgments arising from loss contingencies.

The Government establishes its year-end liability for income tax refunds through a manually intensive process, which consolidates two sets of reports: (1) tax returns from various refund batches that exist but have not been processed or paid as of year-end, and (2) tax returns that were processed and paid subsequent to year-end.

**Condition** - We observed that the income tax liability has been accrued for tax returns that have been processed but not yet paid as of September 30, 2022. However, the tax liability for returns processed and paid subsequently, specifically those for fiscal years 2022 and prior, was excluded from the accrual of tax refunds payable, amounting to \$60.6 million.

**Cause** - The Government currently does not have a formalized procedure in place to determine the income tax refund payable at the end of the fiscal year.

**Effect or Potential Effect** - This absence of a structured process can lead to inconsistencies and potential inaccuracies in calculating the amounts owed to taxpayers and may lead to misstated financial liabilities, affecting the accuracy of the financial statements.

**Recommendation** - We recommend that the Government implement a formal procedure for calculating its year-end liability for income tax refunds. This can be achieved by using subsequent payments made after the year-end or by developing reliable estimation methods.

***Views of Responsible Officials:***

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - A return to current audits will result in income tax refunds payable being evaluated through April 30<sup>th</sup>, as has been consistently done in prior years when audits were current.

**Implementation Date** - Fiscal Year 2025

**Person(s) Responsible** - Bureau of Internal Revenue and Department of Finance Accounting Division.

## Material Weaknesses in Internal Control Over Financial Reporting

### H. Plan Funding Considerations

**Criteria** - The Government Employees' Retirement System of the U.S. Virgin Islands (GERS or the Retirement System) is a defined benefit pension plan established to provide retirement, death, and disability benefits for government employees. In addition to pension benefits, the Government is obligated to provide other postemployment benefits (OPEB), including healthcare, prescription drug coverage, dental care, and life insurance for retired employees and their eligible dependents. The Government's responsibilities encompass maintaining adequate funding, ensuring proper administration, and complying with all relevant accounting standards and legal requirements.

**Condition** - We noted that the Government has not adequately funded the Retirement System and the OPEB plan for several years.

- As per the GERS actuarial valuation report as of October 1, 2021, the Retirement System is 9.81% funded for the year ended September 30, 2022. The same report also disclosed a net pension liability of \$4.36 billion which represents a long-term obligation the Government has to fund.
- As per the OPEB actuarial valuation report as of October 1, 2021, the OPEB plan reflects a total OPEB obligation of \$976.61 million which represents the long-term medical, dental, and other obligations that the Government has to fund.

**Cause** - Over multiple years, the Government has not allocated sufficient resources to meet the funding requirements of these plans, resulting in significant unfunded liabilities. Contributing factors include budgetary constraints, competing fiscal priorities, and limited revenue growth, which have restricted the Government's ability to make the necessary annual contributions.

**Effect or Potential Effect** - Insufficient funding of the Retirement System and OPEB plan weakens the Government's overall financial position, reduces net assets, and may adversely affect credit ratings, thereby increasing the difficulty or cost of future borrowing. Additionally, inadequate funding raises concerns regarding the Government's ability to fulfill future benefit commitments to retirees and employees, potentially resulting in benefit reductions, delayed payments, or increased financial pressure on current and future budgets.

**Recommendation** - We recommend that the Government develop and implement a comprehensive funding strategy. This strategy should include increasing annual contributions to meet or exceed actuarially determined requirements, exploring additional revenue sources, and prioritizing pension and OPEB funding within the budget process. The Government should also conduct regular actuarial valuations to monitor funding status and adjust contribution levels as necessary. Furthermore, consideration should be given to establishing an OPEB Trust Fund to accumulate assets and meet future obligations.

### **Views of Responsible Officials:**

The Government concurs with the auditor's findings and recommendations.



**Material Weaknesses in Internal Control Over Financial Reporting**

*Action Plan* - The Virgin Islands Public Finance Authority established the Matching Fund Special Purpose Securitization Corporation (the Corporation) to refund and restructure the Government's matching fund bonds. Additionally, the Corporation placed a funding note with GERS, secured by a subordinate lien on the matching funds, and is projected to pay out \$3.8 billion to GERS through 2051.

Policy decisions regarding postemployment benefit alternatives and the establishment of special funds for postemployment benefits are under the purview of the Legislature of the Virgin Islands.

*Implementation Date* - Ongoing.

*Person(s) Responsible* - Management team of the Department of Finance, Virgin Islands Public Finance Authority, Government Employees' Retirement System of the U.S. Virgin Islands, and Legislature of the Virgin Islands.

## Material Weaknesses in Internal Control Over Financial Reporting

### Finding 2022-006: Management of the Medicaid Program

#### Cost Report Audits, System Security Review, and Approvals

**Criteria** - Each State or Territory establishes systems for administering and providing Medicaid benefits. The Medicaid program is jointly funded by the Federal and the respective local government. The Virgin Islands Department of Human Services (the Department) is the primary agency responsible for administering the Government's Medicaid program.

**Condition** - We noted the following:

- Two Government-owned and operated hospitals, the Governor Juan F. Luis Hospital & Medical Center and the Roy Lester Schneider Hospital, provide Medicaid services to eligible Territory residents. Both hospitals function on a non-DRG platform, meaning that they charge through daily per diem rates based upon the number of patients serviced. The costs incurred by the hospitals, long-term care facilities, and/or Federally Qualified Health Centers (FQHC) participating in the Medicaid program are to be summarized in a cost report, which, in turn, is to be submitted to the Department. The cost reports are then required to be audited per the Government's Medicaid State Plan. Based on audits of the cost reports, a receivable or a payable should be recorded for the difference between costs submitted for reimbursement and the costs actually reimbursed. We noted that the Department has not audited cost reports for fiscal year 2022.
- The Department did not perform a risk analysis and system security review for the Virgin Islands Benefit Eligibility System (VIBES) when it was implemented in July 2017.

**Cause** - The Government's records do not permit a determination of the sufficiency of the design and operation of key controls surrounding the environment in which the Government's Medicaid claims reside.

**Effect or Potential Effect** - The Government was unable to determine how the Governmental Activities and the General Fund information may have been impacted as of, and for the year ended, September 30, 2022, thereby affecting the auditor's ability to opine on these opinion units. As a result, there is no assurance that the system is functioning as intended, which exposes the program to possible unauthorized activity and payments to ineligible participants.

**Recommendation** - We recommend that management evaluate and develop policies and procedures to obtain and audit the cost reports. This will allow the Government to reduce the time between Medicaid expenditures being incurred and the ultimate reimbursement from the federal government.

#### **Views of Responsible Officials:**

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - For the cost report audits, the Medicaid Assistance Program continues to work with the selected vendor to complete the requirements. For the Eligibility System, a vendor has been selected and the contract is in process. Additionally, the Medicaid Program will work closely to ensure all information is provided relative to the environment for the claims.

**Material Weaknesses in Internal Control Over Financial Reporting**

*Implementation Date* - Ongoing.

*Person(s) Responsible* - The Commissioner, Department of Human Services, Chief Financial Officer, and the Program Administrator.

**Material Weaknesses in Internal Control Over Financial Reporting****Finding 2022-007: Unemployment Insurance Trust Fund****Account Reconciliation Process**

**Criteria** - Accounting tasks, such as periodic reconciliations, play a key role in proving the accuracy of accounting data and information included in various interim financial statements and/or reports. Timely preparation of complete and accurate reconciliations is also key to maintaining adequate control over both cash receipts and disbursements.

**Condition** - We noted that the majority of account reconciliations were not available during the audit process, while others contained incomplete information and/or were not in accordance with required accounting practices.

**Cause** - The Government does not have policies and procedures in place to ensure timely completion of reconciliations supporting the Unemployment Insurance Trust Fund balances.

**Effect or Potential Effect** - The Government's records do not permit, nor is it practical to extend, audit procedures sufficiently to determine the extent to which the Business-Type Activities and the Unemployment Insurance Trust Fund may have been impacted as of, and for the year ended, September 30, 2022, thereby affecting the auditor's ability to opine on these opinion units.

**Recommendation** - To prevent significant errors and possible irregularities, including fraud, from occurring and remaining undetected in the financial records and statements, we recommend that all accounts, accruals, and reconciliations be prepared and reviewed on a periodic basis. Additionally, we recommend that the Government consider allocating adequate resources to properly evaluate and maintain the necessary information to accurately reflect the Fund's activity at each fiscal year-end.

***Views of Responsible Officials:***

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - The Virgin Islands Department of Labor (VIDOL) hired a Financial Analyst to reconcile the Unemployment Insurance Trust Fund to ensure compliance with the Cash Management Improvement Act (CMIA) and Social Security Act clearance and depository regulations. The Trust Fund is in good standing and being reconciled daily. The VIDOL's policies and procedures manual was approved by the U.S. Department of Labor in October 2021. The policies and procedures established address our ineffective internal controls, and fiscal and administrative requirements for expending and accounting for all funds relative to the Unemployment Insurance Trust Fund accounts.

**Implementation Date** - Ongoing.

**Person(s) Responsible** - Unemployment Insurance Director.

## Material Weaknesses in Internal Control Over Financial Reporting

### Finding 2022-008: Workers Compensation Program

#### Plan Valuation Methodology

**Criteria** - The workers compensation program provides for medical costs, death benefits, and lost wages arising from work-related accidents. The program is administered by the Division of Workers' Compensation within the Virgin Islands Department of Labor (VIDOL).

The preferred actuarial approach to determine loss and loss expense reserves is to employ a variety of reserving methods to estimate ultimate losses by accident year. Each method has advantages and disadvantages dependent on such items as the claim's environment, the age of the accident year, and stability of the method. From within this range of indicated ultimate losses, a selection is made based on a review of the various methods and actuarial judgment.

**Condition** - We noted that there are delays in the payments of current and prior-year claims. Since loss development factors are determined based on the assumption that a percentage of the total reported losses are paid at any given point in time, the application of the paid patterns underlying the Government's loss triangles to the paid losses impacts the accuracy of the ultimate value.

As a result, and in an effort to improve the predictive value in the recent past, the actuary modified the methodology to also include the accounts payables of the two major hospitals in the U.S. Virgin Islands. Based on hindsight comparisons and other calculations derived from claim counts, we were able to conclude that the actuary's ultimate loss projections are within a range of reasonable estimates. However, actuarial estimates improve as more information becomes available at each maturity.

Additionally, we noted that the actuary expressed concerns regarding the underlying data used in the Government's workers' compensation analysis, as detailed in the actuarial study. Furthermore, the Government recorded an adjustment of approximately \$4.3 million for Workers' Compensation Liability to reconcile with the actuarial report as of September 30, 2022. We also noted that the Government did not record the required adjustment to align the actuarial report with the confirmed outstanding hospital invoices of approximately \$1.0 million as of September 30, 2022.

**Cause** - Absence of structured process for calculating and reporting liabilities in financial statements, including inadequate review, control, and completeness of underlying data.

**Effect or Potential Effect** - The Government's workers' compensation liabilities may be inaccurately reported, affecting the accuracy of the financial statements.

**Recommendation** - We recommend that the Government consider the following actions:

- Develop a formal document describing the processes used to compute and report these liabilities in the financial statements. The Government and its actuary should consider incorporating open claims and severity models in their projections.
- Provide clear reasoning for the establishment of any subjective assumptions.
- Include explicit explanations for any changes made to methodologies or programs in the current period that were not present in the prior-period valuation.

**Material Weaknesses in Internal Control Over Financial Reporting**

- Monitor and reconcile the accounts payable balances for the major hospitals to ensure that any relevant matters are reflected in future analyses.
- For completeness, construct a formal Risk Control Matrix and a visual flow chart related to the valuation processes.
- Institute sufficient controls over the production of input data prior to submission to an actuarial service provider.
- Monitor and adhere to established policies and procedures related to record retention.

***Views of Responsible Officials:***

The Government concurs with the auditor's findings and recommendations.

*Action Plan* - The Department of Finance (DOF) will collaborate with VIDOL to consider the recommendations set forth. The newly implemented software, Ventiv, will assist in resolving the issues mentioned. Additionally, the Government Insurance Fund (GIF) will initiate a monthly Hospital Payables Inquiry request form for completion by the Workers Compensation Administration (WCA). The form will give the GIF a baseline from which we start and then track increases and decreases in payables going forward. It will also inform the GIF of any "special payment projects" undertaken or in progress at the WCA. This document will supplement the information provided to our actuary.

*Implementation Date* - Ongoing.

*Person(s) Responsible* - Executive Assistant Commissioner, Director of Accounting and Reporting, Commissioner - DOF, Workers Compensation Director - Labor Assistant Commissioner.

## Material Weaknesses in Internal Control Over Financial Reporting

### Finding 2022-009: Payroll, Related Accruals, and Other Expenditures

#### A. Payroll Expenditures

A strong and efficient system of controls over the payroll process is critically important. An effective internal control system can generally be implemented with reasonable effort to address potential threats of error and misappropriation. Key elements include proper supervision, regular review, and the separation of duties or functions.

**Condition** - We noted the following:

- The Department of Human Services transitioned to a manual timesheet process in lieu of system-generated timesheets after the September 2017 hurricanes caused damage to its ADI Time payroll system, which had not been adequately backed up. The Department continued to use the manual timesheet process for the year under review.
- During analysis of the hiring process, we observed that agency Commissioners have the authority to sign offer letters for new employees. However, Government policies still mandate that the Governor must sign all appointment letters.
- We noted that the compensated absences schedule includes some redundant data. For instance, there are employees who should not be on the schedule but have accrued balances, negative balances, or zero balances. In addition, we sampled and selected fifty (50) employees and noted the following:
  - Six (6) instances where employees had accrued hours, but no pay rate or liability listed in the report.
  - One (1) instance where an active employee who should have been included was excluded from the report.
  - One (1) instance where the employee's pay rate in the report did not agree with the pay rate per the employee's notice of personnel action.
- During our sampled procedures of fifty (50) payroll transactions, we noted the following:
  - One (1) instance where management did not maintain evidence of approval for a pay rate correction.
  - One (1) instance where fringe benefits owed as part of a retroactive wage paycheck were not paid in a timely manner.
- We noted several instances where employees in certain labor categories received overtime payments exceeding their annual salaries, attributed to staffing shortages. Although this was approved, it remains an area prone to mishandling given the volume and amounts involved. Additionally, during our sampled procedures of fifty-nine (59) transactions for overtime expense, we noted the following:
  - Two (2) transactions where evidence of approval for retroactive overtime hours was not available for review.
  - Two (2) transactions where approval for the pay rate used to calculate overtime was not provided.

### **Material Weaknesses in Internal Control Over Financial Reporting**

**Cause** - The Government fails to comply with its established payroll policies and procedures.

**Effect or Potential Effect** - Lack of inadequate documentation could lead to audit issues, potential financial discrepancies, and questions regarding the legitimacy of the payments.

**Recommendation** - We recommend that the Government consider the following actions:

- Transition the Department to the STATS timesheet system, which is currently utilized by various other agencies and departments.
- Conduct a thorough review and cleanup of the compensated absences schedule to remove redundant data and correct inaccuracies.
- Ensure adequate arrangements are made for the protection of files and the use of backup storage.
- Monitor and adhere to established written policies and procedures related to the proper review, recording, reporting, and retention of payroll expenditure records.
- Update policies and procedures to reflect any changes in processes.

#### ***Views of Responsible Officials:***

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - The Department of Finance will collaborate with the Department of Human Services and Payroll Division to determine and consider the recommendations set forth.

Additionally, the Department of Finance - Payroll Division will monitor overtime and work with the various agencies to ensure that it is appropriate and within the laws and CBAs. In some cases, a state of emergency, overrides the normal overtime regulations appropriately.

**Implementation Date** - Ongoing.

**Person(s) Responsible** - The management team of the Department of Finance; specifically, Director of Payroll, and Departments and Agencies' payroll personnel.

### **B. Transactions with Personnel**

**Criteria** - The Government has policies regarding executive and other employee expense reimbursements, indicating that every business expense incurred through credit cards or advance payments must be substantiated with adequate documentation. This includes a statement of expense, purchase order, approved Government Travel Request, travel voucher, and receipts, which collectively are sufficient to verify each element of the expenditure.

**Condition** - The Government did not provide a list of executives, making it impossible to verify the existence of adequate independent review or approval of expenses incurred by executives.

**Cause** - The Government does not maintain the necessary supporting documentation to verify compliance with its policies concerning transactions with personnel.



### Material Weaknesses in Internal Control Over Financial Reporting

**Effect or Potential Effect** - Inadequate documentation may result in financial inaccuracies, unauthorized transactions, and potential misuse of funds.

**Recommendation** - We recommend that the Government consider instituting a stricter monitoring process to ensure compliance with stated policies and the implementation of an independent review process.

#### **Views of Responsible Officials:**

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - The Department of Finance implemented a government credit card program in fiscal year 2021 that includes training and an active P.O. for card issuance. The Department will coordinate with the Office of the Governor to strengthen, recommunicate, and monitor so that all other reimbursements are made in compliance with policies.

**Implementation Date** - Ongoing.

**Person(s) Responsible** - The management team of the Office of the Governor and Department of Finance; specifically, Credit Card Administrator.

### **C. Reporting for Expenditures**

**Criteria** - A strong and efficient system of controls over purchasing and expenditures is critically important. An effective internal control system can generally be implemented with reasonable effort to address potential threats of error and misappropriation. Key elements include proper supervision, regular review, and the separation of duties or functions.

**Condition** - During our sampled procedures of expenses, we noted the following:

- Supporting documentation was not available for twenty (20) out of one hundred and thirty-one (131) general expense transactions.
- Twenty-one (21) out of one hundred and seventy-nine (179) expense transactions indicated that the expenditures were not recorded in the proper period.

**Cause** - Lack on adherence to government's established written policies and procedures related to the proper recording and reporting of expenditures.

**Effect or Potential Effect** - Sufficient audit evidence was not obtained to support conclusions on general expenses. As a result, additional time and effort were required during the audit process to locate and/or identify alternative methods.

**Recommendation** - We recommend that the Government adhere to its established written policies and procedures related to the proper recording and reporting of expenditures. Timely review and reconciliation of expenditures will ensure that expenditures are recorded in the correct period.

### Material Weaknesses in Internal Control Over Financial Reporting

It is important to produce detailed reports and records at specified intervals and to maintain these for possible analysis by users such as management, independent auditors, or governmental bodies. Management should strictly adhere to, or consider revising, its records retention policy.

#### ***Views of Responsible Officials:***

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - The Government will continue to enforce the SOPP that all invoices are attached in the ERP system and closely examine the invoice approval process. As part of the approval process, invoices will be closely reviewed to ensure expenditures are recorded in the proper period and are supported in the Accounts Payable module.

**Implementation Date** - Ongoing.

**Person(s) Responsible** - The Department of Finance, Executive Assistant Commissioner and Director of Accounting.

#### **D. Formalize Emergency Payroll Procedures**

**Criteria** - A robust and efficient system of payroll controls is essential to ensure the timely and accurate processing of payroll, particularly during unexpected events or disruptions. Formal emergency payroll procedures should be established to clearly define roles, responsibilities, and the steps to be taken in the event of emergencies such as natural disasters, system outages, or other crises.

**Condition** - Payroll processing begins with timesheets approved by department heads in the STATS system, which then serve as the basis for payroll calculations in the Payroll Division. In 2017, hurricanes caused significant power outages and displacement of personnel, rendering roads inaccessible and preventing employees from attending work for several days. Consequently, the recording of timesheets in the STATS system was temporarily suspended.

**Cause** - The Government does not have formalized emergency payroll procedures to guide payroll operations during emergencies, such as natural disasters or other significant disruptions.

**Effect or Potential Effect** - In the absence of proper documentation and approval of employee work hours, there is an increased risk of errors, omissions, or inconsistencies in payroll calculations. This may result in misstated personnel costs, adversely affecting the accuracy of financial reporting and the reliability of financial statements.

**Recommendation** - We recommend that the Government develop and implement a formal, written emergency payroll procedures manual to be utilized in the event of major operational disruptions, such as those experienced during the 2017 hurricanes. This manual should outline the necessary processes, identify key contacts and personnel, and specify required reconciliations to ensure the integrity of payroll operations during emergencies.

#### ***Views of Responsible Officials:***

The Government concurs with the auditor's findings and recommendations.

**Material Weaknesses in Internal Control Over Financial Reporting**

*Action Plan:* With infrastructure improvements related to climate resilience and technological advancements in remote capabilities prompted by the global pandemic, the Government has made significant progress in strengthening controls to ensure the continuity of normal operations under adverse conditions. Protocols for emergency payroll processing are continuously reviewed and updated.

*Implementation Date:* On-going.

*Person(s) Responsible:* The management team of the Department of Finance; specifically Director of Payroll.

## Material Weaknesses in Internal Control Over Financial Reporting

### Finding 2022-010: Bank Accounts

#### A. Strengthen Controls Over Bank Reconciliations

**Criteria** - Cash is the most liquid of assets and has the highest risk for theft, embezzlement, and misappropriation. Timely preparation of complete and accurate bank reconciliations is key to maintaining adequate control over both cash receipts and disbursements.

**Condition** - We noted the following:

- A substantial number of outstanding checks, some issued as far back as 1998, are still being carried on the reconciliations and were eventually reclassified to accounts payable at year-end.
- A substantial number of outstanding checks in the bank reconciliations, amounting to \$5.0 million, were recorded as voided during fiscal year 2022. However, we were unable to obtain or trace the entries made when voiding the checks. This lack of traceable entries raises concerns about the completeness and accuracy of the voiding process and related financial records.
- There were instances where bank reconciliation variances were not properly explained or investigated. Additionally, there was insufficient documentation to confirm that the reconciliation and related journal entries had been reviewed and approved.
- Outstanding checks totaling \$1.6 million were not included in either the outstanding check listing or the voided check listing.
- During our review of the bank reconciliations and the outstanding check analysis, we noted that \$0.9 million in checks was reported as outstanding. Of this amount, the status of the \$0.8 million in outstanding checks remains unknown.
- The outstanding check analysis indicated a total of \$16.8 million in outstanding checks. However, the supporting outstanding check listing totaled only \$15.3 million, resulting in a variance of \$1.4 million.
- During our review of the bank reconciliations, we selected a specific last outstanding check of fiscal year 2022 for testing to verify its proper inclusion or exclusion from the outstanding check listing. However, we were unable to obtain a supporting copy of the check, preventing us from confirming its status.
- Four (4) imprest cash accounts, confirmed by the bank(s), were not listed in the imprest cash account report at year-end.
- The Government's bank listing included an account that had been closed. Despite its closure, the account still showed a balance as of September 30, 2022. This balance was incorrectly reported and required an adjustment.

**Cause** - There accounting system lacks the functionality to formally approve or indicate review of the bank reconciliations. Additionally, the failure to update the bank listing and remove closed account in the financial records is caused by lack of regular reviews.

## Material Weaknesses in Internal Control Over Financial Reporting

**Effect or Potential Effect** - Uncertainty regarding the status of outstanding checks may result in the inaccurate presentation of cash balances, while unresolved outstanding checks could lead to stale-dated checks and undetected errors. Additionally, the inclusion of a closed account and the exclusion of imprest accounts in the bank listing have resulted in inaccurate cash balances, potentially misleading users of the financial statements.

**Recommendation** - We recommend that bank reconciliations be prepared and reviewed for accuracy and completeness on a timely basis. We recommend that management implement a process to track when bank reconciliations are reviewed and approved. Additionally, we recommend the following:

- Outstanding checks and other uncleared reconciling items that are over one year old should be investigated and removed from the bank reconciliations, and the original transactions should be reversed. Periodic research should be conducted to eliminate large numbers of old items being carried forward from month to month and year to year. As an auxiliary step, consideration should also be given to the Government's unclaimed property laws.
- Regular and thorough reviews of bank reconciliations should be conducted to identify any discrepancies and ensure the accuracy of reported balances. Management should establish a process for investigating and clearing stale-dated checks and verifying the status of all listed accounts.
- Management should establish more robust controls and review procedures to ensure that all imprest accounts are listed and reconciled at year-end.

### **Views of Responsible Officials:**

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - The Commissioner of Finance will enforce Title 33, Subtitle 3, Chapter 115, Subchapter III, Subsection 3261, which outlines the procedures for unpaid checks. Also, the Director of Treasury will ensure that bank reconciliations are prepared and reviewed on a timely basis. The Government will also work with the Munis consultants regarding implementation of a process tracking to determine when bank reconciliations are reviewed and approved.

**Implementation Date** - Ongoing.

**Person(s) Responsible** - The management team of the Department of Finance; specifically, the Director of Treasury.

## **B. Cash Pooling and Allocation(s)**

**Criteria** - Cash is the most liquid of assets and has the highest risk for theft, embezzlement, and misappropriation. Cash pooling and allocations should be conducted in a manner that ensures transparency, proper allocation of funds, and accurate reporting.

### Material Weaknesses in Internal Control Over Financial Reporting

**Condition** - Throughout the year, all expenditures are charged against each fund's cash account. Due to the nature of operations, the Government's Treasury Department does not maintain a separate bank account for each fund or for each cash account in the general ledger. As a result, each bank account includes activity for multiple funds. In some instances, funds "borrow" from the General Fund. At year-end, an entry is prepared to correct or "true-up" the cash balances for each fund.

**Cause** - There is a lack of efficient documentation to support the pooling and subsequent allocation of cash accounts.

**Effect or Potential Effect** - The centralized cash management approach results in all expenditures being charged to a pooled cash account without proper allocation to individual funds. This practice creates difficulty in accurately tracking and reporting the financial position of each fund.

**Recommendation** - We recommend that management enhance the documentation supporting the pooling and subsequent allocation of cash accounts. Specifically, there should be a clear and auditable link between the confirmed cash account balances and the cash balances per fund as presented in the year-end financial statements.

#### **Views of Responsible Officials:**

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - The Director of Treasury, with oversight from the Assistant Commissioner, will enhance the documentation provided to support the pooling and subsequent allocation of the cash accounts. Additional human capital has been provided to ensure that bank reconciliations are prepared timely as the Government continue to strive to improve the link between the confirmed cash account balances and cash balance per fund presented within the year-end financial statements.

**Implementation Date** - Ongoing.

**Person(s) Responsible** - The management team of the Department of Finance; specifically, the Deputy Commissioner and Director of Treasury.

### **C. Check Sequences**

**Criteria** - A strong system of internal controls should be implemented over check runs and unused checks to ensure consistency, accuracy, and completeness of financial records. Such controls are essential for safeguarding assets, preventing unauthorized transactions, and supporting reliable financial reporting.

**Condition** - During procedures performed over the subsequent check registers, we noted several large gaps in the check sequences.

**Cause** - The Government's ERP system does not automatically generate check numbers; instead, check numbers are entered and tracked manually by Government personnel.

**Effect or Potential Effect** - A lack of control over unused checks could lead to unauthorized transactions, potentially resulting in fraudulent activities that affect financial reporting.

### **Material Weaknesses in Internal Control Over Financial Reporting**

**Recommendation** - We recommend that a process be implemented whereby personnel responsible for check runs review prior and current manual check entries to detect gaps before processing.

**Views of Responsible Officials:**

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - The ERP system does automatically generate check numbers for some accounts. To ensure controls are in place over the sequence of checks, controls will be established on the check series used and check series not used.

**Implementation Date** - Ongoing.

**Person(s) Responsible** - The management team of the Department of Finance; specifically, the Deputy Commissioner and Directors of Treasury and Management Information System.

## Material Weaknesses in Internal Control Over Financial Reporting

### Finding 2022-011: Other Postemployment Benefits Obligation

#### A. Actuarial Valuation

**Criteria** - GAAP for *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* require an actuarial valuation to be performed at least every two years, with more frequent valuations or calculations encouraged. If an actuarial valuation is not performed as of the measurement date, the total Other Post-Employment Benefits (OPEB) liability is required to be based on update procedures that roll forward amounts from an earlier actuarial valuation performed as of a date no more than 30 months and 1 day prior to the employer's most recent fiscal year-end.

**Condition** - We noted that the Government has not performed a full actuarial valuation of OPEB in accordance with GAAP as of October 1, 2021, applicable for fiscal year 2022. The most recent full actuarial valuation was completed as of October 1, 2019, and liabilities for fiscal years 2020 and 2021 were determined by rolling forward the previous valuation.

**Cause** - An actuarial valuation for OPEB was not performed for the respective year.

**Effect or Potential Effect** - GAAP requires governments to obtain an actuarial valuation of their benefit plans to properly measure and report the related liabilities, deferred outflows/inflows of resources and expenses in the financial statements. In the absence of an actuarial report, the Government is unable to accurately determine and disclose its OPEB liability and related financial statement elements.

**Recommendation** - We recommend that the Government implement controls and procedures to compile the necessary information and engage a qualified actuary to perform a comprehensive actuarial valuation of the OPEB plan in accordance with GAAP. The actuarial valuation should be completed on a timely basis and updated as required to ensure that the OPEB liability, related deferred outflows/inflows of resources, and expense are accurately measured and reported in the financial statements.

#### **Views of Responsible Officials:**

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - The Government implemented a new census data management system that can easily be updated by the component unit, which will alleviate the delayed submission of data to the actuary.

**Implementation Date** - Ongoing

**Person(s) Responsible** - Executive Assistant Commissioner, Department of Finance.

#### B. Administration and Recordkeeping

**Criteria** - The Government follows the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard requires the reporting and disclosure of costs and liabilities associated with postemployment benefits provided to retirees.



## Material Weaknesses in Internal Control Over Financial Reporting

**Condition** - The Division of Personnel, through the Virgin Islands Health Insurance Board, is responsible for administering health insurance and related benefits for retirees.

The Virgin Islands (V.I.) Code stipulates that the Government, the University of the Virgin Islands, the Virgin Islands Waste Management Authority, the Virgin Islands Port Authority, and any not-for-profit corporation funded at least 75% annually by federal or local government funds, are legally responsible for providing health benefits to active and retired service personnel. However, it has been observed that the component units and organizations referenced above have paid these benefit costs for active employees only, while the Government has assumed responsibility for the payment of benefit costs for retirees.

Additionally, the accounting requirements for postemployment retirement plans are increasingly complex and demand specialized expertise to ensure accurate accounting and reporting in accordance with applicable standards.

**Cause** - The V.I. Code explicitly designates legal responsibility for these benefits. The current condition appears to result from noncompliance with the arrangement outlined in the V.I. Code, whereby the Government has assumed the responsibility for retiree benefit payments instead of the component units and organizations.

**Effect or Potential Effect** - This arrangement results in the Government recognizing substantial long-term liabilities for retiree health benefits on its financial statements, which can significantly reduce net assets and adversely affect overall financial health. Furthermore, the complexity of accounting for postemployment benefits increases the risk of misstatements or incomplete disclosures, potentially compromising the accuracy and transparency of the financial statements.

**Recommendation** - We recommend that the Government formalize the current practice or ensure that benefit payments by the component units and organizations referenced above also include retirees, in accordance with the V.I. Code. Additionally, we recommend that the Government and/or Division of Personnel consider hiring or contracting an individual with specialized knowledge in accounting and plan administration, even on a part-time basis, to consistently provide higher-level accounting support throughout the year. This enhancement within the Division of Personnel will help clarify transactions, strengthen internal controls, reduce confusion regarding transfers and transactions between funds and component units, and improve communication with actuaries and insurers.

### **Views of Responsible Officials:**

The Government concurs with the auditor's findings and recommendations.

**Action Plan:** The Department of Finance has already begun collaborating with the Division of Personnel on this matter. Moving forward, we will continue to establish processes to address the findings noted. The Division of Personnel is now able to account for the receivables and payables of the Health Insurance Retiree Fund, as an employee was hired in January 2020 to monitor and track the accounting of the fund for the Group Health Insurance Unit.

**Implementation Date:** On-going.

**Person(s) Responsible:** Executive Assistant Commissioner, Department of Finance, and Division of Personnel.

## Material Weaknesses in Internal Control Over Financial Reporting

### C. Update of Mortality Tables

**Criteria** - Mortality tables used for actuarial valuations and financial reporting should be regularly updated to reflect the most current demographic data and trends, ensuring accuracy in the measurement of postemployment benefit obligations.

**Condition** - It was noted that the generational mortality tables and related assumptions currently in use are based on a review performed as of September 30, 2015.

**Cause** - This condition has arisen due to limited resources, insufficient prioritization of actuarial updates, and the absence of established procedures for the periodic review and revision of actuarial assumptions.

**Effect or Potential Effect** - As a result, actuarial valuations may not accurately reflect current life expectancy or mortality rates, potentially leading to misstatements in the measurement of postemployment benefit obligations.

**Recommendation** - Although the current rates appear reasonable, it is important to note that the Society of Actuaries updates the generational mortality improvement scales annually. Utilizing a more recent scale or implementing annual updates would enhance the accuracy and relevance of actuarial valuations.

#### ***Views of Responsible Officials:***

The Government concurs with the auditor's findings and recommendations.

**Action Plan:** For consistency, the mortality and other demographic assumptions used in the valuation are aligned with those applied in GERS pension valuations. Updated assumptions will be adopted upon completion of the next experience study for GERS.

**Implementation Date:** Performance of next experience study.

**Person(s) Responsible:** Executive Assistant Commissioner, Department of Finance.

## Material Weaknesses in Internal Control Over Financial Reporting

### Finding 2022-012: Accounting Standards Implementation

**Criteria** - Effective for reporting periods beginning after December 15, 2015, the Government is required to implement GASB Statement No. 77, *Tax Abatement Disclosures*. Adoption of GASB 77 provides essential information about the nature and magnitude of reductions in tax revenues resulting from tax abatement programs.

Effective for the fiscal year ended September 30, 2022, the Government is required to implement GASB Statement No. 87, *Leases*. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, while a lessor is required to recognize a lease receivable and a deferred inflow of resources.

**Condition** - The Government did not adopt or conduct an assessment to analyze the impact that implementing GASB 77 and GASB 87 would have on its financial statements.

**Cause** - There is an absence of a formal process or oversight mechanism to ensure the timely assessment and analysis of the impact of new accounting standards, specifically GASB 77 and GASB 87, on the Government's financial statements.

**Effect or Potential Effect** - This oversight could result in unpreparedness for compliance with new accounting standards and may lead to potential inaccuracies in financial reporting. Such deficiencies may adversely affect the reliability of the Government's financial statements and its ability to meet regulatory requirements.

**Recommendation** - We recommend that the Government conduct a comprehensive assessment to evaluate the impact of implementing GASB 77 and GASB 87 on its financial statements. This assessment should include a detailed analysis of the requirements and implications of these standards to ensure accurate and compliant financial reporting.

#### **Views of Responsible Officials:**

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - The Government is beginning the process of soliciting a professional services contract to implement GASB 87. Disclosures related to GASB 77 cannot be made as the underlying contracts are subject to confidentiality restrictions prohibiting disclosure.

**Implementation Date** - Fiscal Year 2025

**Person(s) Responsible** - Property and Procurement, Economic Development Authority, Virgin Islands Housing Finance Authority, Department of Finance Accounting Division.

## Material Weaknesses in Internal Control Over Financial Reporting

### Finding 2022-013: Irregularities related to Procurement Activities

**Criteria** - As defined by Government Auditing Standards, which are issued by the U.S. Government Accountability Office (GAO), Management should design control activities to achieve objective and respond to risks, including proper authorization and segregation of duties. Through the implementation of control activities by adopting appropriate policies and procedures that define expectations and guide operations to safeguard government assets to mitigate potential fraud and irregularities.

As outlined in auditing standards issued by the American Institute of Certified Public Accounts (AICPA) AU-C 250, *Considerations of laws and Regulations in an Audit of Financial Statements*, Management is responsible for ensuring that the government's operations comply with all applicable laws and regulations and have established and maintain policies and procedures designed to prevent and detect noncompliance. Management should be aware of which laws and regulations are relevant and applicable to the government's operations especially those that have a direct and material effect on the financial statements.

Procurement is governed by *Title 31, Chapter 23, Sections 231 - 251*, of the Virgin Islands Code which states the various types and requirements for procuring goods and services. The Department of Property and Procurement is the agency primarily responsible for all acquisitions of goods and services.

Procurement regulations and procedures state that contract files must be maintained documenting the history of the procurement, including requisitions, purchase orders, and solicitations. Per the Procurement Manual, all requisitions must be created following the regulatory guidelines of the Department of Property and Procurement (DPP), then in effect. When creating a requisition or purchase order, all necessary supporting documentation must be attached in the ERP system; this includes the required quotes and a justification letter signed by the User Agency head and approved by the Commissioner of Property and Procurement, if required.

The government has established comprehensive policies and procedures for the processing of expenditures, including purchase orders, invoice processing, approvals, segregation of duties, and documentation of transactions. These internal controls are designed to safeguard assets and reduce the risk of errors and misappropriation.

**Condition** - In 2024, an inquiry was conducted by the United States Department of Justice into potential criminal activities associated with three members of the management team of the government and formal indictments followed. Management performed an investigation into the matter and, we observed the following:

- Invoice were dated prior to the purchase order approval date for seventy-seven (77) out of hundred-seventy-five (175) transactions.
- No evidence was available that a request for proposal (RFP) was initiated for twenty-seven (27) out of thirty-one (31) purchase orders over the \$50,000 policy threshold.
- A single individual approved multiple levels for payment remittance for ten (10) out of hundred-seventy-five (175) transactions.

### **Material Weaknesses in Internal Control Over Financial Reporting**

- As required by the procurement policy, no evidence was available to show that three quotes were requested and obtained prior to the awards for thirteen (13) out of thirteen (13) purchase orders over \$10,000.
- Same invoice was used to support two (2) out of hundred-seventy-five (175) transactions.
- No evidence that a payment remittance was fully approved for one (1) out of hundred-seventy-five (175) transactions.
- No documentation was available to clarify and understand purpose of transaction outside the invoice. The contract, bid, RFP information and grants requests were not available to support compliance with procurement and/or payment policies and processes for eighty-eight (88) out of hundred-seventy-five (175) transactions.
- Purchase of goods and/or services for no documented business purpose for three (3) out of hundred-seventy-five (175) transactions.

**Cause** - The Government did not retain all necessary supporting documentation for purchase orders, contracts, and vendor profiles to ensure adherence to internal policies and procedures supporting the transactions. Additionally, there was a limitation on the availability of finance personnel.

**Effect or Potential Effect** - Failure to retain necessary supporting documentation and adhere to established procurement laws, regulations, policies and procedures may result in noncompliance with procurement regulations. This deficiency increases the risk of improper or unauthorized purchases, reduces transparency and accountability in the procurement process, and may lead to audit findings or other regulatory noncompliance.

**Recommendation** - We recommend that the Government evaluate its policies and procedures to ensure all necessary supporting documentation are retained such as: purchase orders, contracts, and vendor profiles which will support adherence to internal policies and regulatory requirements. Management should implement procedures to regularly review and verify that all procurement activities are properly documented and compliant with applicable regulations.

#### ***Views of Responsible Officials:***

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - The Government is finalizing its policies and procedures to ensure all necessary supporting documentation are retained, which will support adherence to internal policies and regulatory requirements. We will review regularly to verify that all procurement activities are properly documented and compliant with applicable regulations.

**Implementation Date** - October 2025

**Person(s) Responsible** - Commissioner of Property and Procurement.

## Material Weaknesses in Internal Control Over Financial Reporting

### Finding 2022-014: Procurement Regulations

**Criteria** - Procurement is governed by *Title 31, Chapter 23, Sections 231 - 251*, of the Virgin Islands Code, which states the various types and requirements for procuring goods and services. The Department of Property and Procurement is the agency primarily responsible for all acquisitions of goods and services.

Procurement regulations and procedures state that contract files must be maintained documenting the history of the procurement, including requisitions, purchase orders, and solicitations. Per the Procurement Manual, all requisitions must be created following the regulatory guidelines of the Department of Property and Procurement (DPP), then in effect. When creating a requisition or purchase order, all necessary supporting documentation must be attached in the ERP system; this includes the required quotes and a justification letter signed by the User Agency head and approved by the Commissioner of Property and Procurement, if required.

**Condition** - We sampled and selected one hundred and twenty-nine (129) purchase orders and sixty-four (64) contract files and noted the following:

- The DPP was unable to provide evidence that the controls process regarding the evaluation committee for supply contracts, which confirms understanding of the policies and procedures, was operating effectively.
- Thirty-five (35) purchase orders from nineteen (19) different vendors did not contain the requisite documentation to provide evidence that the purchase order met the stated requirements.
- Forty-one (41) purchase orders from seven (7) different vendors appeared to be split purchase orders, and adequate supporting documentation was not available to determine if purchase order splitting occurred.
- Two (2) purchase orders from two (2) different vendors were not in line with Government policies regarding purchase orders and contracts.
- Forty-one (41) executed contract files did not contain the requisite documentation to provide evidence that the respective procurement met stated requirements.
- Sixty-four (64) instances lacked adequate supporting documentation to determine whether the first invoice was generated before the date of contract execution.

**Cause** - The Government did not retain all necessary supporting documentation for purchase orders, contracts, and vendor profiles to ensure adherence to internal policies and procedures.

**Effect or Potential Effect** - Failure to retain necessary supporting documentation and adhere to established policies and procedures may result in noncompliance with procurement regulations. This deficiency increases the risk of improper or unauthorized purchases, reduces transparency and accountability in the procurement process, and may lead to audit findings or other regulatory consequences.

**Material Weaknesses in Internal Control Over Financial Reporting**

**Recommendation** - We recommend that the Government retain all necessary supporting documentation for purchase orders, contracts, and vendor profiles to ensure adherence to internal policies and regulatory requirements. Management should implement procedures to regularly review and verify that all procurement activities are properly documented and compliant with applicable regulations.

***Views of Responsible Officials:***

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - The Government will continue to take necessary measures to address noncompliance and perform periodic reviews of purchase orders, contracts, and profiles to ensure that internal policies and regulations are being adhered to.

**Implementation Date** - Ongoing.

**Person(s) Responsible** - Department of Property and Procurement Management Team.

## Significant Deficiency in Internal Control Over Financial Reporting

### Finding 2022-015: Information Technology (IT) Environment

#### A. User Access and Administration

**Criteria** - Logical security for user access and user administration are critical components of an effective information security strategy. These controls are designed to ensure that only authorized individuals have access to information systems and data, thereby safeguarding sensitive information from unauthorized access, misuse, or breaches.

**Condition** - We noted the following during our procedures over user access and change management:

- There are no formal re-certifications of user access security rights performed for the following applications:

*Applications:*

- |              |           |
|--------------|-----------|
| ○ Timeforce  | ○ RawData |
| ○ Munis      | ○ CARIBS  |
| ○ VIDOLA\$   | ○ VIBES   |
| ○ VITAX      |           |
| ○ ScanOptics |           |
| ○ MMIS       |           |
| ○ Capture    |           |

- The password and account lockout configurations have not been implemented to enforce strong passwords on the following applications and operating systems:

*Applications:*

- VIDOLA\$

*Operating Systems:*

- |                                |                                |
|--------------------------------|--------------------------------|
| ○ Department of Finance        | ○ Department of Human Services |
| ○ Lieutenant Governor's Office |                                |

- Evidence was not available to demonstrate that users with access to database is restricted and appropriate based on job responsibilities for the VITAX application.
- Evidence was not available to demonstrate that there is a formal change management policy on the Munis application.

**Cause** - These conditions appear to be the result of insufficient oversight and a lack of established policies and procedures for user access management, password security, and change management across key operating systems and applications.



### Significant Deficiency in Internal Control Over Financial Reporting

**Effect or Potential Effect** - The absence of formal re-certifications of user access security rights, lack of strong password and account lockout configurations, and insufficient evidence of formal change management policies significantly increase the risk of unauthorized access to sensitive systems and data. These deficiencies may result in the exposure of confidential information, potential misuse or alteration of critical data, and increased vulnerability to security breaches.

**Recommendation** - The Government should evaluate its documentation process to mitigate the risk of changes being implemented without appropriate approvals. Additionally, the Government should assess its user access and administration controls, including user addition, modification, and removal, to ensure that appropriate access is granted and that there is strict adherence to record retention policies.

**Views of Responsible Officials:**

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - Several enhancements have been made in alignment with correspondences to end users. Continuation of improvements is well underway. The Lieutenant Governor's Office has transitioned and upgraded its systems to address the issue of performing the re-certifications of user access security rights. Additionally, the MIS Director currently participates in regular meetings with the Bureau of Information Technology during which the implementation of a government-wide framework is being established.

Only members of the Computer Operations Group are Administrators on the Bureau domain. Also, a password lockout and complexity policy are in effect. All users must take part in the Bureau annual Disclosure and Computer Awareness training.

The Information Technology (IT) department has already created a recertification policy and are now working on the forms for supervisors to acknowledge. These documents will be ready by the next fiscal year. The password lockout policy will be implemented for the next fiscal year as well. The IT department have already had discussions with a vendor to provide this feature with Oracle Forms. VIDOL change management has been logged by emails and some word document forms that were created but not standardized.

VIDOL change management has been logged by emails and some word document forms that were created but not standardized. VIDOL IT is working on implementing a standardized change management system for the next fiscal year.

**Implementation Date** - Ongoing.

**Person(s) Responsible** - The management team of the Bureau (including the Director of Processing and IT), Office of Lieutenant Governor, Department of Labor; specifically, the IT Director, the management team of Division of Family Assistance of the Department of Human Services, and the Department of Finance IT Director.

## Noncompliance with Laws and Regulations

### Finding 2022-016: Collateral of Depository

**Criteria** - Collateralization provides an avenue of recovery in the unlikely event of the failure of a bank or financial institution holding government deposits. Collateralization of public deposits through the pledging of appropriate securities or other instruments (i.e., surety bonds or letters of credit) by depositories is an important safeguard for government deposits. Further, in the event of a failure of a bank, the Federal Deposit Insurance Corporation (FDIC) will honor the collateralization agreement if the agreement is valid and enforceable under applicable law.

Virgin Islands Code Section 3304, *Collateral of Depository*, requires depositories to pledge collateral that is satisfactory to the Commissioner of Finance, to secure governmental deposits held with that institution. It is recommended that margin levels should be at least 102%, depending on the liquidity and volatility of the collateral pledged.

**Condition** - During our review of the Government's collateral of depository reports, we noted that not all cash accounts of the Government and its component units are included in the report to be collateralized.

**Cause** - The Government does not appear to have adequate policies and procedures to ensure compliance with stated requirements.

**Effect or Potential Effect** - Failure to meet the required margin levels constitutes non-compliance with regulatory requirements and internal policies, potentially leading to penalties or sanctions. Also, under collateralization of all cash accounts with depositories can cause a violation of the code and potential loss of the Government assets if a financial institution were to fail.

**Recommendation** - We recommend that the Government implement policies and procedures to ensure all cash accounts for the Government and its component units are in compliance with the stated requirements.

#### **Views of Responsible Officials:**

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - Collateral reports are specific to the financial institution and may not include all quasi-governmental or component unit accounts if not identified as a government account when established at the financial institution. The Government will work with its banks to ensure any accounts identified are included on the collateral report of the related institution.

**Implementation Date** - Ongoing.

**Person(s) Responsible** - The Commissioner of Finance.

## Noncompliance with Laws and Regulations

### Finding 2022-017: Landfill Consent Decrees

**Criteria** - Closure and post-closure directives related to landfills are regulated by various Federal laws, including requirements by the United States Environmental Protection Agency (EPA). As such, the Government is required to construct and operate certain environmental control systems and otherwise comply with certain requirements during operation of each of its landfill sites, properly close the site (including placement of a final landfill cover) when the landfill (or portion thereof) stops accepting waste, and perform certain post-closure maintenance and monitoring functions at the site for 30 years following closure.

**Condition** - During our procedures, we noted several instances of noncompliance with EPA decrees concerning the Anguilla and Bovoni landfills. These matters include various health and safety risks, failure to submit required reports, and incomplete installation of the groundwater monitoring system around the perimeter of the Anguilla landfill.

**Cause** - The Government does not appear to have adequate policies and procedures to comply with EPA decrees concerning the Anguilla and Bovoni landfills.

**Effect or Potential Effect** - Noncompliance with the consent decree timetables can result in the accrual of penalties at specified rates.

**Recommendation** - We recommend that the Government allocate budgetary funds to pay any penalties that have already accrued. Additionally, the Government should implement necessary measures to promptly address current noncompliance with the consent decree timetables in order to avoid incurring future penalties.

#### **Views of Responsible Officials:**

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - The Government of the Virgin Islands is currently seeking funding, through the Virgin Islands Legislature, to address the funding concerns and to organize the workflow to timely complete reports to meet EPA decrees concerning the various issues.

**Implementation Date** - Ongoing.

**Person(s) Responsible** - Office of the Governor, Chief of Staff and the Waste Management Authority Management Team.

## Noncompliance with Laws and Regulations

### Finding 2022-018: Establishment of a Medical Malpractice Trust Fund

**Criteria** - In accordance with subsection (a) of Virgin Islands Code (V.I. Code) Section 27, in lieu of procuring a group insurance policy, the Commissioner of Health is authorized to self-insure health care providers against claims arising from the rendering or failure to render medical care or services, as well as claims for injury or death to patients resulting from the activities of health care providers.

Additionally, the establishment of a Medical Malpractice Risk Management Trust Fund (the Fund) is required to provide coverage against professional medical malpractice liability. This Fund must be managed by a licensed broker or brokerage firm, with the investment plan subject to the approval of the Medical Malpractice Action Review Committee. A maximum of 1% of the proceeds from the Fund may be used by the Territorial Office of Risk Management for administrative purposes, as defined within the V.I. Code. Interest accruing on the Fund must be retained or redeposited into the Fund.

**Condition** - We noted that the Government has not established a separate trust fund.

**Cause** - The Government does not appear to have adequate policies and procedures in place to ensure compliance with the requirement to establish a Medical Malpractice Trust Fund.

**Effect or Potential Effect** - The failure to set up a separate trust fund may lead to non-compliance with legal or regulatory requirements, potentially resulting in penalties or sanctions.

**Recommendation** - We recommend that the Government establish a separate Medical Malpractice Trust Fund in accordance with applicable legal and regulatory requirements. Management should develop and implement policies and procedures to ensure proper administration, oversight, and compliance with all statutory provisions related to the Fund.

#### **Views of Responsible Officials:**

The Government concurs with the auditor's findings and recommendations.

**Action Plan** - The Department of Health has already established a Medical Malpractice fund, which is called the Reciprocal Insurance Fund.

**Implementation Date** - Immediately.

**Person(s) Responsible** - Commissioner, Department of Health and Medical Malpractice Action Review Committee.

## Noncompliance with Laws and Regulations

### Finding 2022-019: Casino Control Commission

**Criteria** - Title 32, Chapter 21, Section 514 of the Virgin Islands Code states that the Chairman of the Casino Control Commission “shall submit to the Department of Finance by the 30<sup>th</sup> day of the month following the end of each quarter a report detailing the amount, nature, and the justification for each item of expenditure in the previous quarter. The report shall be accompanied by receipts and any other documentation required by the Department of Finance’s rules and regulations or other laws of the Virgin Islands. An annual financial report of the fiscal year’s expenditures from the special checking account shall be compiled by the Chairman of the Commission and submitted to the Legislature and the Department of Finance by the 30<sup>th</sup> of the month following the end of the fiscal year.”

**Condition** - We noted that the Casino Commission is not submitting all requisite reports to the Department of Finance.

**Cause** - The Government does not appear to have adequate policies and procedures in place to ensure compliance with applicable requirements.

**Effect or Potential Effect** - The Government is not in compliance with stated provisions, which could lead to inaccurate reporting.

**Recommendation** - We recommend that the Department of Finance maintain proper oversight of the Casino Control Commission by obtaining and reviewing all required reports. These reviews should include supporting documentation for all financial transactions and an assessment of compliance with Virgin Islands policies and procedures.

#### **Views of Responsible Officials:**

The Government concurs with the auditor’s findings and recommendations.

**Action Plan** - The Government has requested and is receiving the requisite reporting from the Casino Control Commission on a quarterly basis as covered by the V.I. Code.

**Implementation Date** - Ongoing.

**Person(s) Responsible** - The Department of Finance and Director of Accounting.

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DEPARTMENT OF FINANCE

Appendix D

Status of Prior Year Material Weaknesses, Significant Deficiencies, and  
Noncompliance with Laws and Regulations

Finding Number	Nature of Finding	Type of Finding in Fiscal Year 2021	Current Year Status
2021-001	Financial Position	Material Weakness	Repeated. Finding 2022-001
2021-002	Year-End Close Process	Material Weakness and Modification of Audit Opinion for Lack of a Required Disclosure within the Financial Statements	Repeated. Finding 2022-001
2021-003	Revenue and Receivables	Material Weakness and Modification of the Audit Opinion for Specified Transactions	Repeated. Finding 2022-002
2021-004	Grants Management	Material Weakness and Modification of the Audit Opinion for Specified Transactions	Repeated. Finding 2022-003
2021-005	Capital Assets and Related Expenditures	Material Weakness	Repeated. Finding 2022-004
2021-006	Recording of Liabilities	Material Weakness and Modification of the Audit Opinion for Specified Liabilities	Repeated. Finding 2022-005
2021-007	Management of the Medicaid Program	Material Weakness and Modification of the Audit Opinion	Repeated. Finding 2022-006

Appendix D

Status of Prior Year Material Weaknesses, Significant Deficiencies, and  
Noncompliance with Laws and Regulations

Finding Number	Nature of Finding	Type of Finding in Fiscal Year 2021	Current Year Status
2021-008	Unemployment Insurance Trust Fund	Material Weakness and Modification of the Audit Opinion	Repeated. Finding 2022-007
2021-009	Workers Compensation Program	Material Weakness	Repeated. Finding 2022-008
2021-010	Other Postemployment Benefits Obligation	Material Weakness	Repeated. Finding 2022-011
2021-011	Payroll, Related Accruals, and Other Expenditures	Material Weakness	Repeated. Finding 2022-009
2021-012	Bank Accounts	Material Weakness	Repeated. Finding 2022-010
2021-013	Information Technology Environment	Significant Deficiency	Repeated. Finding 2022-015
2021-014	Collateral of Depository	Material Noncompliance	Repeated. Finding 2022-016
2021-015	Landfill Consent Decrees	Material Noncompliance	Repeated. Finding 2022-017
2021-016	Establishment of a Medical Malpractice Trust Fund	Material Noncompliance	Repeated. Finding 2022-018
2021-017	Procurement Regulations	Material Noncompliance	Repeated. Finding 2022-014
2021-018	Casino Control Commission	Material Noncompliance	Repeated. Finding 2022-019