Basic Financial Statements and OMB Circular A-133 Report on Federal Financial Assistance Programs

Government of the United States Virgin Islands
Year Ended September 30, 2011
With Report on Independent Auditors

Ernst & Young LLP

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Government of the United States Virgin Islands

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Year Ended September 30, 2011

Contents

Financial Statements

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Report of Independent Auditors

The Honorable Governor
of the Government of the United States Virgin Islands:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of the United States Virgin Islands (the Government), as of and for the year ended September 30, 2011, which collectively comprise the Government's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Government's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following component units:

- The Virgin Islands Lottery (V.I. Lottery), a nonmajor enterprise fund, which represents 0.4%, and 3.6%, respectively, of the assets, and revenues of the aggregate remaining fund information, and 12.0%, 4.0%, and 30.4%, respectively, of the assets, net assets, and revenue of the business-type activities. The V.I. Lottery net deficit represents $1.6 million of the $1.3 billion net asset/fund balance of the aggregate remaining fund information.

- The Tobacco Settlement Financing Corporation, a blended component unit, which represents 0.2%, 0.2%, and 0.4%, respectively, of the assets, net assets/fund balance, and revenue of the aggregate remaining fund information, and 1.0%, 0.7%, and 0.2%, respectively, of the assets, net deficit, and revenue of the governmental activities.

- The Employees' Retirement System of the Government of the Virgin Islands (GERS), a fiduciary component unit (pension trust fund), which represents 90.0%, 95.6%, and 26.1%, respectively, of the assets, net assets/fund balance, and revenue of the aggregate remaining fund information.

- The Virgin Islands Housing Authority (VIHA), Virgin Islands Public Television System (VIPTS), Virgin Islands Economic Development Authority (VIEDA), Magens Bay Authority (MBA), Virgin Islands Government Hospital and Health Facilities Corporation (Roy L. Schneider Hospital and Juan F. Luis Hospital and Medical Center), the Virgin Islands Housing Finance Authority (VIHFA), University of the Virgin Islands, and the Waste Management Authority (WMA), discretely presented component units, which collectively represent 41.0%, 50.0%, and 49.0%, respectively, of the assets, net assets, and revenue of the aggregate discretely presented component units.

These financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the activities, funds, and component units indicated above, are based on the reports of other auditors.

Except as discussed in the following six paragraphs, we conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Government's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

The report of the other auditors on the 2011 financial statements of VIHFA, a discretely presented component unit, was qualified because the auditors were unable to obtain sufficient audit evidence to determine whether assets transferred from Department of Planning and Natural Resources of cash and cash equivalents of $17.0 million, investments of $4.4 million, and capital assets of $11.9 million were fairly stated.

The report of other auditors on the 2011 financial statements of VIPTS, a discretely presented component unit, was qualified because the auditors were unable to obtain sufficient audit evidence to determine whether capital assets of $5.9 million were fairly stated.

The report of other auditors on the 2011 financial statements of GERS, a fiduciary component unit (pension trust fund), was qualified because GERS maintained investments in a limited partnership valued at $52.9 million whose fair value has been estimated in the absence of a readily determinable fair value. GERS' estimate was based on information provided by the general partner of the limited partnership. The effect on the financial statements as a result of GERS' inability to document its procedures for determining fair value of the investment was not determinable.

The report of other auditors on the 2011 financial statements of the V.I. Lottery, a nonmajor enterprise fund, was qualified because the auditors were unable to obtain sufficient audit evidence to determine whether the amount due to the general fund of $4.5 million was fairly stated.

The report of other auditors on the 2010 financial statements of WMA, a nonmajor discretely presented component unit, was qualified because the auditors were unable to obtain sufficient audit evidence to determine whether capital assets of $79.4 million were fairly stated. As more fully described in Note 1 to the financial statements, the September 30, 2011 balances are supported by the 2010 audit report.

The Government did not maintain the requisite documentation to support its accrued retroactive liability of $195.3 million as of September 30, 2011 and the opening balances of its retroactive pay, landfill closure and post-closure costs and accrued compensated absences liabilities for fiscal year 2011. As a result, we were unable to obtain sufficient audit evidence to determine whether adjustments to these balances in the governmental activities were required.

The basic financial statements do not include a liability for medical malpractice claims in the reciprocal insurance fund (a non-major enterprise fund) and, accordingly, the Government has not recorded an expense for the current period change in that liability. The Government's records do not permit it, nor is it practical to extend our auditing procedures sufficiently to determine the extent by which the business-type activities, government insurance fund, and aggregate remaining fund information as of and for the year ended September 30, 2011 may have been affected by this condition.

Because of the matters discussed in the preceding paragraph of this report, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial position of the business-type activities and aggregate remaining fund information as of September 30, 2011. In addition, we do not express an opinion on the changes in financial position of the business-type activities, government insurance fund, and aggregate remaining fund information and, where applicable, cash flows for the year ended September 30, 2011.

In our opinion, based on our audit and the reports of other auditors, except for the effect of the adjustments, if any, as might be determined to be necessary, had the other auditors been able to obtain sufficient audit evidence to determine whether (1) cash and cash equivalents of $17.0 million, investments of $4.4 million, and capital assets of $11.9 million in the financial statements of VIHFA, (2) capital assets of $5.9 million in the financial statements of VIPTS, (3) amount due to the general fund of $4.5 million in the V.I. Lottery financial statements, and (4) capital assets amounting to $79.4 million in the WMA financial statements were fairly stated as described above, and the effect of the adjustments, if any, as might be determined to be necessary, had we been able to obtain sufficient audit evidence to determine whether the opening balance of the accrued compensated absences liability, retroactively pay liability, and landfill closure and post-closure liability and the ending retroactive pay liability balance in the governmental activities were fairly stated as described in paragraph nine above, the financial statements referred to previously, present fairly, in all material respects, the respective financial position of the aggregate discretely presented component units and the governmental activities of the Government of the United States Virgin Islands, as of September 30, 2011, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

Finally, in our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Government of the United States Virgin Islands, as of September 30, 2011, and the respective changes in financial position of the general fund, PFA debt service fund, PFA capital projects fund, and WICO; and respective budgetary comparison for the general fund for the year then ended in conformity with U.S. generally accepted accounting principles.

As described more fully in Note 18 to the financial statements, as of October 1, 2010, the beginning net assets (deficit) of governmental activities and component units were restated by $61.3 million and $65.6 million, respectively.

As more fully described in Note 1, during the year ended September 30, 2011, the Government adopted Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2013, on our consideration of the Government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, and the schedules of funding progress and employer contributions listed under required supplementary information in the table of contents are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Government's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst & Young LLP

June 28, 2013

Introduction

The following management's discussion and analysis presents an overview of the financial position and activities of the Government of the United States Virgin Islands (the Government) as of and for the fiscal years ended September 30, 2011 and 2010.

Government-wide Financial Statements

The government-wide financial statements are designed to present an overall picture of the financial position of the Government. These statements consist of the statement of net assets (deficit) and the statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. This means that current year's revenue and expenses are included regardless of when cash is received or paid, producing a view of financial position and changes in financial position similar to that presented by most private-sector companies.

The statement of net assets (deficit) combines and consolidates the Government's current financial resources with capital assets and long-term obligations.

Both of the above-mentioned financial statements have separate sections for three different types of the Government programs or activities. These three types of activities are as follows:

> ***Governmental Activities –*** The activities in this section are mostly supported by taxes and intergovernmental revenue (federal grants). Most services normally associated with the primary government (PG) fall into this category, including general government, public safety, health, public housing and welfare, education, transportation and communication, and culture and recreation.
>
> ***Business-Type Activities –*** These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the Government include the operations of the (i) unemployment insurance program and (ii) the West Indian Company (WICO). Both of these programs operate with minimal assistance from the governmental activities of the Government.

Discretely Presented Component Units **–** These are operations for which the Government has financial accountability even though they have certain independent qualities as well. For the most part, these entities operate similar to private sector businesses and the business-type activities described above. The Government's discretely presented component units are presented in two categories, major and nonmajor. This separation is determined by the relative size of the entities' assets, liabilities, revenue, and expenses in relation to the total of all component units.

Fund Financial Statements

Fund financial statements focus on the most significant (or major) funds of the Government. A fund is a separate accounting entity with a self-balancing set of accounts. The Government uses funds to keep track of sources of funding and spending related to specific activities. The Government uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

A major fund is a fund whose revenue, expenditures or expenses, assets, or liabilities (excluding extraordinary items) are at least 10% of the corresponding totals for all governmental or enterprise funds and at least 5% of the aggregate amount for all governmental and enterprise funds for the same item. The general fund is always considered a major fund. In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the Government believes is particularly important to the financial statements may be reported as a major fund.

All of the funds of the Government are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The governmental funds statements provide a detailed short-term view of the PG's general governmental operations and the basic services it provides. The reconciliation following the fund financial statements explains the differences between the governmental activities, reported in the government-wide financial statements, and the governmental funds' financial statements. The General Fund, the PFA debt service fund and the PFA capital projects fund are reported as major governmental funds.

The General Fund is the PG's primary operating fund. It accounts for all financial resources of the PG, except those required to be accounted for in another fund.

The PFA debt service fund accounts for the resources accumulated, and payments made, for principal and interest on long-term general obligation debt issued by the PFA on behalf of the Government.

The PFA capital projects fund accounts for bond proceeds of debt issued by the PFA on behalf of the Government. The bond proceeds have been designated for certain necessary public safety and capital development projects which are accounted for in this fund.

The governmental fund activities are reported in a separate balance sheet and statement of revenues, expenditures, and changes in fund balances. Additionally, the government presents a reconciliation of the statement of revenues, expenditures, and change in fund balances, to the statement of activities.

Proprietary Funds

Services provided to outside (nongovernmental) customers are reported in enterprise funds. Enterprise funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. These are the same business-type activities reported in the government-wide financial statements.

The West Indian Company (WICO) fund and the Unemployment Insurance Fund are major proprietary funds.

The WICO fund accounts for the activities of WICO, which owns a port facility including a cruise ship pier, and manages a shopping mall complex on the island of St. Thomas.

The Unemployment Insurance Fund is a federally mandated program to manage unemployment insurance.

The proprietary fund activities are reported in a separate statement of net assets (deficit), statement of revenues, expenditures, and changes in fund net assets (deficit) and statement of cash flows.

Fiduciary Funds

The fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Financial Analysis of the Government as a Whole

The PG and its component units continue to experience a downturn in the economy following the economic recession of 2008.

The Government has initiated several actions to offset the negative impact of these financial challenges. The Government continues to promote environmentally safe industries into the USVI. The Government is participating in the American Recovery and Reinvestment Act, obtaining: 1) federal grants for energy, health, education and other construction projects, and 2) federal loss recovery for tax initiatives such as the Making Work Pay and Additional Child tax credits. To improve cash flow, the PG overhauled the property tax assessment and valuation system, proposed increases to locally assessed taxes, and enacted expenditure reduction initiatives.

In fiscal year 2011, the Government issued the 2010A Working Capital Notes in the amount of $131.4 million to pay the outstanding balance of the 2009B Working Capital Notes of $6.4 million, and to provide $125.0 million in working capital for various operating expenses. The Government also issued the Series 2011A Gross Receipts Tax Loan Notes in the amount of $32.2 million to upgrade Virgin Islands broadband technology infrastructure and equipment, and provided an additional $4.0 million to a private developer under the 2009A Tax Increment Note. During fiscal year 2011, the Government borrowed $10.4 million from the U.S. Treasury to fund Unemployment Trust Fund benefit payments.

Financial Analysis of the Primary Government

Total assets of the PG as of September 30, 2011 and 2010, were approximately $1.8 billion and $1.9 billion, respectively, a decrease of approximately $142.3 million. Total liabilities as of September 30, 2011 and 2010, were $3.0 billion and $2.9 billion, respectively, an increase of approximately $74.3 million.

As of September 30, 2011, the PG net deficit of $1.2 billion consisted of $256.9 million invested in capital assets, net of related debt; $218.0 million restricted by statute or other legal requirements that were not available to finance day-to-day operations of the Government; and an unrestricted net deficit of $1.7 billion. As of September 30, 2010, the PG net deficit of $953.2 million consisted of $264.9 million invested in capital assets, net of related debt; $1.0 billion restricted by statute or other legal requirements that were not available to finance day-to-day operations of the Government; and an unrestricted net deficit of $1.47 billion.

For the fiscal year ended September 30, 2011, the PG earned program and general revenue amounting to $1.2 billion and reported expenses of $1.4 billion, resulting in an increase in net deficit of $215.9 million.

For the fiscal year ended September 30, 2010, the PG earned program and general revenue amounting to $1.3 billion and reported expenses of $1.6 billion, resulting in an increase in net deficit of $218.8 million.

Overall, revenue decreased by approximately $122.4 million in fiscal 2011, when compared to fiscal 2010, mainly due to a decrease in tax revenue of $178.8 million, an increase in operating grants and revenue of approximately $71.5 million, an increase in capital grants of $11.1 million, and a reduction in other general revenue of $26.2 million. Expenses decreased in fiscal 2011 when compared to fiscal 2010, by $122.9 million.

A summary of net assets (deficit) and changes in net assets (deficit) for the primary government follows:

Net Assets (Deficit) – Primary Government

September 30, 2011 and 2010
(In thousands)

	Governmental Activities		Business-type Activities		Total	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
		(Restated)				*(Restated)*
Assets						
Current assets	**$ 957,705**	$ 1,069,987	**$ (4,903)**	$ 5,846	**$ 952,802**	$ 1,075,833
Capital assets	**749,156**	767,316	**56,006**	51,294	**805,162**	818,610
Other assets	**40,289**	47,345	**82**	919	**40,371**	48,264
Total assets	**1,747,150**	1,884,648	**51,185**	58,059	**1,798,335**	1,942,707
Liabilities						
Long-term debt outstanding	**2,422,939**	2,476,792	**37,539**	56,933	**2,460,478**	2,533,725
Other liabilities	**515,590**	413,130	**55,549**	10,413	**571,139**	423,543
Total liabilities	**2,938,529**	2,889,922	**93,088**	67,346	**3,031,617**	2,957,268
Net Assets						
Invested in capital assets, net of related debt	**223,155**	234,576	**33,830**	30,394	**256,985**	264,970
Restricted	**216,015**	230,067	**2,078**	2,402	**218,093**	232,469
Unrestricted	**(1,630,549)**	(1,469,917)	**(77,811)**	(42,083)	**(1,708,360)**	(1,512,000)
Total net assets (deficit)	**$ (1,191,379)**	$ (1,005,274)	**$ (41,903)**	$ (9,287)	**$ (1,233,282)**	$ (1,014,561)

Changes in Net Assets (Deficit) – Primary Government

September 30, 2011 and 2010
(In thousands)

	Governmental Activities		Business-type Activities		Total	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
		(Restated)				*(Restated)*
Revenue:						
Program revenue:						
Charges for services	**$ 35,632**	$ 45,511	**$ 50,069**	$ 51,517	**$ 85,702**	$ 97,028
Operating grants and contributions	**377,727**	295,577	**14,701**	25,257	**392,428**	320,834
Capital grants and contributions	**40,688**	29,541	**–**	–	**40,688**	29,541
General revenue:						
Taxes	**684,199**	863,063	**–**	–	**684,199**	863,063
Interest and other	**21,652**	36,525	**81**	108	**21,733**	36,633
Other general revenue	**2,124**	2,136	**–**	–	**2,124**	2,136
Total revenue	**1,162,022**	1,272,353	**64,851**	76,882	**1,226,873**	1,349,235
Expenses:						
General government	**498,250**	722,330	**–**	–	**498,250**	722,330
Public safety	**68,166**	71,526	**–**	–	**68,166**	71,526
Health	**143,558**	160,679	**–**	–	**143,558**	160,679
Public housing and welfare	**142,146**	139,689	**–**	–	**142,146**	139,689
Education	**298,610**	277,003	**–**	–	**298,610**	277,003
Transportation and communication	**86,505**	70,637	**–**	–	**86,505**	70,637
Culture and recreation	**12,252**	9,470	**–**	–	**12,252**	9,470
Interest on long-term debt	**99,340**	87,208	**–**	–	**99,340**	87,208
Unemployment insurance	**–**	–	**40,785**	26,005	**40,785**	26,005
West Indian Company	**–**	–	**9,779**	11,476	**9,779**	11,476
Workmen's compensation	**–**	–	**13,223**	13,835	**13,223**	13,835
VI Lottery	**–**	–	**20,256**	20,495	**20,256**	20,495
Other	**–**	–	**12,724**	16,733	**12,724**	16,733
Total expenses	**1,348,827**	1,538,542	**96,767**	88,544	**1,445,594**	1,627,086
Changes in net assets (deficit) before transfers	**(186,805)**	(266,189)	**(31,916)**	(11,662)	**(218,721)**	(277,851)
Transfers	**700**	700	**(700)**	(700)	**–**	–
	700	700	**(700)**	(700)	**–**	–
Change in net deficit	**(186,105)**	(265,489)	**(32,616)**	(12,362)	**(218,721)**	(277,851)
Net assets (deficit) at beginning of year, as restated	**(1,005,274)**	(739,785)	**(9,287)**	3,075	**(1,014,561)**	(736,710)
Net assets (deficit) at end of year	**$ (1,191,379)**	$ (1,005,274)	**$ (41,903)**	$ (9,287)	**$ (1,233,282)**	$ (1,014,561)

The Virgin Islands Office of Management and Budget of the PG prepares an annual executive budget subject to approval by the Governor and the Legislature of the Virgin Islands. The executive budget is prepared on a budgetary basis similar to the cash basis of accounting. The executive budget includes only those funds that are subject to appropriation by law. More information regarding budgetary procedures is provided in Note 3 of the basic financial statements. A summary of the budgetary report for the General Fund of the PG, included on page 26 of the financial statements, follows:

Revenue and Expenditures – Budget and Actual – Budgetary Basis – General Fund

Year Ended September 30, 2011

(In thousands)

	Original Budget	Amended Budget	Actual	Variance
Total revenues	$ 572,322	$ 572,322	$ 636,775	$ 64,453
Total expenditures	743,733	781,948	830,083	(48,135)
Deficiency of revenues under expenditures	(171,411)	(209,626)	(193,308)	16,318
Other financing sources, net	209,626	209,626	227,174	17,548
Excess (Deficiency) of revenues and net other financing sources over expenditures	$ 38,215	$ –	$ 33,866	$ 33,866

For fiscal 2011, the PG realized a favorable budgeted revenue variance of $64.4 million mainly due to an increase in federal grants and contributions of $78.2 million, and a decrease of tax collections of $17.8 million. The PG realized a $65.3 million unfavorable expenditure variance due to increases in general government expenditures. The PG realized a $17.5 million variance in other financing sources due to transfers from other funds and the issuance of 2010 Series Notes.

Capital Assets

Capital assets additions during fiscal 2011 amounted to $39.5 million for governmental activities and $8.2 million for business-type activities.

Capital assets additions during fiscal 2010 amounted to $101.5 million for governmental activities and $2.0 million for business-type activities.

The Government's capital assets include land, land improvements, buildings, building improvements, machinery and equipment, infrastructure, and construction in progress as follows:

Capital Assets – Primary Government

(In thousands)

	Governmental Activities		Business-type Activities		Total	
	2011	**2010** *(Restated)*	**2011**	**2010**	**2011**	**2010** *(Restated)*
Land and improvements	$ **198,240**	$ 195,327	$ **5,495**	$ 5,495	$ **203,735**	$ 200,822
Building and improvements	**410,954**	397,335	**66,434**	65,026	**477,388**	462,361
Machinery and equipment	**141,198**	134,978	**11,213**	8,420	**152,411**	143,398
Infrastructure	**223,884**	190,105	**–**	–	**223,884**	190,105
Construction in progress	**127,735**	147,773	**5,661**	1,640	**133,396**	149,413
Total capital assets	**1,102,011**	1,065,518	**88,803**	80,581	**1,190,814**	1,146,099
Less accumulated depreciation	**(352,855)**	(320,844)	**(32,797)**	(26,228)	**(385,652)**	(347,072)
Total capital assets, net	$ **749,156**	$ 744,674	$ **56,006**	$ 54,353	$ **805,162**	$ 799,027

Note 10 provides detailed information regarding the capital assets of the primary government and the component units of the Government.

Debt Administration

The Government issues both general obligation bonds and revenue bonds. The Revised Organic Act [48 U.S.C. Section 1574 (b)(ii)] restricts the principal amount of general obligation debt that the Government may issue to no greater than 10% of the aggregate assessed valuation of taxable real property in the U.S. Virgin Islands. Following is a summary of bonds outstanding as of September 30, 2011:

Primary Government – Bonds Payable

(In thousands)

Bonds Payable	Maturity	Rates (%)	Balance
2010 Series A & B Revenue Bonds	2029	4.00 - 5.25	$ 399,050
2009 Series A Revenue Bonds (Cruzan)	2039	3.00 - 6.00	38,640
2009 Series A-1, A-2, B & C Revenue and Refunding Bonds	2040	3.00 - 5.00	450,380
2009 Series A Revenue Bonds (Diageo)	2038	6.00 - 6.75	250,000
2006 Series A Revenue Bonds	2029	3.50 - 5.00	214,385
2006 Series A,B,C & D Tobacco Turbo and Capital Appreciation Bonds	2035	6.25 - 7.625	7,290
2004 Series A Revenue Bonds	2025	4.00 - 5.25	75,235
2003 Series A Revenue Bonds	2033	4.00 - 5.25	248,960
2001 Series A Tobacco Bonds	2031	5.00	15,545
1999 Series A Revenue Bonds	2020	4.20 - 6.50	81,115
Subtotal			1,780,600
Deferred costs on refundings			(14,980)
Bond premium			31,341
Bond discount			(5,465)
Bond accretion			3,087
Total			$ 1,794,583

Note 11 provide detailed information regarding all bonds of the PG.

In fiscal year 2011, the Government issued the: (1) 2010A Working Capital Notes in the amount of $131.4 million to pay the outstanding balance of the 2009B Working Capital Notes of $6.4 million, and to provide $125.0 million in working capital for various operating expenses, (2) the Series 2011A Gross Receipts Tax Loan Notes in the amount of $32.2 million to upgrade the territory's broadband technology infrastructure and equipment, and (3) an additional $4.0 million to a private developer in St. Croix under the 2009A Tax Increment Note. During fiscal year 2011, the Government also borrowed $10.4 million from the U.S. Treasury to fund deficits in the Virgin Islands Unemployment Trust Fund.

In fiscal year 2010, the Government issued the: (1) 2010 Series A and B Revenue Bonds amounting to $399.1 million to provide working capital to the PG and to refinance a portion of the outstanding Series 2009 B1 and B2 Notes, (2) 2009 Series A Revenue Bonds (the "Cruzan Bonds") amounting to $39.2 million to finance the costs of a wastewater treatment facility and renovations at the Cruzan VIRIL, Ltd., and (3) 2009 Series A-1, A-2, B and C Revenue and Refunding Bonds amounting to $458.8 million to fund certain capital projects and current refund the 1998 Series A bonds. The current refunding resulted in a saving of approximately $35.9 million and an economic gain of approximately $35.6 million. During fiscal year 2010, the Government also borrowed $13.1 million from the U.S. Treasury to fund deficits in the Virgin Islands Unemployment Trust Fund.

The PG made bond principal payments on all outstanding general and special revenue bonds amounting to $25.5 million during fiscal year 2011, and $412.1 million during fiscal year 2010.

The Government's bonds as of the date of this report carry insured ratings of "BBB" and "BBB+" from Fitch Ratings and Standard & Poor's, respectively. Ratings reflect only the respective views of the rating agencies and an explanation of the significance of each rating may be obtained from the respective rating agency.

Other liabilities of the PG include:

Primary Government – Other Liabilities

September 30, 2011 and 2010

(In millions)

	2011	2010
Accrued compensated absences	**$ 59**	$ 60
Retroactive union arbitration	**195**	232
Litigation	**27**	21
Post employment benefits	**201**	145
Landfill closure and post closure costs	**72**	173
Total other liabilities	**$ 554**	$ 631

Economic Condition and Outlook

The PG continues its recovery efforts from the economic recession of 2008 through a combination of revenue initiatives and budgetary restraint on expenditures.

Revenue Initiatives

The PG has implemented several initiatives to create jobs and promote economic growth including: providing economic incentives to attract a major rum distiller (Diageo) and retain another rum distiller (Cruzan Rum), enactment of tax increment financing legislation, implementation of a broadband infrastructure initiative, continued promotion of tourism through national advertising, and participation in grant awards through the American Recovery and Reinvestment Act (ARRA). The PG has also implemented several tax initiatives including: ARRA reimbursement of losses resulting from the Making Work Pay and Additional Child tax credits, and increases of local taxes, including gross receipts taxes and stamp taxes.

In connection with a real property tax case instituted against the PG in the U.S. District Court of the Virgin Islands, the PG was enjoined from appraising and assessing any real property taxes until it modified its system of appraisal to comply with certain court mandates. The PG retained a consultant to modify its system of appraisal and to perform reassessment of properties. This project was completed in fiscal 2009. The U.S. District Court also required an over-haul of the tax review board responsible for hearing tax assessment reviews. The PG is taking steps to comply with the Court order. In fiscal 2010, the PG passed legislation authorizing the issuance of property taxes at the 1998 assessment level.

The Government is currently in litigation challenging the computation of its corporate franchise tax. Of the four cases brought against the Government, one is currently before the Virgin Islands Territorial Court, and the remaining three cases are on appeal.

Budgetary Control of Expenditures

The PG faces the challenge of carryforward liabilities from prior fiscal years and increasing expenditures in fiscal 2011.

Carryforward liabilities consist mainly of retroactive salary increases, which accumulated following Hurricanes Hugo, Marilyn and Bertha in the years of 1990 through 1998. At September 30, 2011 and 2010, unpaid retroactive salary increase liabilities amounted to $195.3 and $231.8 million respectively, which is reported as a liability of the Government within other noncurrent liabilities.

Increasing expenditures in fiscal year 2011 included estimated landfill closure and post-closure expenses amounting to $64.4 million, and other postemployment benefit expense amounting to $56.2 million.

Other increasing general governmental expenditures include increasing health insurance premiums and pharmaceutical premiums.

Expenditures are closely monitored and controlled through the budgetary process.

Deficit Reduction Measures

In fiscal year 2011, the PG reported an unrestricted net deficit of $1.7 billion. In fiscal year 2010, the PG reported an unrestricted net deficit of $1.5 billion.

The PG has implemented a number of deficit reducing measures including: (1) withholding of local gross receipts taxes on Government invoice payments, (2) increasing local taxes such as property tax assessments on time-shares and gross receipts taxes; (3) exerting greater control of expenditures through the budgetary process, and (4) increasing collection efforts for amounts due to the PG from taxpayers.

Contacting the Government's Financial Management

This financial report is designed to provide the Government's citizens, taxpayers, customers, and creditors with a general overview of the Government's finances. If you have questions about this report, or need additional financial information, contact the Government of the United States Virgin Islands, Department of Finance, No. 2314 Kronprindsens Gade, St. Thomas, VI 00802.

Government of the United States Virgin Islands

Statement of Net Assets (Deficit)

September 30, 2011
(In thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and cash equivalents	$ 187,067	$ 4,223	$ 191,290	$ 77,878
Investments	427,107	2,378	429,485	11,999
Receivables, net	291,978	2,702	294,680	59,054
Internal balances	17,110	(17,110)	–	–
Due from component units	–	–	–	408
Notes and other receivables	–	–	–	18,505
Due from primary government	–	–	–	37,514
Due from federal government	19,920	–	19,920	9,025
Inventories	–	–	–	30,220
Other assets	4,616	826	5,442	11,254
Restricted:				
Cash and cash equivalent	1,272	2,078	3,350	77,335
Investments	8,635	–	8,635	85,279
Other	–	–	–	7,613
Capital assets, net	749,156	56,006	805,162	992,676
Deferred and other expenses	40,289	82	40,371	67,965
Total assets	1,747,150	51,185	1,798,335	1,486,725
Liabilities				
Accounts payable and accrued liabilities	118,370	2,797	121,167	161,294
Tax refunds payable	93,171	–	93,171	–
Unemployment insurance benefits	–	15,061	15,061	–
Customer deposits	–	–	–	24,354
Due to primary government	–	–	–	83,340
Due to component units	13,854	–	13,854	1,388
Due to federal government	–	–	–	5,047
Interest payable	47,772	591	48,363	5,575
Unearned revenue	125,600	597	126,197	7,752
Other current liabilities	7,502	31,443	38,945	16,917
Noncurrent liabilities:				
Due within one year:				
Notes payable	33,788	501	34,289	10,527
Bonds payable	51,518	–	51,518	11,588
Other liabilities	24,015	4,559	28,574	697
Due in more than one year:				
Line of credit payable	–	–	–	25,500
Notes payable	149,698	21,756	171,454	68,570
Bonds payable	1,743,065	–	1,743,065	271,351
Other liabilities	530,176	15,783	545,959	52,645
Total liabilities	2,938,529	93,088	3,031,617	746,545

(Continued)

Government of the United States Virgin Islands

Statement of Net Assets (Deficit) (continued)

September 30, 2011
(In thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Net assets (deficit)				
Invested in capital assets, net of related debt	$ 223,155	$ 33,830	$ 256,985	$ 716,652
Restricted for:				
Unemployment insurance	–	144	144	–
Debt service	214,743	1,934	216,677	–
Capital projects	1,272	–	1,272	–
Other purposes	–	–	–	140,273
Unrestricted	(1,630,549)	(77,811)	(1,708,360)	(116,745)
Total net assets (deficit)	$ (1,191,379)	$ (41,903)	$ (1,233,282)	$ 740,180

See accompanying notes.

Government of the United States Virgin Islands

Statement of Activities

Year Ended September 30, 2011

(In thousands)

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net Revenue (Expense) and Changes in Net Assets — Primary Government: Governmental Activities	Net Revenue (Expense) and Changes in Net Assets — Primary Government: Business-type Activities	Net Revenue (Expense) and Changes in Net Assets — Primary Government: Total	Component Units
Functions:								
Primary government:								
Governmental activities:								
General government	$ 498,250	$ 31,716	$ 147,459	$ 14,475	$ (304,600)	$ –	$ (304,600)	$ –
Public safety	68,166	319	2,658	2,166	(63,023)	–	(63,023)	–
Health	143,558	254	46,222	4,464	(92,618)	–	(92,618)	–
Public housing and welfare	142,146	378	77,362	1,392	(63,014)	–	(63,014)	–
Education	298,610	1,050	101,993	132	(195,435)	–	(195,435)	–
Transportation and communication	86,505	473	2,033	18,059	(65,940)	–	(65,940)	–
Culture and recreation	12,252	1,442	–	–	(10,810)	–	(10,810)	–
Interest on long-term debt	99,340	–	–	–	(99,340)	–	(99,340)	–
Total governmental activities	1,348,827	35,632	377,727	40,688	(894,780)	–	(894,780)	–
Business-type activities:								
Unemployment insurance	40,785	2,814	14,599	–	–	(23,372)	(23,372)	–
West Indian Company	9,779	8,735	102	–	–	(942)	(942)	–
Workmen's compensation	13,223	7,871	–	–	–	(5,352)	(5,352)	–
VI Lottery	20,256	19,808	–	–	–	(448)	(448)	–
Other	12,724	10,841	–	–	–	(1,883)	(1,883)	–
Total business-type activities	96,767	50,069	14,701	–	–	(31,997)	(31,997)	–
Total primary government	1,445,594	85,701	392,428	40,688	(894,780)	(31,997)	(926,777)	–
Component units:								
Virgin Islands Housing Authority	45,892	6,192	33,815	13,199	–	–	–	7,314
Virgin Islands Port Authority	61,870	46,536	–	18,524	–	–	–	3,190
Virgin Islands Water and Power Authority:								
Electric system	311,886	279,455	–	5,002	–	–	–	(27,429)
Water system	27,120	37,568	–	4,150	–	–	–	14,598
V.I. Hospital and Health Facilities Corporation:								
Roy L. Schneider Hospital	93,585	55,975	28,308	26	–	–	–	(9,276)
Juan F. Luis Hospital	79,303	41,241	21,949	283	–	–	–	(15,830)
University of the Virgin Islands	82,955	18,736	56,160	3,992	–	–	–	(4,067)
Other component units	83,503	12,064	69,050	12,070	–	–	–	9,681
Total component units	786,114	497,767	209,282	57,246	–	–	–	(21,819)
Total primary government and component units					(894,780)	(31,997)	(926,777)	(21,819)

(continued)

Government of the United States Virgin Islands

Statement of Activities (continued)

Year Ended September 30, 2011
(In thousands)

	Net Revenue (Expense) and Changes in Net Assets			
	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
General revenues:				
Taxes	684,199	–	684,199	–
Interest and other	21,652	81	21,733	16,662
Tobacco settlement rights	2,124	–	2,124	–
Transfers – internal activities of primary government	700	(700)	–	–
Total general revenue	708,675	(619)	708,056	16,662
Changes in net assets (deficit)	(186,105)	(32,616)	(218,721)	(5,157)
Net assets (deficit), beginning of year, as restated	(1,005,274)	(9,287)	(1,014,561)	745,337
Net assets (deficit), end of year	$ (1,191,379)	$ (41,903)	$ (1,233,282)	$ 740,180

See accompanying notes.

Government of the United States Virgin Islands

Balance Sheet – Governmental Funds

September 30, 2011
(In thousands)

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total Governmental
Assets					
Cash and cash equivalents	$ 95,376	$ 3,574	$ 28,004	$ 61,385	$ 188,339
Investments	54,501	276,117	93,602	11,522	435,742
Receivables:					
Taxes, net	230,790	59,387	–	–	290,177
Accrued interest and other	48	–	–	151	199
Due from:					
Other funds	11,746	–	7,759	16,612	36,117
Federal government	–	–	–	19,920	19,920
Other assets	–	–	–	32	32
Total assets	$ 392,461	$ 339,078	$ 129,365	$ 109,622	$ 970,526
Liabilities and Fund Balances (Deficit)					
Accounts payable and accrued liabilities	$ 92,667	$ –	$ 1,856	$ 23,847	$ 118,370
Tax refunds payable	93,171	–	–	–	93,171
Due to:					
Other funds	15,229	–	–	3,778	19,007
Component units	13,853	–	–	–	13,853
Deferred revenue	245,977	124,336	–	3,500	373,813
Other current liabilities	5,402	–	–	2,100	7,502
Total liabilities	466,299	124,336	1,856	33,225	625,716
Fund balances (deficits):					
Restricted	–	214,743	127,509	91,776	434,028
Committed	29,571	–	–	34,006	63,577
Assigned	–	–	–	–	–
Unassigned	(103,408)	–	–	(49,385)	(152,793)
Total fund balances (deficit)	(73,837)	214,743	127,509	76,397	344,812
Total liabilities and fund balances (deficit)	$ 392,462	$ 339,079	$ 129,365	$ 109,622	

Amounts reported for governmental activities in the statement of net assets (deficit) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	749,156
Expenditures identified as related to a future, period recognized as a prepaid asset in the statement of net assets.	4,616
Deferred bond issue costs are not financial resources and, therefore, are not reported in the funds.	40,289
Other long-term assets, primarily taxes receivable, will not be available to pay for current period expenditures and, therefore, are deferred in the funds	249,780
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(47,772)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(2,532,260)
Deficit of governmental activities	$ (1,191,379)

See accompanying notes.

Government of the United States Virgin Islands

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

Year Ended September 30, 2011
(In thousands)

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total Governmental
Revenues:					
Taxes	$ 518,811	$ 195,551	$ 4,509	$ 12,360	$ 731,231
Federal grants and contributions	87,624	403	–	333,850	421,877
Charges for services	26,459	–	–	9,172	35,631
Tobacco settlement rights	–	–	–	2,094	2,094
Interest and other	3,882	4,139	281	13,350	21,652
Total revenues	636,776	200,093	4,790	370,826	1,212,485
Expenditures:					
Current:					
General government	386,954	–	76,548	80,246	543,748
Public safety	60,896	–	–	5,432	66,328
Health	99,197	–	–	43,286	142,483
Public housing and welfare	57,718	–	–	84,106	141,824
Education	189,153	–	–	103,266	292,419
Transportation and communication	27,603	–	265	29,802	57,670
Culture and recreation	8,562	–	–	1,541	10,103
Capital outlays	7,786	–	31,360	14,808	53,954
Debt service:					
Principal	6,400	24,290	3,922	1,300	35,912
Interest	3,012	89,040	433	832	93,317
Total expenditures	847,281	113,330	112,528	364,619	1,437,758
Excess (deficiency) of revenue over expenditures	(210,505)	86,763	(107,738)	6,207	(225,273)
Other financing sources (uses):					
Loans issued	131,400	816	35,419	–	167,635
Transfers from other funds	99,346	4	14,343	9,281	122,974
Transfers to other funds	(3,572)	(101,998)	(2,679)	(14,025)	(122,274)
Total other financing sources (uses), net	227,174	(101,178)	47,083	(4,744)	168,335
Net change in fund balances	16,669	(14,415)	(60,655)	1,463	(56,938)
Fund balance at beginning of year	(90,506)	229,158	188,164	74,934	401,750
Fund balance at end of year	$ (73,837)	$ 214,743	$ 127,509	$ 76,397	$ 344,812

See accompanying notes.

Government of the United States Virgin Islands

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Governmental Funds

Year Ended September 30, 2011
(In thousands)

Net change in fund balances – total governmental funds	$	(56,938)
Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year.		21,944
Tax revenue in the statement of activities, which do not provide current financial resources, are not reported as revenue in the funds.		47,032
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. This is the amount by which debt loan and bond proceeds of $167.6 million exceeded debt repayments of $35.9 million.		(131,723)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount by which the increase in certain liabilities reported in the statement of net assets of the previous year increased expenses reported in the statement of activities that do not require the use of current financial resources.		(53,013)
Some expenses reported as prepaid assets in the statement of net assets in the prior year are recognized as expenses in the current year in the statement of activities.		(4,616)
Bond issue costs are expended in the governmental funds when paid, and are capitalized and amortized in the statement of activities. This is the amount of bond issuance costs amortized in the statement of activities.		(1,973)
Bond premiums and discounts are reported as other financing sources and uses in the governmental funds when the bonds are issued, and are capitalized and amortized in the government-wide financial statements. This amount represents additional net interest expense reported in the statement of activities related to the amortization of premiums, discounts deferred refunding loss, and accreted interest on capital appreciation bonds during the current year.		(793)
Certain interest reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds. This amount represents the increase in interest payable reported in the statement of net assets.		(6,025)
Change in net assets of governmental activities	$	(186,105)

See accompanying notes.

Government of the United States Virgin Islands

Statement of Revenues and Expenditures – Budget and Actual – Budgetary Basis – General Fund

Year Ended September 30, 2011
(In thousands)

	Original Budget	Amended Budget	Actual	Variance
Revenues:				
Taxes	$ 536,676	$ 536,676	$ 518,810	$ (17,866)
Federal grants and contributions	9,417	9,417	87,624	78,207
Charges for services	12,662	12,662	26,459	13,797
Interest and other	13,567	13,567	3,882	(9,685)
Total revenues	572,322	572,322	636,775	64,453
Expenditures:				–
Current:				
General government	172,383	193,182	386,954	(193,772)
Public safety	139,896	140,255	60,896	79,359
Health	74,384	88,659	99,197	(10,538)
Public housing and welfare	65,891	66,016	57,718	8,298
Education	232,717	233,784	189,153	44,631
Transportation and communication	35,483	36,983	27,603	9,380
Culture and recreation	22,979	23,069	8,562	14,507
Total expenditures	743,733	781,948	830,083	(48,135)
Deficiency of revenues over expenditures	(171,411)	(209,626)	(193,308)	16,318
Other financing sources (uses):				
Loans Issued	125,000	125,000	131,400	6,400
Transfers from other funds	91,346	91,346	99,346	8,000
Transfer to other funds	(6,720)	(6,720)	(3,572)	3,148
Total other financing sources, net	209,626	209,626	227,174	17,548
Excess (deficiency) of revenues and net other financing sources over expenditures	$ 38,215	$ –	$ 33,866	$ 33,866

See accompanying notes.

Government of the United States Virgin Islands

Statement of Net Assets (Deficit) – Proprietary Funds

September 30, 2011
(In thousands)

	Business-type Activities – Enterprise Funds			
	West Indian Company	**Unemployment Insurance**	**Other Enterprise**	**Totals**
Assets				
Current assets:				
Cash and cash equivalents	$ 2,028	$ 746	$ 1,449	$ 4,223
Investments at fair value	–	–	2,378	2,378
Receivables, net:				
Premiums receivable	–	1,147	–	1,147
Other receivables	272	–	1,283	1,555
Due from other funds	–	–	739	739
Other assets	668	–	158	826
Total current assets	2,968	1,893	6,007	10,868
Noncurrent assets:				
Restricted cash and cash equivalents	1,934	144	–	2,078
Capital assets	38,567	–	17,439	56,006
Deferred expenses	82	–	–	82
Total noncurrent assets	40,583	144	17,439	58,166
Total assets	43,551	2,037	23,446	69,034
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	1,278	591	6,341	8,210
Due to other funds	3,300	–	14,549	17,849
Unemployment insurance benefits	–	15,061	–	15,061
Unearned revenue	–	–	597	597
Workers compensation	–	–	4,559	4,559
Loan payable to U.S. Treasury	–	26,621	–	26,621
Loans payable related to capital assets	501	–	–	501
Total current liabilities	5,079	42,273	26,046	73,398
Noncurrent liabilities:				
Workers compensation	–	–	15,783	15,783
Loans payable related to capital assets	21,756	–	–	21,756
Total noncurrent liabilities	21,756	–	15,783	37,539
Total liabilities	26,835	42,273	41,829	110,937
Net assets (deficit)				
Invested in capital assets, net of related debt	16,391	–	17,439	33,830
Restricted	1,934	144	–	2,078
Unrestricted	(1,609)	(40,380)	(35,822)	(77,811)
Total net assets (deficit)	$ 16,716	$ (40,236)	$ (18,383)	$ (41,903)

See accompanying notes.

Government of the United States Virgin Islands

Statement of Revenues, Expenses, and Changes in Fund Net Assets (Deficit) – Proprietary Funds

Year Ended September 30, 2011
(In thousands)

	Business-type Activities – Enterprise Funds			
	West Indian Company	**Unemployment Insurance**	**Other Enterprise**	**Total**
Operating revenues:				
Charges for services	$ 8,735	$ 2,813	$ 38,520	$ 50,068
Total operating revenues	8,735	2,813	38,520	50,068
Operating expenses:				
Cost of services	6,349	40,179	44,986	91,514
Depreciation and amortization	1,918	–	1,217	3,135
Total operating expenses	8,267	40,179	46,203	94,649
Operating loss	468	(37,366)	(7,683)	(44,581)
Non-operating revenues (expenses):				
Federal assistance	102	14,599	–	14,701
Interest income	38	7	36	81
Interest expense	(1,511)	(606)	–	(2,117)
Total non-operating revenues (expenses), net	(1,371)	14,000	36	12,665
Loss before operating transfers	(903)	(23,366)	(7,647)	(31,916)
Transfers to other funds	(700)	–	–	(700)
Change in net assets	(1,603)	(23,366)	(7,647)	(32,616)
Net assets at beginning of year	18,319	(16,870)	(10,736)	(9,287)
Net assets (deficit) at end of year	$ 16,716	$ (40,236)	$ (18,383)	$ (41,903)

See accompanying notes.

Statement of Cash Flows – Proprietary Funds

Year Ended September 30, 2011
(In thousands)

	Business-type Activities – Enterprise Funds			
	West Indian Company	Unemployment Insurance	Other Enterprise	Total
Cash flows from operating activities				
Receipts from customers and users	$ 9,026	$ 2,661	$ 38,214	$ 49,901
Payments to beneficiaries, suppliers and employees	(6,966)	(27,498)	(33,530)	(67,994)
Net cash provided by (used in) operating activities	2,060	(24,837)	4,684	(18,093)
Cash flows from noncapital financing activities				
Federal grants	102	14,599	–	14,701
Net cash provided by (used in) noncapital financing activities	102	14,599	–	14,701
Cash flows from capital and related financing activities				
Acquisition and construction of capital assets	(652)	–	(7,618)	(8,270)
Disposal of capital assets	–	–	262	262
Issuance of long-term debt	–	10,496	–	10,496
Principal paid on long-term debt	(748)	–	–	(748)
Interest paid on long-term debt	(1,435)	(606)	–	(2,041)
Net cash provided by (used in) capital and related financing activities	(2,835)	9,890	(7,356)	(301)
Cash flows from investing activities				
Interest on investments	38	8	36	82
Sale of investments	–	–	855	855
Net cash provided by investing activities	38	8	891	937
Net decrease in cash and cash equivalents	(635)	(340)	(1,781)	(2,756)
Cash and cash equivalents at beginning of year	4,597	1,230	3,230	9,057
Cash and cash equivalents at end of year	$ 3,962	$ 890	$ 1,449	$ 6,301
Reconciliation of operating loss to net cash provided by (used in) operating activities				
Operating loss	$ 468	$ (37,366)	$ (7,683)	$ (44,581)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation and amortization	1,918	–	1,217	3,135
Change in assets and liabilities:				
Receivables, net	477	(153)	(161)	163
Unearned revenue	10	–	14	24
Other assets	83	–	(84)	(1)
Accounts payable and accrued liabilities	(896)	592	1,658	1,354
Unemployment insurance benefits	–	12,090	–	12,090
Workers compensation	–	–	2,443	2,443
Due to other funds	–	–	7,280	7,280
Net cash provided by (used in) operating activities	$ 2,060	$ (24,837)	$ 4,684	$ (18,093)
Reconciliation of cash and cash equivalents to the statement of net assets				
Cash and cash equivalents – current	$ 2,028	$ 746	$ 1,449	$ 4,223
Cash and cash equivalents – restricted	1,934	144	–	2,078
Total cash and cash equivalents at end of year	$ 3,962	$ 890	$ 1,449	$ 6,301

See accompanying notes.

Government of the United States Virgin Islands

Statement of Fiduciary Net Assets – Fiduciary Funds

September 30, 2011
(In thousands)

	Pension Trust Fund	Agency Funds
Assets		
Cash and cash equivalents:		
Unrestricted	$ 112,444	$ 20,733
Restricted	17	–
Investments	1,177,582	8,316
Receivables, net:		
Loans and advances	139,470	–
Accrued interest	3,720	–
Other	8,604	
Other assets	18,665	–
Total assets	1,460,502	29,049
Liabilities		
Accounts payable and accrued liabilities	–	20,733
Cash overdraft with bank	3,203	–
Unsettled securities purchased	9,919	–
Securities lending collateral	166,343	–
Other liabilities	7,054	8,316
Total liabilities	186,519	29,049
Net assets held in trust for employees’ pension benefits	$ 1,273,983	$ –

See accompanying notes.

Government of the United States Virgin Islands

Statement of Changes in Fiduciary Net Assets - Fiduciary Funds

Year Ended September 30, 2011
(In thousands)

	Pension Trust Fund
Additions:	
Contributions:	
Employer	$ 80,850
Plan members	42,997
Total contributions	123,847
Investment income:	
Net depreciation of fair value of investments	(17,597)
Net depreciation of fair value of real estate	(87)
Interest, dividends, and other, net	36,772
Real estate – net rental income	3,539
	22,627
Less investment expense	5,870
Net investment income	16,757
Other income	4,125
Total additions	144,729
Deductions:	
Benefits paid	202,900
Refunds of contributions	5,281
Administrative and operational expenses	14,853
Total deductions	223,034
Change in net assets	(78,305)
Net assets, beginning of year	1,352,288
Net assets, end of year	$ 1,273,983

See accompanying notes.

1. Summary of Significant Accounting Policies

The Government of the United States Virgin Islands (the Government) is an unincorporated organized territory of the United States of America (United States). The powers of the Government are derived from and set forth in the Revised Organic Act of 1954, as amended. The Government assumes responsibility for public safety, health, public housing and welfare, education, transportation and communication, and culture and recreation.

The accompanying basic financial statements of the Government have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the *Governmental Accounting Standards Board* (GASB).

The accompanying basic financial statements have been prepared primarily from accounts maintained by the Department of Finance of the Government. Additional data has been derived from reports prepared by other departments, agencies, and public corporations based on independent or subsidiary accounting systems maintained by them.

Financial Reporting Entity

The Government follows the provisions of GASB Statement No. 14, *The Financial Reporting Entity,* as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. These standards require that the Government's financial reporting entity be defined according to specific criteria. According to the standard, for financial reporting purposes, the Government is a primary government (PG). The PG includes all Government departments, agencies, boards, and organizations that are not legally separate. In addition to the PG, the financial reporting entity includes blended and discretely presented component units. Component units include all legally separate organizations for which the Government's elected officials are financially accountable and other organizations for which the nature and significance of their relationship with the Government are such that exclusion would cause the basic financial statements to be misleading or incomplete. The criteria used to define financial accountability include appointment of a voting majority of an organization's governing body and (i) the ability of the PG to impose its will on that organization or (ii) the potential for the organization to provide specific financial benefits to or impose specific financial burdens on the PG.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

The Government financial reporting policy is to require current audited financial statements for major component units in order to support the Government's financial figures. However, due to the relevance of nonmajor component units in relation to the Government financial statements figures as a whole, nonmajor component units may provide audited financial statements up to one (1) year in arrears.

For fiscal year 2011, two nonmajor component units (Research & Technology Park and Waste Management Authority) provided audited financial statements in arrears. The Government included those 2010 audited financial statements as part of its fiscal year 2011 audited financial figures and disclosures.

The financial statements of the following component units are included in the financial reporting entity either as blended or as discretely presented component units in accordance with GAAP:

(a) Blended Component Units

The following public benefit corporations, while legally separate from the Government, meet the criteria to be reported as part of the PG because they provide services entirely or almost entirely to the Government:

Virgin Islands Public Finance Authority (PFA)

PFA was created as a public corporation and autonomous governmental instrumentality by Act No. 5365, the Government Capital Improvement Act of 1988, with the purpose of aiding the Government in the performance of its fiscal duties and in effectively carrying out its governmental responsibility of raising capital for essential public projects. Under the enabling legislation, PFA has the power, among other matters, to borrow money and issue bonds and to lend the proceeds of its bonds to the Government or any governmental instrumentality. The powers of PFA are exercised by a board of directors consisting of the Governor (Chairperson), the Commissioner of Finance, the Director of the Office of Management and Budget, and two representatives of the private sector appointed by the Governor with the advice and consent of the USVI Legislature (the Legislature). PFA activities are blended within the PG because it is so intertwined with the Government that, in substance, they are the same. The PFA funds are reported as major funds, with the exception of PFA Special Revenue Fund, which is included in the other aggregate remaining fund information.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(a) Blended Component Units (continued)

PFA has a component unit, the West Indian Company (WICO), which is presented as an enterprise fund in the Government's basic financial statements.

Tobacco Settlement Financing Corporation (TSFC)

TSFC was created in September 2001 under Act No. 6428 as a separate and independent corporation of the Government to purchase the rights, title, and interest in tobacco settlement litigation awards and to issue revenue bonds supported by the tobacco settlement rights. The responsibility for the operations of TSFC is vested in a board of directors composed of three Government officials appointed by the Governor and two private citizens. The activities of TSFC are limited to activities conducted on behalf of the Government. The TSFC is reported in the other aggregate fund information.

Complete audited financial statements of the PFA and TSFC blended component units can be obtained directly by contacting their respective administrative offices:

Administrative Offices of Blended Component Units
Virgin Islands Public Finance Authority
32-33 Kongens Gade
St. Thomas, VI 00802

Tobacco Settlement Financing Corporation
32-33 Kongens Gade
St. Thomas, VI 00802

(b) Discretely Presented Component Units

The following component units, consistent with GASB Statements Nos. 14 and 39 are discretely presented in the basic financial statements because of the nature of the services they provide and the Government's ability to impose its will. The component units are reported in a separate column to emphasize that they are legally separate from the PG and governed by separate boards.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Major Component Units

Virgin Islands Housing Authority (VIHA)

VIHA was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality by Act No. 903 on June 18, 1962, with the purpose of providing housing for low and moderate income families residing in the U.S. Virgin Islands. From June 1962 through August 2003, the powers of VIHA were exercised by a board of commissioners consisting of seven members. In August 2003, the U.S. Department of Housing and Urban Development (HUD) determined that because of the severity of compliance violations, VIHA was declared to be in substantial default of its annual contributions contract (ACC) dated July 12, 1996 with HUD. VIHA was placed in receivership and HUD assumed control of all assets, projects, and programs.

The Authority is governed by a board of commissioners which is autonomous to HUD. An executive director is appointed by the Authority's Board to manage the day-to-day operations of the Authority.

Given the nature of VIHA's operations and the significance of its relationship with the Government, management believes that its exclusion from the financial reporting entity would cause the Government's basic financial statements to be incomplete and misleading.

Virgin Islands Port Authority (VIPA)

VIPA was created as a body corporate and politic constituting a public corporation and autonomous government instrumentality by Act No. 2375 on December 23, 1968, with the purposes of owning, operating, and managing all types of air and marine terminals. The powers of VIPA are exercised by a board of governors consisting of the Commissioner of Economic Development and Agriculture (Chairperson), the Attorney General, the Commissioner of Public Works, the Director of the Small Business Development Agency, and five other persons appointed by the Governor with the advice and consent of the Legislature.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Major Component Units (continued)

Virgin Islands Water and Power Authority (WAPA)

WAPA was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality by Act No. 1248 on August 13, 1964, with the purpose of operating the water production and electric generation plants in the U.S. Virgin Islands. The powers of WAPA are exercised by a governing board consisting of nine members, all appointed by the Governor with the advice and consent of the Legislature, from which three are heads of cabinet-level executive departments or agencies and six other persons, who shall not be employees of the Government. WAPA is required by its bond resolutions to maintain separate audited financial statements for each system (the Electric and Water Systems).

Virgin Islands Government Hospital and Health Facilities Corporation (VIGHHFC)

VIGHHFC was created by Act No. 6012 on August 23, 1994 and became active on May 1, 1999, with the purpose of providing healthcare services and hospital facilities to the people of the U. S. Virgin Islands. The powers of VIGHHFC are exercised by a board of directors consisting of 15 members as follows: the Director of the Office of Management and Budget, the Commissioner of Finance, and 13 other members appointed by the Governor with the advice and consent of the Legislature. The VIGHHFC is composed of the Roy L. Schneider Hospital located in St. Thomas and the Juan F. Luis Hospital and Medical Center located in St. Croix. Both entities issue separate audited financial statements. The Roy L. Schneider Hospital's financial statements include its component units: the Myra Keating Smith Community Health Center ("Health Center") of St. John and the Charlotte Kimelman Cancer Institute ("Cancer Institute") on St. Thomas. The Health Center and Cancer Institute are legally separated organizations for which the Roy L. Schneider Hospital is financially accountable. The Juan F. Luis Hospital and Medical Center's financial statements include its component unit: the Virgin Islands Cardiac Center at the Governor Juan F. Luis Hospital and Medical Center Foundation, Inc. (VICC Foundation). VICC Foundation is a legally separate nonprofit corporation for which the Juan F. Luis Hospital and Medical Center is financially accountable.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Major Component Units (continued)

University of the Virgin Islands (the University)

The University was organized as an instrumentality of the Government under Act No. 852 on March 16, 1962, in accordance with Section 16(a) of the Revised Organic Act of 1954, as amended. The purpose of the University is the stimulation and utilization of the intellectual resources of the people of the U.S. Virgin Islands and the development of a center of higher education. The powers of the University are exercised by a board of trustees consisting of 17 members as follows: Chairman of the Board of Education, Commissioner of Education, and the President of the University, all serving as members ex-officio, 9 other members appointed by the Governor with the advice and consent of the Legislature, two other members elected by the board of trustees, one representative of the student body, one alumnus of the University, and another representative of the teaching faculty. The University was not organized as a self-sustaining entity and therefore receives substantial financial and other support from the Government.

The University's financial statements include its component units: The Foundation for the University of the Virgin Islands and The Reichhold Foundation. The Foundation for the University of the Virgin Islands is a not-for-profit corporation whose purpose is to assist and support the University in accomplishing its charitable and educational mission. The Reichhold Foundation is a not-for-profit corporation that supports the arts and provides financial assistance in operating the Reichhold Center for the Arts on St. Thomas.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Nonmajor Component Units

Virgin Islands Economic Development Authority (EDA)

EDA was created by Act No. 6390 on December 21, 2000 as a body corporate and politic constituting a public corporation and semiautonomous instrumentality of the Government. EDA was created as an umbrella authority to assume, integrate, and unify the functions of the Economic Development Commission, the Small Business Development Agency, the Government Development Bank, and the Virgin Islands Industrial Development Park Corporation. The powers of EDA are exercised by a board of directors consisting of the members of the Virgin Islands Economic Development Commission, the Director of the Virgin Islands' Bureau of Internal Revenue, and five members not employed by the Government, but appointed by the Governor with the advice and consent of the Legislature.

Magens Bay Authority (MBA)

MBA was created as a corporate instrumentality by Act No. 2085 on December 20, 1967, with the purpose of acquiring, improving, and operating parks and beaches. The powers of MBA are exercised by a board of directors consisting of the Governor and six members initially appointed by the Governor. The board of directors is responsible for the appointment and reappointment of subsequent board members except that the Governor, with the advice and consent of the Legislature may, by appointment, fill any vacancy on the board of directors remaining unfilled for sixty days.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Nonmajor Component Units (continued)

Virgin Islands Housing Finance Authority (VIHFA)

VIHFA was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality of the Government by Act No. 4636 on October 20, 1981, with the purpose of stimulating low and moderate-income housing construction and home ownership through the issuance of revenue bonds to obtain funds to be used for low-interest mortgage loans to qualified purchasers of low and moderate-income housing. On October 31, 2008, VIHFA established the Virgin Islands Housing Management, Inc. (VIHM), a wholly owned not-for-profit subsidiary for the purpose of managing VIHFA's rental properties. The financial statements of VIHM are separately issued, and not blended into the PG. The powers of VIHFA are exercised by a board of directors consisting of the Commissioner of the Department of Housing, Parks, and Recreation (the Chairman), the Director of the Office of Management and Budget, and three persons not employed by the Government appointed by the Governor with advice and consent of the Legislature.

Virgin Islands Public Television System (VIPTS)

VIPTS was created as a body corporate and politic constituting a public corporation and autonomous instrumentality by Act No. 2364 on November 15, 1968, with the purpose of advancing the general welfare, education, cultural development, and awareness of public affairs of all the population of the U.S. Virgin Islands as well as to provide an effective supplement to the in-school education of children. The powers of VIPTS are exercised by a board of directors consisting of the Commissioner of Education, the Chairman of the Board of Education, three members appointed by the President of the Legislature, and four members, not more than two of whom should be employed by the Government and appointed by the Governor with the advice and consent of the Legislature. In addition, the Director of the Office of Management and Budget, the President of the University of the Virgin Islands, and the General Manager of VIPTS are ex-officio members of the board who are not entitled to vote.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Nonmajor Component Units (continued)

Virgin Islands Waste Management Authority (VIWMA)

VIWMA was established as a nonprofit, public, autonomous instrumentality of the Government by Act No. 6638 and approved by the Governor of the Virgin Islands on January 23, 2004. VIWMA provides environmentally sound management for the collection and disposal of solid waste in the territory, including operation and closure of landfills and wastewater collection, treatment and disposal. VIWMA is governed by a Board of Directors consisting of seven members.

University of the Virgin Islands Research and Technology Park (RTPark)

RTPark was established as a public, autonomous instrumentality of the Government by Act 6502 on February 21, 2002, as amended, by Act 6725, the Protected Cell Amendments Act of 2005. RTPark was organized for internet commerce and technology, providing an enabling environment for research, development, business incubation and technology-driven businesses. RTPark is governed by a Board of Directors consisting of seven members, including the Chairman of the Board of Trustees of the University, the President of the University, two trustees selected from among the Board of Trustees of the University, and three members selected by the Governor.

Complete audited financial statements of the discretely presented component units can be obtained directly by contacting their administrative offices:

Administrative Offices

Virgin Islands Housing Authority
402 Estate Anna's Retreat
PO Box 7668
St. Thomas, VI 00801

Virgin Islands Port Authority
PO Box 301707
St. Thomas, VI 00803

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

Administrative Offices (continued)

Virgin Islands Water and Power Authority
PO Box 1450
St. Thomas, VI 00804

Virgin Islands Government Hospital and Health Facilities Corporation
9048 Sugar Estate
St. Thomas, VI 00802

University of the Virgin Islands
2 John Brewer's Bay
St. Thomas, VI 00802

Virgin Islands Economic Development Authority
1050 Norre Gade #5
St. Thomas, VI 00802

Magens Bay Authority
PO Box 10583
St. Thomas, VI 00801

Virgin Islands Housing Finance Authority
3202 Demarara
Frenchtown Plaza, Suite 200
St. Thomas, VI 00802

Virgin Islands Public Television System
PO Box 7879
St. Thomas, VI 00801

Virgin Islands Waste Management Authority
#1 La Grande Princesse, Suite BL1
Christiansted, VI 00820

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

Administrative Offices (continued)

University of the Virgin Islands Research and Technology Park Corporation
RR1 Box 10000
Kingshill, St. Croix, VI 00850-9781

All financial statements of the discretely presented component units have a fiscal year-end of September 30, 2011, except for WAPA and VIHA that have a year-end of June 30, 2011 and December 31, 2010, respectively.

(c) Fiduciary Component Unit

The following public benefit corporation is legally separate from the Government, meets the definition of a blended component unit, and is presented in the fund financial statements along with other fiduciary funds of the Government. Fiduciary funds are not reported in the government-wide financial statements.

Employees' Retirement System of the Government of the Virgin Islands (GERS)
GERS was created as an independent and separate agency of the Government with the purpose of administering the Government's, and component units, cost-sharing, multiple-employer defined-benefit pension plan. GERS was established on October 1, 1959. The responsibility for the operation of GERS is vested in a board of trustees composed of seven members appointed by the Governor with the advice and consent of the Legislature.

Employee and employer contributions to GERS are recognized as additions to net assets held in trust for employees' pension benefits in the period in which employee services are performed, except for contributions pursuant to the Early Retirement Act of 1994, which are recorded as the cash is received. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan, except for benefits pursuant to sections 8(a) and 8(b) of the Early Retirement Act of 1994, which are recorded when the subsidy provided by the Government is receivable and payable.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(c) Fiduciary Component Unit (continued)

Complete audited financial statements of this component unit can be obtained directly by contacting their administrative office:

Employees' Retirement System of the Government of the Virgin Islands
3438 Kronprindsens Gade
St. Thomas, Virgin Islands 00802

Government-wide and Fund Financial Statements

The government-wide financial statements (that is, the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the PG and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the PG is reported separately from certain legally separate component units for which the PG is financially accountable. The statement of net assets (deficit) presents the reporting entities' nonfiduciary assets and liabilities, with the difference reported as net assets or net deficit. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

1. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

(a) Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue when as all eligibility requirements have been met.

(b) Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Government considers most revenue to be available if collected within 90 days of the end of the current fiscal year-end. Specifically, gross receipts taxes, property taxes, and income taxes are considered to be available if collected within 30, 60, and 90 days, respectively, after the end of the current fiscal year-end. Grant revenue is considered to be available if collected within the 12 months after the end of the current fiscal year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Income taxes, gross receipts taxes, real property taxes, and grant funding are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period to the extent they are considered available. All other revenue items are considered to be measurable and available only when cash is received by the Government.

(c) Proprietary Funds, Fiduciary Funds, and Discretely Presented Component Units Financial Statements

The financial statements of the proprietary funds, fiduciary funds, and discretely presented component units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above.

1. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

(c) Proprietary Funds, Fiduciary Funds, and Discretely Presented Component Units Financial Statements (continued)

Each proprietary fund has the option under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, to elect and apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless these conflict with a GASB pronouncement. The PG and most blended and discretely presented component units have elected not to apply FASB pronouncements issued after November 30, 1989 for its proprietary fund types. VIPA has elected to follow the FASB's pronouncements issued after November 30, 1989.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Fund Accounting

The Government reports its financial position and results of operations in funds, which are considered separate accounting entities and discrete presentations of those component units, which are not required to be blended. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions. GASB No. 34, *Basic Financial Statements – and Management's Discussions and Analysis – for State and Local Governments*, establishes criteria (percentage of the assets, liabilities, revenue, or expenditures/expenses of either fund category or the governmental and enterprise funds combined) for the determination of major funds. Indirect costs are automatically allocated and reported in the program expense for each fund. Nonmajor funds are combined in a single column in the fund financial statements.

1. Summary of Significant Accounting Policies (continued)

Fund Accounting (continued)

(a) Governmental Funds

The Government reports the following major governmental funds:

- General Fund – The general fund is the Government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

- PFA Debt Service Fund – The PFA debt service fund accounts for the resources accumulated, and payments made, for principal and interest on long-term general obligation debt issued by PFA on behalf of the Government.

- PFA Capital Projects Fund – The PFA capital projects fund accounts for bond proceeds of debt issued by the PFA on behalf of the Government. The bond proceeds have been designated for certain necessary public safety and capital development projects which are accounted for in this fund.

(b) Proprietary Funds

These funds account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to the general public. The government reports the following major proprietary funds:

- West Indian Company – WICO, a component unit of PFA, accounts for the activities of a cruise ship pier and shopping mall complex on the island of St. Thomas.

- Unemployment Insurance Fund – The unemployment insurance fund accounts for the collection of unemployment premiums from employers in the U.S. Virgin Islands, and the payment of unemployment benefits to eligible unemployed recipients.

1. Summary of Significant Accounting Policies (continued)

Fund Accounting (continued)

(c) Fiduciary Funds

Fiduciary funds are used to account for assets held by the Government in a trustee capacity, or as an agent for individuals, private organizations, and other governmental units. The following are the Government's fiduciary funds:

- Pension Trust Fund – The pension trust fund accounts for the activities of GERS, which accumulates resources for pension benefit payments to qualified employees.
- Agency Fund – The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of the results of operations.

Cash and Cash Equivalents

The Government follows the practice of pooling cash. The balance in the pooled cash accounts is available to meet current operating requirements and any excess is invested in various interest-bearing accounts and time deposits with eligible depository institutions.

Cash equivalents of the proprietary funds and discretely presented component units consist of demand accounts, money market accounts, certificates of deposit with maturities of not more than 90 days from the date of acquisition, short-term U.S. government and its agencies' obligations, and repurchase agreements with a U.S. commercial bank maturing within three months and collateralized by U.S. government obligations. Cash and cash equivalents of the discretely presented component units are maintained in separate bank accounts from those of the PG, in their own names. By law, banks, or trust companies designated as depository of public funds of the Government are to maintain corporate surety bond or pledge collateral satisfactory to the Commissioner of Finance to secure all governmental funds deposited.

Investments

The PG and its component units follow the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*. GASB Statement No. 40 establishes and modifies the following disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk.

1. Summary of Significant Accounting Policies (continued)

Investment Policies

Investment policies of the PG, its blended component units, major funds, and major component units are as follows:

- ***Primary Government Investment Policies –*** Title 33, Chapter 117 of the Virgin Islands Code (V.I. Code) authorizes the Government to invest in U.S. Government and its agencies' obligations, mortgage-backed securities, repurchase agreements, commercial paper, local government obligations, and corporate debt and equity obligations. As of September 30, 2011, the General Fund, the Virgin Islands Lottery, a non-major governmental fund, and an agency fund had invested in certificates of deposit with two local banks. Investments are reported at fair value.

- ***PFA Investment Policies*** – Under GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for Most External Investment Pools*, investments of the PFA are reported at fair value. Various bond resolutions of the PFA restrict investments to direct obligations of the U.S. Government, territories, possessions and states, specific bank obligations, investment agreements or similar funding agreements, shares or other interests in mutual funds, trusts or investment companies, corporate commercial paper, and money market portfolios consisting of any of the foregoing. The PFA has retained investment managers and investments are held in trust by a commercial bank on behalf of the PFA. The PFA handles investments for two major governmental funds of the Government: the PFA debt service fund and the PFA capital projects fund.

- ***Tobacco Settlement Financing Corporation Investment Policies –*** Various bond resolutions of this blended component unit restrict investments to direct obligations of the U.S. Government, territories, possessions and states, specific bank obligations, investment agreements or similar funding agreements, shares or other interests in mutual funds, trusts or investment companies, corporate commercial paper, and money market portfolios consisting of any of the foregoing. The PFA has retained investment managers and investments are held in trust by a commercial bank on behalf of the PFA. Investments are reported at fair value in the non-major governmental fund of the Government.

1. Summary of Significant Accounting Policies (continued)

Investment Policies (continued)

- ***West Indian Company Limited Investment Policies* –** This blended business-type major fund of the Government maintains an investment policy that (1) limits investments in bonds to a maximum remaining maturity of 30 years (or estimated average life on mortgage-backed issues), (2) limits fixed income securities to a maximum of 40% and a minimum of 30% of the overall assets of the WICO portfolio, (3) limits corporate bond exposure to 45% of the fixed income portfolio, and (4) has no provision which limits or restricts investments in U.S. Government Treasury or Agency issues. WICO reports investments at fair value.

- ***Pension Trust Fund Investment Policies* –** The board of trustees of GERS have enacted policies that limit investments in certain investment categories and provide requirements for the institutions with which investment transactions may be entered into. Under those policies, GERS may invest in U.S. Government and agencies obligations, bonds or notes of any state, territory or possession of the United States, municipal bonds and obligations, foreign bonds, bonds of domestic railroad corporations, public utility bonds, industrial corporate bonds or trust certificates, common and preferred shares of foreign and domestic corporations, mutual funds, mortgage or personal loans to GERS members or retirees, and mortgage and asset-backed securities. Investments in bonds are subject to rating restrictions of BBB and may not exceed 2% of the portfolio. Investments in stock of a single corporation may not exceed 1% of the market value of the fund, or exceed 1% of the outstanding stock of the corporation. The aggregate amount of investments in stock may not exceed 60% of the market value of total investments of GERS. Investment in foreign stock should be limited to 10% of the market value of the total investments of GERS. Any investment of 20% or more of the aggregate value of the portfolio must be approved by two-thirds of the membership of the board of trustees. The investments are administered by several professional investment managers and are held in trust by a commercial bank on behalf of GERS.

  GERS is authorized to invest in life settlement policy contract investments provided the investment is in a group of life insurance policies, with a minimum number of 100 measured lives; the face value of any single policy investment does not exceed $5.0 million or 2% of the aggregate face value of policy investments, and; the aggregate face value on any individual life does not exceed the greater of $10.0 million or 1% of the aggregate face value of policies purchased as investments by GERS.

1. Summary of Significant Accounting Policies (continued)

Investment Policies (continued)

Investments in equity securities in the GERS pension trust fund are reported at quoted market values. Shares of mutual funds are reported at the net asset value of shares held by GERS at year-end. Purchases and sales are recorded on a trade-date basis. Realized gains and losses on securities are determined by the average cost method.

In December 4, 2009, GERS executed a loan agreement with Seaborne Virgin Islands, Inc., a seaplane service operating on the islands of St. Croix and St. Thomas. The agreement provided for a first lien term loan of $1.3 million at an initial interest rate of 8.25%, and a senior secured convertible loan of $2 million at an interest rate of 14.5%, secured by real and personal property of Seaborne Airlines, the unconditional guarantee of Coastal Airways, Inc., the parent company of Seaborne, and all of the issued and outstanding stock of Seaborne. On September 20, 2012 the parties agreed to an amendment/modification to the loan agreement and term note and provided for the modification of the convertible note. The original principal indebtedness of the term note was amended and restated to be $2.3 million with an interest rate of 6.25% per annum for the unpaid principal of the term note. The original principal indebtedness of the convertible note was amended and restated to be $1 million. The interest is accrued at the rate of 8.25% per annum payable quarterly in arrears until the maturity date. The note may be prepaid in whole or in part with a prepayment penalty of $300 thousand. As of September 30, 2011, the loan investment was $3.1 million.

On December 8, 2009, GERS executed a loan agreement with Carambola Northwest, LLC (“Carambola’), a condominium, hotel and golf resort on the island of St. Croix. The five year term loan in the amount of $15 million is collateralized with all real property holdings of Carambola, with an interest rate of 10.5% per annum. As of September 30, 2010, the loan investment amounted to $10.9 million. Carambola subsequently went into default on the loan agreement. On May 11, 2012, GERS exercised its rights under the loan agreement and executed a preliminary disposition agreement with Carambola assuming management of the resort complex. On November 2, 2012, GERS executed a final disposition agreement with Carambola, transferring all assets of Carambola to GERS in settlement of the loan agreement.

GERS has invested in a shopping and pier complex on the island of St. Thomas. The property is reported at fair market value. GERS owns administrative facilities on the islands of St. Thomas and St. Croix that are reported at historical cost, net of accumulated depreciation.

1. Summary of Significant Accounting Policies (continued)

Investment Policies (continued)

- ***WAPA and VIPA Investment Policies* –** These major component units are authorized under bond resolutions and the V.I. Code to invest in open accounts, time deposits, certificates of deposit, repurchase agreements, guaranteed investment contracts, obligations of the United States government, and obligations of any state within the United States, obligations of international banking institutions, mutual funds, corporate commercial paper, money market accounts and investment pools. Investments are reported at fair value.

- ***The University Investment Policies* –** The board of trustees of this major component unit is responsible for the management of the University's investments which consist of U.S. Government securities and securities backed by the U.S. Government or its agencies and instrumentalities, common and preferred stocks, and mutual funds. The University is in the process of finalizing a formal investment policy for review and approval by the board of trustees. The University's component unit Foundation for the University of the Virgin Islands, issued an investment policy in February 2012. The members of the board of trustees of the Reichhold Foundation are responsible for their specific investment policy.

- ***VIGHHFC Investment Policies* –** The board of trustees of this major component unit have not developed a formal investment policy. At September 30, 2010, investments were comprised of a 40% interest in a U.S. Virgin Islands corporation that provides radiology services at Juan F. Luis Hospital and Medical Center. The investment in the U.S. Virgin Islands Corporation is accounted for under the equity method.

- ***VIHA Investment Policies* –** This major component unit is required by the U.S. Department of Housing and Urban Development ("HUD") to invest excess funds in obligations of the United States, certificates of deposit, or any other federally insured investment. HUD requires that deposits be fully collateralized at all times, and may be held by an unaffiliated bank or trust company for the account of the VIHA.

1. Summary of Significant Accounting Policies (continued)

Receivables

Taxes receivable represent amounts owed by taxpayers for individual and corporate income taxes, gross receipts taxes and real property taxes. Tax revenue is recognized in the governmental fund financial statements when they become both measurable and available based on actual collections during the seven months subsequent to the fiscal year end.

Federal government receivables represent amounts owed to the Government for reimbursement of expenditures incurred pursuant to federally funded programs.

Accounts receivable are reported net of estimated allowances for uncollectible amounts, which are determined, based upon past collection experience and current economic conditions.

Subject to the provisions of the V.I. Code, and subject to rules and regulations prescribed by the board of trustees of GERS, members of GERS have the right to obtain loans from GERS to finance a home, automobile, or other personal needs. The maximum mortgage loan that could be granted to members who have been contributing to GERS for at least five years is $350,000. The interest rate on new first mortgages was 8% and on second mortgages, 9% throughout the year. Members may also borrow up to $50,000 to purchase land.

Members who have contributed to GERS for at least five years can borrow up to $18,000 for the purchase of an automobile. Auto loans bear interest at rates that range between 8.75% and 9.5% with a maximum term of five years. Active members may also borrow up to 75% of their contributions paid into GERS to a maximum borrowing of $50,000 as a personal loan. The interest rate offered on personal loans was 8% to 8.5% for the year. Retired members may qualify for personal loans up to $10,000 at the same interest rates as active members; however, effective fiscal year 2009, retirees have the option of refinancing their personal loan provided the original amount is paid down by at least 50%.

Member loans in GERS are valued at the outstanding loan principal balance less an allowance for estimated loan losses.

The accounts receivable from non-governmental customers of the discretely presented component units are net of estimated uncollectible amounts. These receivables arise primarily from service charges to users. Accounts receivable from the PG and other component units that arise from service charges do not have significant allowances for uncollectible accounts.

1. Summary of Significant Accounting Policies (continued)

Restricted Assets

Restricted assets in the PG and discretely presented component units are set aside primarily for the payment of bonds, notes, construction funds, unemployment benefits, and other specific purposes.

Capital Assets

Capital assets, which include land, land improvements, buildings, building improvements, machinery and equipment, construction in progress, and infrastructure assets are reported in the applicable governmental, business-type activities, and component unit columns in the government-wide financial statements as well as in the applicable proprietary funds reported in the fund financial statements.

The PG defines capital assets as assets that have an initial, individual cost and useful lives of: (1) $5,000 for personal property with a useful life of five years; (2) $50,000 for buildings and building improvements with estimated useful lives of 40 years and 20 years, respectively; (3) $100,000 for land improvements with an estimated useful life of 20 years; and (4) $200,000 for infrastructure with an estimated useful life of 30 years. The value of all land acquired is capitalized.

Capital assets purchased or acquired are carried at historical cost or normal cost. The normal costing method to estimate cost based on replacement cost indexed by a reciprocal factor of the price increase from the appraisal date to the actual or estimated acquisition date was used to estimate the historical cost of certain land, buildings, and building improvements because invoices and similar documentation was no longer available in certain instances. Donated capital assets are recorded at fair value at the time of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs are capitalized during the construction period only for business-type activities and proprietary component units. The costs of routine maintenance and repairs that do not add value to the assets or materially extend asset lives are expensed as incurred.

1. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements.

Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds and component units' financial statements.

Capital assets of the PG, excluding land and construction in progress, are depreciated on the straight-line method over the assets' estimated useful lives.

The capital assets of the component units are recorded in accordance with the applicable GASB and FASB statements and under their own individual capitalization thresholds. The estimated useful lives of capital assets reported by the component units are (1) 7 years to 50 years for buildings and building improvements; (2) 20 years to 40 years for airports and marine terminals; and (3) 3 years to 20 years for vehicles and equipment.

Tax Refunds Payable

During the calendar year, the Government collects individual income taxes through withholdings and payments from taxpayers. At September 30, the Government estimates the amount owed to taxpayers for overpayments during the first nine months of the calendar year. These estimated amounts and the actual tax refunds claimed for prior years but not paid at year-end are recorded as tax refunds payable and as a reduction of tax revenue.

Deferred and Unearned Revenue

Deferred revenue at the governmental fund level arises when potential revenue neither meets measurable nor available criteria for revenue recognition in the current period. Deferred revenue also arises when resources are received before the Government has a legal claim to them. In subsequent periods, when the revenue recognition criteria are met, or when the Government has a legal claim to the resources, deferred revenue is reduced from the balance sheet and the revenue is recognized. Unearned revenue at the government-wide and proprietary fund levels arises only when the Government receives resources before it has a legal claim to them or revenue recognition criteria have not been met.

1. Summary of Significant Accounting Policies (continued)

Long-term Liabilities

The liabilities reported in the government-wide financial statements include the Government's bonds, long-term notes, and other long-term liabilities including: compensated absences, retroactive union arbitration salaries, landfill closure and post closure, workers compensation loss claims, postemployment benefit costs and legal claims. Bond premiums and discounts, losses incurred on bond refundings, and debt issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums or discounts and deferred refunding losses.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Losses incurred on bond refundings are not recognized in the fund financial statements as the corresponding liability for the bonds is only recorded in the government-wide financial statements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balance

Fund balances are reported in classifications provided by the Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Statement No. 54 provides a hierarchy of classifications based primarily on the extent to which the Government is bound to honor constraints on the specific purposes for which amounts in funds may be spent. Following are the fund classifications:

- ***Restricted Fund Balance*** **–** Fund balances constrained by externally imposed constraints such as constitutional provisions, laws and regulations, debt covenants and grantors. The Government's policy is to consider restricted amounts to have been spent when expenditures are incurred for which both restricted and unrestricted fund balances are available.

- ***Committed Fund Balance*** **–** Fund balances subject to constraints imposed by the Government's highest level of decision making authority including legislation enacted by the Legislature of the Virgin Islands, and resolutions or ordinances enacted by Government elected regulatory boards and authorities. Committed fund balances may be modified or rescinded by enacted legislation, or amendment of resolutions or ordinances.

1. Summary of Significant Accounting Policies (continued)

Fund Balance (continued)

- ***Assigned Fund Balance –*** Fund balances subject to budgetary constraints of the Legislature, the Office of Management and Budget, or authorizing boards of the Government, that are not restricted or committed. Budgetary authority of the Office of Management and Budget is provided by Title 2, Sections 22, 23, 26 and 27 VIC, and Executive Order No. 371-1997. The Government's policy is to expend assigned or committed amounts, before unassigned amounts, when an expenditure is incurred.

- ***Unassigned Fund Balance –*** Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the General Fund.

- ***Nonspendable Fund Balance –*** The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form (such as inventories or prepaid amounts), or (b) legally or contractually required to be maintained intact (such as a permanent endowment fund).

Net Assets

Net assets are reported in three categories:

- ***Invested in Capital Assets, Net of Related Debt –*** These consist of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Debt pertaining to significant unspent debt proceeds is not included in the calculation of invested in capital assets, net of related debt. The unspent portion of the debt is presented, net of the related debt, as restricted net assets for capital projects.

1. Summary of Significant Accounting Policies (continued)

Net Assets (continued)

- ***Restricted Net Assets* –** These result when constraints placed on net assets' use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

- ***Unrestricted Net Assets*** – These consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Government's policy to use restricted resources first, then the unrestricted resources, as needed.

Compensated Absences

The vacation policy of the Government provides for the accumulation of four, six, or eight hours for each full biweekly pay period depending on the time of entry into government service. At the beginning of each calendar year, vacation leave is limited to 480 hours (60 days). However, the excess of 480 hours is considered by GERS for service credit towards the employees' retirement. This vacation policy does not apply to professional educational personnel of the Virgin Islands Department of Education, who receive compensation during the school breaks. Upon retirement, an employee receives compensation for unused vacation leave at the employee's base pay rate.

Employees accumulate sick leave at a rate of four hours for each full biweekly pay period up to a maximum of 180 days. Separated employees do not receive payment for unused sick leave; therefore, a provision for accumulated sick leave is not required.

Compensated absences accumulation policies for the blended component units and discretely presented component units vary from entity to entity, depending upon negotiated bargaining agreements and other factors agreed upon between the management of these entities and its employees.

1. Summary of Significant Accounting Policies (continued)

Interfund and Intra-entity Transactions

The Government has the following types of transactions among funds:

- ***Interfund Transfers* –** Legally required transfers are reported as interfund transfers in (out) when incurred.
- ***Intra-entity Transactions* –** These are transactions between the PG and its component units, and among the component units. Transfers between the PG and its blended component units are reported as interfund transfers, except for transfers within the same fund type.

Similarly, receivables and payables between the PG and its blended component units are reported as amounts due from (to) other funds. Transfers between the PG and discretely presented component units (and among those component units) are reported separately as revenue and expenses or expenditures. Amounts owed to and from discretely presented component units by the PG are reported separately from interfund payables and receivables as due from (to) component units, net of allowance for estimated uncollectible amounts.

Risk Management

With some exceptions, the Government does not carry general casualty or liability insurance coverage on its properties or the acts of its employees, relying instead on self-insurance and/or statutory liability limitations. However, as a result of an agreement with the Federal Emergency Management Agency (FEMA), with respect to properties and structures damaged by Hurricane Hugo and repaired with federal disaster assistance funds, the Government has obtained insurance for certain hospitals, schools, and other insurable public buildings that were repaired with such federal assistance. The Government purchases commercial insurance covering physical losses or damages against its property. The limit of liability for all risks, excluding earthquake, windstorm, and flood, is $1 million for each and every occurrence except for windstorm and flood losses, which has a $45 million limit. For physical losses arising from earthquake, the insurance policy has a limit of $100 million for each and every occurrence and in the annual aggregate.

The Government does not maintain accounting records in support of individual claim liabilities or for claims incurred but not reported (IBNR). Accordingly, medical malpractice claims are accounted for on a cash basis. Therefore, the basic financial statements do not include a liability for medical malpractice claims outstanding, including related IBNR, as of September 30, 2011, as required by GAAP.

1. Summary of Significant Accounting Policies (continued)

Future Adoption of Accounting Requirements

GASB has issued the following statements that the Government or its component units have not yet adopted:

Statement Number		Required in Fiscal Year
57	OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans	2012
60	Accounting and Financial Reporting For Service Concession Arrangements	2013
61	The Financial Reporting Entity; Omnibus- An Amendment of GASB Statements No. 14 and 34	2013
62	Codification of Accounting and Financial Reporting Guidance Contained in pre-November 30, 1989 FASB and AICPA Pronouncements	2013
63	Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position	2013
64	Derivative Instruments: Application of Hedge Accounting Termination Provisions-an Amendment of GASB Statement No. 53	2012
65	Items Previously Reported as Assets and Liabilities	2014
66	Technical Corrections - 2012 - an amendment of GASB Statement No. 10 and No. 62	2014
67	Financial Reporting for Pension Plans	2014
68	Accounting and Financial Reporting for Pensions	2015
69	Government Combinations and Disposals of Government of Government Operations	2015

The impact of these statements has not yet been determined by the Government.

2. Component Units

The basic financial statements include the financial statements of the following discretely presented component units:

- Virgin Islands Housing Authority
- Virgin Islands Port Authority
- Virgin Islands Water and Power Authority
- Virgin Islands Government Hospital and Health Facilities Corporation
- University of the Virgin Islands
- Virgin Islands Economic Development Authority
- Magens Bay Authority
- Virgin Islands Housing Finance Authority
- Virgin Islands Public Television System
- Virgin Islands Waste Management Authority
- University of the Virgin Islands Research and Technology Park Corporation

2. Component Units (continued)

Condensed financial information as of September 30, 2011, of all discretely presented component units follows (expressed in thousands):

Information on net assets	Virgin Islands Housing Authority	Virgin Islands Port Authority	Virgin Islands Water and Power Authority: Electric System	Virgin Islands Water and Power Authority: Water System	Virgin Islands Government Hospital and Health Facilities Corporation: Roy L. Schneider Hospital	Virgin Islands Government Hospital and Health Facilities Corporation: Juan F. Luis Hospital	University of the Virgin Islands	Other Entities	Total Component Units
Assets:									
Current assets	$ 18,496	$ 26,346	$ 53,504	$ 8,108	$ 23,497	$ 12,022	$ 16,691	$ 18,555	$ 177,219
Due from primary government	–	145	25,051	2,245	–	–	1,884	8,189	37,514
Due from federal government	850	1,270	–	1,085	–	887	3,493	1,440	9,025
Restricted assets	1,531	10,936	55,488	12,267	574	1,617	46,862	40,952	170,227
Capital assets, net	72,322	248,980	296,736	65,182	60,779	43,117	54,667	147,647	989,430
Deferred expenses	–	1,066	58,312	8,587	–	–	–	–	67,965
Other noncurrent assets	60	–	52	33	495	2,807	10,197	18,455	32,099
Total assets	93,259	288,743	489,143	97,507	85,345	60,450	133,794	235,238	1,483,479
Liabilities:									
Current liabilities	4,115	11,178	107,137	9,278	24,362	36,249	4,679	11,142	208,140
Due to primary government	–	–	–	–	30,762	52,578	–	–	83,340
Due to federal government	–	–	5,047	–	–	–	–	–	5,047
Due to other component units	–	–	–	–	–	–	–	1,388	1,388
Bonds payable	–	32,836	226,101	21,592	–	–	–	2,410	282,939
Notes payable	–	1,515	36,520	–	–	–	39,062	2,000	79,097
Line of credit payable	–	–	23,000	2,500	–	–	–	–	25,500
Deferred revenue	41	–	–	–	–	–	3,693	4,018	7,752
Other noncurrent liabilities	7,376	–	23,570	5,371	–	237	5,298	11,490	53,342
Total liabilities	11,532	45,529	421,375	38,741	55,124	89,064	52,732	32,448	746,545
Net assets (deficit):									
Invested in capital assets, net of related debt	66,391	216,144	143,616	46,794	60,779	42,880	25,523	114,525	716,652
Restricted	1,800	10,936	24,962	11,191	1,773	1,617	39,030	48,964	140,273
Unrestricted (deficit)	13,536	16,134	(100,810)	781	(32,331)	(73,111)	16,509	41,501	(119,991)
Total net assets	$ 81,727	$ 243,214	$ 67,768	$ 58,766	$ 30,221	$ (28,614)	$ 81,062	$ 204,990	$ 736,934

2. Component Units (continued)

Information on statements of activities	Expenses	Program revenue: Charges for Services	Program revenue: Operating Grants and Contributions	Program revenue: Capital Grants and Contributions	Total Component Units
Virgin Islands Housing Authority	$ 45,892	$ 6,192	$ 33,815	$ 13,199	$ 7,314
Virgin Islands Port Authority	61,870	46,536	–	18,524	3,190
Virgin Islands Water and Power Authority:					
Electric System	311,886	279,455	–	5,002	(27,429)
Water System	27,120	37,568	–	4,150	14,598
Virgin Islands Government Hospital and Health Facilities Corporation:					
Roy L. Schneider Hospital	93,585	55,975	28,308	26	(9,276)
Juan F. Luis Hospital	79,303	41,241	21,949	283	(15,830)
University of the Virgin Islands	82,955	18,736	56,160	3,992	(4,067)
Other component units	83,503	12,064	69,050	12,070	9,681
Total activities	$ 786,114	$ 497,767	$ 209,282	$ 57,246	(21,819)
General revenue:					
Interest and other					16,662
Changes in net assets					(5,157)
Net assets at beginning of year *(as restated)*					742,091
Net assets at end of year					$ 736,934

3. Stewardship, Compliance, and Accountability

Budgetary Process and Control

The V.I. Code requires the Governor to submit an annual balanced executive budget to be adopted by the Legislature for the ensuing fiscal year. The Governor is required by law to submit to the Legislature the annual balanced executive budget no later than May 30. The annual balanced executive budget is prepared on a GAAP basis, except for encumbrances, which are reported as expenditures for budget reporting purposes, by the Virgin Islands Office of Management and Budget (OMB) working in conjunction with other Government offices and agencies. If the annual executive budget has not been approved before the commencement of any fiscal year, then the appropriations for the preceding fiscal year, insofar as they may be applicable, are automatically deemed re-appropriated item by item. The annual balanced executive budget, which includes those funds of the Government subject to appropriation pursuant to law, is composed of all proposed expenditures and estimated revenue for the Government. The Legislature enacts the annual executive budget through passage of lump-sum appropriations for each department. The Legislature may add, change, or delete any items in the annual executive budget proposed by the Governor. Upon passage by the Legislature, the annual executive budget is submitted to the Governor, who may veto the budget partially or in its entirety and return it to the Legislature with his objections. A veto by the Governor can be overridden only by a two-thirds majority of all members of the Legislature. The Legislature is obligated by law to pass a final annual executive budget no later than September 30, the last day of the fiscal year. Supplemental budgetary appropriations bills that are signed into law may be created during the year without the identification of a specific revenue source to finance them. In August 1999, the Legislature enacted the Financial Accountability Act (Act No. 6289). The purpose of the Financial Accountability Act is to require by law that the budget of the Government be balanced each year, and the appropriations in each fiscal year not exceed a verifiable revenue source.

3. Stewardship, Compliance, and Accountability (continued)

Budgetary Process and Control (continued)

Once the budget has been enacted, fiscal control over expenditures made pursuant thereto is exercised by the Governor through the Director of OMB. During any fiscal year in which the resources available to the Government are not sufficient to cover the appropriations approved for such year, the Governor, through the Director of OMB, may take administrative measures to reduce expenditures. The Governor may also make recommendations to the Legislature for new taxes or any other necessary action to meet the estimated deficiency.

Budgetary control is exercised at the department level through an allotment process. Encumbrances and expenditures cannot exceed total allotment amounts. The Government's department heads may make transfers of appropriations within the department. Appropriation transfers between departments and supplemental appropriations require executive and legislative branch approval. Unencumbered and unexpended appropriations, not designated, lapse at fiscal year-end. Also, encumbrances are established at fiscal year-end to pay certain expenditures for travel and utility costs payable against current year appropriation authority, but to be expended in the subsequent year.

Budget/GAAP Reconciliation

The following schedule presents a comparison of the general fund legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of timing and entity difference in the excess (deficiency) of revenue and net other financing sources over expenditures for the year ended September 30, 2011, is presented below (expressed in thousands):

Excess of revenues and net other financing sources over expenditures	$ 33,866
Entity difference – deficiency of revenues and net other financing over expenditures – activities with budgets not legally adopted	(17,197)
Excess of revenues and net other financing sources over expenditures – GAAP basis (net change in fund balance)	$ 16,669

3. Stewardship, Compliance, and Accountability (continued)

Budget/GAAP Reconciliation (continued)

Controls over spending in special revenue funds and non-appropriated funds are maintained at the Department of Finance by use of budgets and available resources (revenues). The Government makes appropriations to authorize expenditures for various capital projects. Budgets for capital projects normally remain available until completion of the project unless modified or rescinded.

4. Cash and Cash Equivalents

Primary Government

At September 30, 2011, the PG reported $191.2 million in unrestricted cash and cash equivalents, and $3.3 million in restricted cash and cash equivalents. All of the PG's bank balances were fully collateralized.

Pension Trust Fund

GERS considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. At September 30, 2011, GERS held $112.4million in cash and cash equivalents consisting of: $71 million in money market accounts, $41.4 million in operational accounts.

Component Units

At September 30, 2011, component units held $77.8 million in unrestricted cash and cash equivalents and $77.3 million in restricted cash and cash equivalents, of which $3.5 million was not insured, bonded or collateralized as required for public funds of the Government.

5. Investments

Primary Government Investments

Following is a summary of the investments of the PG, categorized by investment type and maturity as of September 30, 2011:

Primary Government Investments
(in thousands)

		Maturity (in years)		
	Fair Value	**Less Than 1 Year**	**1 to 5 Years**	**Over 5 Years**
Investments with contractual maturities				
Certificates of Deposit	$ 11,013	$ 11,013	$ –	$ –
Portfolio investments				
Commercial Paper	39,549	39,160	–	389
U.S. Government Agencies & Notes	45,171	18,171	27,000	–
Total investments with contractual maturities	95,733	$ 68,344	$ 27,000	$ 389
Investments without contractual maturities				
Money Market & Mutual Funds	342,387			
Total Primary Government Investments	$ 438,120			

Interest-Rate Risk – Interest-rate risk represents the exposure to fair value losses arising from increasing interest rates. The PG does not have a formal investment policy that limits investment maturities as a means of managing such exposure. As a means of keeping the interest-rate risk low, virtually all investments held by the PG are short-term in nature.

5. Investments (continued)

Primary Government Investments (continued)

Credit Risk – The authorizing legislation of the PG does not limit investments by credit rating categories. Authorizing legislation does limit the investment choices of the PG to direct obligations or obligations guaranteed by the United States, obligations of states, territories, possessions and commonwealths of the United States, obligations of international banking institutions, repurchase agreements, investment contracts, certificates of deposit, guaranteed investment contracts, shares in mutual funds, investment companies, corporate commercial paper, money market portfolio investments, and investment pools.

At September 30, 2011, the PG's investments in money market funds were rated AAAm by Standard & Poor's, and Aaa-mf by Moody's Investor Service; PG's investment in commercial securities were rated A- by Standard & Poor's, and A2 by Moody's Investor Services; and the PG's investment in U.S. government agencies were rated AA+ by Standard & Poor's and Aaa by Moody's Investor Services.

Concentration of Credit Risk – The PG places no limit on the amount that may be invested in one issuer. At September 30, 2011, more than 5% of the PG's investments were invested in: Goldman Financial Square Money Market #524 (49.52%), Goldman Financial Securities Money Market #474 (12.22%), Silver Tower Funding, LLC CP (8.03%), and Invesco Treasury (8.38%).

Custodial Credit Risk – The PG does not have a custodial risk policy. This is the risk that the PG will not be able to recover the value of its investments that are in the possession of an outside party. At September 30, 2011, $438.1 million of investments were held in the name of The Bank of New York Trust Company, N.A, as trustee for the Government.

5. Investments (continued)

Pension Trust Fund Investments

Following is a summary of pension trust fund investments as of September 30, 2011:

Pension Trust Fund Investments
(In thousands)

		Maturity (in years)			
	Fair Value	**Less Than 1 Year**	**1 to 5 Years**	**6 to 10 Years**	**More Than 10 Years**
Investments with contractual maturities					
US government and agency obligations	$ 24,393	$ 6,221	$ 12,626	$ 2,135	$ 3,411
US Treasury notes	45,332	–	18,421	26,911	–
US Treasury bonds	25,655	–	–	1,867	23,788
Municipals	7,721	–	1,893	1,548	4,280
Corporate obligations	74,604	2,167	34,043	23,970	14,424
Foreign bonds	8,310	–	4,755	3,555	–
Government obligations - foreign	53,410	10,713	17,667	7,041	17,989
Mortgage and asset backed securities	71,333	–	2,618	4,415	64,300
Investment loan	18,613	–	18,613	–	–
Total investments with contractual maturities	329,371	$ 19,101	$ 110,636	$ 71,442	$ 128,192
Investments without contractual maturities					
Equity Securities					
Common stocks - U.S.	418,529				
Common stocks - foreign	68,296				
Real Estate Investments					
Real estate investment trusts	3,810				
Havensight Mall - US Virgin Islands	66,600				
GERS Complex - US Virgin Islands	30,210				
Limited partnership	52,915				
Securities lending short-term collateral investment pool	166,343				
Mutual funds	13,536				
Certificates of deposit	27,972				
Total pension fund investments	$ 1,177,582				

5. Investments (continued)

Pension Trust Fund Investments (continued)

***Interest Rate Risk* –** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. GERS does not have a specific policy to manage interest rate risk, but requires investment managers to diversify by issue, maturity, sector, coupon, and geography. Investment managers retained by GERS follow specific investment guidelines and are evaluated against specific market benchmarks that represent their investment style. Any exemption from general guidelines requires approval from GERS' board of trustees.

***Credit Risk* –** GERS investment policy is designed to minimize credit risk by restricting authorized investments to only those investments permitted by statute, subject to certain additional limitations. These additional limitations consist of prohibitions against investments in derivative securities, options, futures or short positions. GERS investment policy allows investments in mortgage pass-through securities.

5. Investments (continued)

Pension Trust Fund Investments (continued)

The credit ratings of GERS debt and equity securities include:

Pension Trust Fund Investment Credit Ratings
(in thousands)

		Credit Ratings	
	Fair Value	**Standard & Poor**	**Moody's**
US government and agency obligations	$ 737	A	AA2
US government and agency obligations	1,015	A-	AA1
US government and agency obligations	15,113	AA+	AAA
US government and agency obligations	7,528	Not Rated	Not Rated
US Treasury notes	45,332	AAA	AAA
US Treasury bonds	25,655	Not Rated	Not Rated
Corporate obligations	74,604	BBB- to AAA	BAA3 to AAA
Foreign bonds	6,952	AAA	AAA
Foreign bonds	249	A-	BAA1
Foreign bonds	1,109	Not Rated	Not Rated
Government obligations - foreign	10,342	AA- to AA+	AA2 to AA1
Government obligations - foreign	37,561	AAA	AAA
Government obligations - foreign	5,507	Not Rated	Not Rated
Municipals	5,786	A- to AA-	A2 to AA2
Municipals	714	AA1	AAA
Municipals	1,221	BB- to BBB	B3 to BAA3
Mortgage and asset backed securities	3,043	D to AA+	C to AA1
Mortgage and asset backed securities	60,323	AAA	AAA
Mortgage and asset backed securities	7,967	Not Rated	Not Rated
Common stocks- US	418,529	Not Rated	Not Rated
Common stocks - foreign	68,296	Not Rated	Not Rated
Real estate investment trust	1,397	Not Rated	Not Rated
Real estate investment trust	2,413	Not Rated	Not Rated
Real estate holdings - US Virgin Islands	96,810	Not Rated	Not Rated
Investment loans	18,613	Not Rated	Not Rated
Limited partnership	52,915	Not Rated	Not Rated
Securities lending short-term collateral investment pool	166,343	Not Rated	Not Rated
Mutual funds	13,536	Not Rated	Not Rated
Certificate of deposit	27,972		
Total investments	$ 1,177,582		

5. Investments (continued)

Pension Trust Fund Investments (continued)

Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution or other counterparty, GERS will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party. With the exception of underlying securities on-loan amounting to $5.8 million, secured by non-cash collateral, the entire investment portfolio of GERS was held with a single third-party custodian on behalf of GERS as of September 30, 2011. Cash collateral held for securities lending transactions is invested in a collective investment pool maintained by the securities lending agent.

Foreign Currency Risk – Foreign currency risk is the risk of holding investments in foreign currencies and the risk that those foreign currencies may devalue. GERS has no general investment policy with respect to foreign currency risk.

As of September 30, 2011, $130.2 million of GERS' portfolio was held in foreign currencies, with $39.7 million held in Euro, $26.8 million held in pound sterling, $16.0 million held in Australian dollars, $10.7 million held in Japanese yen, $7.8 million held in Swiss francs, $6.3 million held in Canadian dollars, $5.5 million held in Mexican peso, $4.0 million held in Norwegian krone, $3.3 million held in New Zealand dollar, $2.0 million held in Hong Kong dollars, and $8.1 million in other currencies. GERS entered into various forward currency exchange contracts to manage exposure to changes in foreign currency exchange rates, and to facilitate the settlement of foreign security transactions. Risks associated with foreign exchange contracts include the movement in the value of foreign currency relative to the U.S. dollar and the ability of the counterparty to perform in accordance with the terms of the contract. Changes in the market value of open and closed forward contracts are recorded with interest, dividends, and other income or losses reported at fair value. During the fiscal year ended September 30, 2011, GERS reported $41.3 million in forward currency purchases, $39.2 million in forward currency sales, and a foreign exchange loss of $3.1 million.

5. Investments (continued)

Pension Trust Fund Investments (continued)

Securities Lending Transactions –The Government's statutes permit GERS to participate in securities lending transactions, and GERS has, via a securities lending authorization agreement (the Agreement), authorized State Street Bank and Trust Company (the Custodian) to lend its securities to broker-dealers and banks pursuant to a form of loan agreement. Lent securities are collateralized with cash, securities issued or guaranteed by the U.S. government, or irrevocable bank letters of credit. GERS does not have the ability to pledge or sell collateral securities delivered absent a borrower default. No restrictions were imposed during 2011 as to the amount of loans the Custodian can make on behalf of GERS. Under the terms of the Agreement the Custodian must indemnify the Government for losses attributable to violations by the Custodian under the "standard of care" clause described in the Agreement. There were neither such violations during fiscal years 2011 or 2010, nor losses resulting from the default of the borrowers or the Custodian.

Loans are generally terminable on demand. The collateral received shall, in the case of loaned securities denominated in U.S. dollars or whose primary trading market is located in the U.S. or sovereign debt issued by foreign governments, have a market value of 102% of the market value of the security for domestic borrowers and 105% for foreign borrowers at the inception of the securities lending transaction. Such collateral should be kept at a minimum of 100% of the market value of the security for all borrowers throughout the outstanding period of the transaction. At September 30, 2011, approximately $165.9 million of U.S. government and agency securities, fixed income, and equity corporate securities were on loan. The cash collateral received with a corresponding liability of an equal amount is recorded in the statement of fiduciary net assets. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in a collective investment pool. As of September 30, 2011, such investment pool had a weighted average maturity of 13 days and an average expected maturity of 133 days. Because the loans were terminable on demand, their duration did not generally match the duration of the investments made with cash collateral.

5. Investments (continued)

Component Unit Investments

Following is a summary of component unit investments and maturities as of September 30, 2011:

Component Unit Investments
(in thousands)

	Fair Value	Maturity (in years) Less Than 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years
Investments with contractual maturities					
Certificates of deposit	$ 19,857	$ 17,035	$ 2,822	$ –	$ –
Mortgage backed securites	3,218	–	–	–	3,218
Corporate bonds	5,569	–	1,000	733	3,836
Guaranteed investment contracts	139	–	–	–	139
U.S. Government agencies and notes	37,872	20,914	15,195	–	1,763
Total investments with contractual maturities	66,655	$ 37,949	$ 19,017	$ 733	$ 8,956
Investments without contractual maturities					
Common stock	8,592				
Mutual funds	22,031				
Total component unit investments	$ 97,278				

5. Investments (continued)

Component Unit Investments (continued)

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The component units of the Government have not established formal policies which limit investment maturities as a means of managing such exposure and have some exposure to interest rate risk.

Credit Risk – The authorizing legislation of the component units does not limit investments by credit rating categories. Authorizing legislation limits the investment choices of the component units, as described in Note 1. The University of the Virgin Islands' investments includes corporate bonds amounting to $4.8 million with ratings of A- to BBB by Standard & Poor's.

Custodial Credit Risk – The component units of the Government do not have custodial credit risk policies. This is the risk that the component unit will not be able to recover the value of its investments that are held in the possession of an outside party.

6. Receivables

Primary Government Receivables

Receivables for governmental funds at September 30, 2011, consist of the following (expressed in thousands):

	General	PFA Debt Service	Total
Income taxes	$ 193,409	$ –	$ 193,409
Real property taxes	236,114	–	236,114
Hotel occupancy taxes	1,820	–	1,820
Excise taxes	1,252	–	1,252
Gross receipts taxes	–	133,446	133,446
Tax receivables	432,595	133,446	566,041
Less allowance for doubtful accounts	(201,805)	(74,059)	(275,864)
Net tax receivables	$ 230,790	$ 59,387	290,177
Other long-term receivables – tobacco settlement rights and other			1,801
Total receivables reported in the statement of net assets (deficit)			$ 291,978

6. Receivables (continued)

Primary Government Receivables (continued)

The Naval Appropriations Act created a separate tax structure for the U.S. Virgin Islands that mirrors the Internal Revenue Code of 1986, as amended. Income taxes are due from every corporation, partnership, individual, association, estate, or trust that meets the filing requirements of the U.S. Internal Revenue Code. A U.S. taxpayer who is a permanent resident of the U.S. Virgin Islands satisfies his Virgin Islands income tax obligations by filing his return with and paying income taxes to the Government. Virgin Islands residents are taxed by the Virgin Islands on their world-wide income. A nonresident of the U.S. Virgin Islands pays income taxes on his U.S. Virgin Islands source income to the Government. The revenue is recognized in the general fund in the fiscal period for which the income tax return was filed. The revenue from income tax withholding and estimated payments are recognized in the general fund as collected, net of estimated tax refunds.

Corporate income taxes are due by the 15th day of the third month following the close of the fiscal year and become delinquent if not paid on or before the due date.

Partnership and trust income taxes are due by April 15 of the following year for which the income tax was levied. Trust income taxes must be paid by the tax filing date.

Property taxes are assessed each calendar year on all taxable real property located in the U.S. Virgin Islands. The receivable is recognized, net of estimated uncollectable amounts, in the general fund in the fiscal period for which the tax was assessed. The revenue is recognized in the general fund in the fiscal period for which the property tax is levied, provided the tax is collected within 60 days subsequent to fiscal year-end, unless the facts justify a period greater than 60 days. Receivables recognized before that period are recorded as deferred revenues.

The Office of the Tax Assessor is responsible for the assessment of all taxable real property. Noncommercial real property subject to taxation is reassessed once every five years and commercial real property subject to taxation is reassessed biannually. The Tax Assessor prepares an annual assessment roll and schedule of collections for each parcel of real property that is used by The Office of the Tax Collector, as the basis for issuing tax bills to all taxpayers in the U.S. Virgin Islands.

Property taxes are to be levied by May 15 of each year in the name of the record owner on January 15 of the same year. The taxes are due on June 30 and become delinquent if not paid by August 31.

6. Receivables (continued)

Primary Government Receivables (continued)

For businesses with gross receipts of $120,000 per annum or less, gross receipts taxes are levied on an annual basis based on the amount of gross receipts in excess of $9,000 per month. Businesses with annual gross receipts greater than $120,000, but less than $225,000, are levied on a monthly basis, based on the amount of gross receipts in excess of $9,000 per month. Businesses with annual gross receipts of more than $225,000 are levied on a monthly basis, based on all gross receipts, with no $9,000 per month exemption.

Gross receipts tax assessment rates, applied to taxable gross receipts, were as follows:

October 1, 2010 through April 30, 2011:	4.0%
June 1, 2011 through February 28, 2012:	4.5%
March 1, 2012 and thereafter:	5.0%

Monthly gross receipts tax filings are due within 30 calendar days following the last day of the calendar month collected. Annual gross receipts tax filings are due within 30 calendar days following the last day of the calendar year.

Component Unit and Pension Trust Fund Receivables

Component unit receivables at September 30, 2011, consist of the following (expressed in thousands):

Utility service charges	$	22,485
Port fees		3,060
Students		2,221
Patients		24,974
Other		6,314
Total	$	59,054

6. Receivables (continued)

Component Unit and Pension Trust Fund Receivables (continued)

Loans and advances receivable, net at September 30, 2011, consist of the following (expressed in thousands):

	Fiduciary Funds Pension Trust	Component Units
Mortgage loans	$ 8,458	$ –
Personal loans	131,608	–
Other loans and advances	171	49
Subtotal	140,237	49
Less allowance for uncollectible accounts	(767)	(49)
Loans and advances receivable, net	$ 139,470	$ –

7. Deferred Revenue

The components of deferred revenue for the general fund as of September 30, 2011, consist of the following (expressed in thousands):

Property tax	$ 137,956
Matching excise tax	48,349
Income tax	59,672
	$ 245,977

8. Interfund Transactions

Interfund transfers for the year ended September 30, 2011, consisted of the following (expressed in thousands):

Transfers to	General	PFA Debt Service	PFA Capital Projects	West Indian Company	Nonmajor Governmental	Total
General	$ –	$ 96,146	$ 1,500	$ 700	$ 1,000	$ 99,346
PFA Debt Service	4	–	–	–	–	4
PFA capital projects	–	1,318	–	–	13,025	14,343
Nonmajor governmental	3,568	4,534	1,179	–	–	9,281
West Indian Company	–	–	–	–	–	–
Total	$ 3,572	$101,998	$ 2,679	$ 700	$ 14,025	122,974

Transfer from	General	PFA Debt Service	PFA Capital Projects	West Indian Company	Nonmajor Governmental	Total
General	$ –	$ 4	$ –	$ –	$ 3,568	$ 3,572
PFA Debt Service	96,146	–	1,318	–	4,534	101,998
PFA Capital Projects	1,500	–	–	–	1,179	2,679
Nonmajor governmental	1,000	–	13,025	–	–	14,025
West Indian Company	700	–	–	–	–	700
Total	99,346	4	14,343	–	9,281	122,974

Interfund transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. The most significant transfers to the general fund from other governmental funds include a $96.1 million transfer from the PFA Debt Service Fund (a major governmental fund) representing gross receipt tax revenue in excess of bond service requirements, and a $13.0 million transfer from a non-major debt service fund, the PFA Operating Fund, to the PFA Capital Projects Fund, representing reprogrammed investment income.

Significant transfers made from the General Fund include a transfer of $2.0 million to the St. Croix Capital Improvement Fund (a non-major governmental fund) and a transfer of $1.0 million to the Crisis Intervention Fund (a non-major governmental fund).

Significant transfers from the PFA Debt Service Fund include a transfer of $4.5 million to the PFA Operating Fund (a non-major governmental fund), representing interest earned from unexpended bond proceeds, and $1.3 million to the PFA Capital Projects Fund.

8. Interfund Transactions (continued)

Due From/To Other Funds

The following table summarizes interfund receivables and payables at September 30, 2011 (expressed in thousands):

Due from other funds	General	PFA Debt Service	PFA Capital Projects	Nonmajor Governmental	West Indian Company	Nonmajor Enterprise	Total
General	$ –	$ –	$ –	$ 3,778	$ 3,300	$ 4,668	$ 11,746
PFA Debt Service	–	–	–	–	–	–	–
PFA capital projects	–	–	–	–	–	7,759	7,759
Nonmajor governmental	14,490	–	–	–	–	2,122	16,612
Total Governmental F	14,490	–	–	3,778	3,300	14,549	36,117
Nonmajor enterprise	739	–	–	–	–	–	739
Total Enterprise Fund	739	–	–	–	–	–	739
Total	$ 15,229	$ –	$ –	$ 3,778	$ 3,300	$ 14,549	$ 36,856
Due to other funds							
General	$ –	$ –	$ –	$ 14,490	$ –	$ 739	$ 15,229
Nonmajor governmental	3,778	–	–	–	–	–	3,778
Total Governmental F	3,778	–	–	14,490	–	739	19,007
West Indian Company	3,300	–	–	–	–	–	3,300
Nonmajor enterprise	4,668	–	7,759	2,122	–	–	14,549
Total Enterprise Fund	7,968	–	7,759	2,122	–	–	17,849
Total	$ 11,746	$ –	$ 7,759	$ 16,612	$ –	$ 739	$ 36,856

The due from (to) other funds includes the following amounts due from the general fund: $4.9 million due to the emergency molasses fund (a non-major governmental fund) for unpaid appropriations, $1.3 million due to the elected governor retirement fund, and $3.5 million due to the PFA special revenue fund for unpaid matching funds. The due to the General Fund is mainly composed of $4.4 million due from the Virgin Islands Lottery, consisting primarily of 20% of the net lottery revenue that is required to be transferred to the General Fund, and $2.7 million owed from the bond proceeds fund (a non-major governmental fund) to the general fund.

8. Interfund Transactions (continued)

Due From/To Other Funds (continued)

The due to other governmental funds includes $859 thousand due from the Virgin Islands Lottery to the Pharmaceutical Assistance to the Aged Fund and $943 thousand due from the Virgin Islands Lottery to the VI Educational Initiative Fund consisting primarily of 15% of revenue derived from lottery games under contract between the Virgin Islands Lottery and private contractors be transferred to these funds. Contributions from the Virgin Islands Lottery (a non-major enterprise fund) amounted to $3.4 million, which represented contributions to the VI Educational Initiative Fund (a non-major governmental fund) of $1.7 million and a contribution to the Pharmaceutical Assistance to the Aged Fund (a non-major governmental fund) of $1.7 million.

The due to PFA Capital Projects funds includes $7.4 million due from the Non-Major Business Type Fund viNGN in connection with start-up costs in connection with the broadband project.

9. Restricted Assets

Primary Government

Restricted assets of proprietary funds and business-type activities as of September 30, 2011, include cash and cash equivalents as follows (expressed in thousands):

Restricted Assets – Proprietary Funds and Business-type Activities

Unemployment insurance funds	$	144
WICO debt service funds		1,934
Total restricted assets of proprietary funds and business-type activities	$	2,078

9. Restricted Assets (continued)

Component Units

Restricted assets of component units include cash and cash equivalents, investments, and receivables as follows (expressed in thousands):

Restricted Assets – Component Units

Cash and cash equivalents:		
Debt service and sinking fund requirements	$	20,237
Endowment funds		18,130
HUD project funds		1,531
Revolving loan funds		18,657
Construction funds		1,959
Renewal and replacement funds		5,856
Other		10,965
Total cash and cash equivalents		77,335
Investments:		
Debt service and sinking fund requirements		25,576
Construction funds		24,605
Endowment funds		25,955
Renewal and replacement funds		2,075
Revolving loan funds		7,068
Total investments		85,279
Other:		
Pledged funds		7,613
Total restricted assets of component units	$	170,227

10. Capital Assets

Primary Government

The capital assets activity for the governmental activities for the year ended September 30, 2011, is summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Transfers	Disposals	Ending Balance
Capital assets not being depreciated:					
Land	$ 190,022	$ 2,915	$ –	$ –	$ 192,937
Construction in progress	147,773	–	(16,963)	(3,075)	127,735
Total capital assets not being depreciated	337,795	2,915	(16,963)	(3,075)	320,672
Capital assets being depreciated:					
Land improvements	5,305	–	–	–	5,305
Infrastructure	190,105	17,851	15,928	–	223,884
Buildings and improvements	397,335	12,890	727	–	410,952
Machinery and equipment	134,978	5,912	308	–	141,198
Total capital assets being depreciated	727,723	36,653	16,963	–	781,339
Less accumulated depreciation for:					
Land improvements	(3,218)	(196)	–	–	(3,414)
Infrastructure	(57,113)	(10,335)	–	–	(67,448)
Buildings and improvements	(162,818)	(11,268)	–	–	(174,086)
Machinery and equipment	(97,695)	(10,212)	–	–	(107,907)
Total accumulated depreciation	(320,844)	(32,011)	–	–	(352,855)
Total capital assets being depreciated, net	406,879	4,642	16,963	–	428,484
Governmental activities capital assets, net	$ 744,674	$ 7,557	$ –	$ (3,075)	$ 749,156

10. Capital Assets (continued)

Primary Government (continued)

Capital assets activity for the business-type activities for the year ended September 30, 2011, is summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Transfers	Disposals	Ending Balance
Capital assets not being depreciated:					
Land	$ 5,147	$ –	$ –	$ –	$ 5,147
Construction in progress	275	5,648	–	(262)	5,661
Total capital assets not being depreciated	5,422	5,648	–	(262)	10,808
Capital assets being depreciated:					
Land improvements	348	–	–	–	348
Buildings and improvements	66,104	330		–	66,434
Machinery and equipment	9,193	2,158	–	(138)	11,213
Total capital assets being depreciated	75,645	2,488	–	(138)	77,995
Less accumulated depreciation for:					
Land improvements	(340)	(1)	–	–	(341)
Buildings and improvements	(22,227)	(1,554)	–	–	(23,781)
Machinery and equipment	(7,206)	(1,580)	–	111	(8,675)
Total accumulated depreciation	(29,773)	(3,135)	–	111	(32,797)
Total capital assets being depreciated, net	45,872	(647)	–	(27)	45,198
Business-type activities capital assets, net	$ 51,294	$ 5,001	$ –	$ (289)	$ 56,006

10. Capital Assets (continued)

Primary Government (continued)

Depreciation expense was charged to functions/programs of the PG for the year ended September 30, 2011, as follows (expressed in thousands):

Governmental activities:		
General government	$	12,674
Public safety		1,840
Health		1,075
Education		6,280
Public Housing and Welfare		322
Culture and recreation		402
Transportation and communication		9,418
Total depreciation expense – governmental activities	$	32,011
Business-type activities:		
WICO – depreciation	$	1,918
Other enterprise funds – depreciation		1,217
Total depreciation – business-type activities	$	3,135

10. Capital Assets (continued)

Component Units

The capital assets activity for the discretely presented component units for the year ended September 30, 2011, is summarized as follows (expressed in thousands):

	Beginning Balance (As Restated)	Additions	Transfers	Disposals	Ending Balance
Capital assets not being depreciated:					
Land	$ 119,918	$ 119	$ –	$ 1,768	$ 118,269
Construction in progress	98,305	83,504	(51,651)	65,352	64,806
Total capital assets not being depreciated	218,223	83,623	(51,651)	67,120	183,075
Capital assets being depreciated:					
Buildings and improvements	1,467,758	68,849	41,255	19,740	1,558,122
Airport and marine terminal facilities	133,474	–	7,219	–	140,693
Personal property and equipment	191,295	13,472	3,177	183	207,761
Intangible assets	2,604	–	–	–	2,604
Total capital assets being depreciated	1,795,131	82,321	51,651	19,923	1,909,180
Less accumulated depreciation:					
Buildings and improvements	855,030	49,958	–	4,734	900,254
Airport and marine terminal facilities	94,924	6,653	–	–	101,577
Personal property and equipment	90,158	10,496	–	108	100,546
Intagible assets	274	174	–	–	448
Total accumulated depreciation	1,040,386	67,281	–	4,842	1,102,825
Total capital assets being depreciated, net	754,745	15,040	51,651	15,081	806,355
Component unit capital assets, net	$ 972,968	$ 98,663	$ –	$ 82,201	$ 989,430

10. Capital Assets (continued)

Component Units (continued)

Depreciation expense charged by each component unit for the year ended September 30, 2011, was as follows (expressed in thousands):

Virgin Islands Housing Authority	$	5,516
Virgin Islands Port Authority		19,822
Virgin Islands Water and Power Authority:		
Electric System		21,588
Water System		4,046
Virgin Islands Government Hospital and Health Facilities Corporation:		
Roy L. Schneider Hospital		4,831
Juan F. Luis Hospital		3,663
University of the Virgin Islands		2,524
Other component units		5,291
Total depreciation expense– component units	$	67,281

11. Long-Term Liabilities

The change in long-term bonds and loans for governmental activities was as follows for the year ended September 30, 2011 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Governmental activities:						
Bonds payable:						
2010 Series A & B Revenue Bonds	$ 399,050	$ -	$ -	$ 399,050	$ –	$ 399,050
2009 Series A Revenue Bonds (Cruzan)	39,190	–	(550)	38,640	565	38,075
2009 Sereis A-1, A-2, B & C Revenue and Refunding Bonds	458,840	–	(8,460)	450,380	29,650	420,730
2009 Series A Revenue Bonds (Diageo)	250,000	–	–	250,000	–	250,000
2006 Series A Revenue Bonds	215,965	–	(1,580)	214,385	2,705	211,680
2006 Series A Tobacco Bonds	7,290	–	–	7,290	–	7,290
2004 Series A Revenue Bonds	78,860	–	(3,625)	75,235	3,805	71,430
2003 Series A Revenue Bonds	252,455	–	(3,495)	248,960	3,635	245,325
2001 Series A Tobacco Bonds	16,845	–	(1,300)	15,545	1,265	14,280
1999 Series A Revenue Bonds	87,695	–	(6,580)	81,115	6,950	74,165
Total bonds payable	1,806,190	–	(25,590)	1,780,600	48,575	1,732,025
Plus (less):						
Deferred costs on refundings	(15,834)	–	854	(14,980)	(854)	(14,126)
Bonds premium	32,788	–	(1,447)	31,341	1,447	29,894
Bonds discount	(6,202)	–	737	(5,465)	(737)	(4,728)
Bonds accretion	2,438	649	–	3,087	3,087	–
Total bonds payable, net	1,819,380	649	(25,446)	1,794,583	51,518	1,743,065
Loans payable:						
Series 2011 A Note	–	32,235	–	32,235	32,235	–
Series 2010 A Working Capital Notes	–	131,400	–	131,400	–	131,400
Series 2009 A Tax Increment Notes	10,031	4,000	–	14,031	–	14,031
Series 2009 B Working Capital Notes	6,400	–	(6,400)	–	–	–
Series 2009 Note	7,292	–	(1,472)	5,820	1,553	4,267
Series 2008 Note	2,449	–	(2,449)	–	–	–
Total loans payable	26,172	135,400	(10,321)	151,251	1,553	149,698
Total governmental bonds and loans	$ 1,845,552	$ 136,049	$ (35,767)	$ 1,945,834	$ 53,071	$ 1,892,763

11. Long-Term Liabilities (continued)

The changes in other long-term liabilities for governmental activities were as follows for the year ended September 30, 2011 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Other liabilities:						
Accrued compensated absences	$ 60,088	$ –	$ (1,499)	$ 58,589	$ 8,545	$ 50,044
Retroactive union arbitration	231,835	–	(36,549)	195,286	–	195,286
Litigation	20,804	20,995	(14,536)	27,263	15,470	11,793
Landfill closure and postclosure costs	173,311	64,424	(166,105)	71,630	–	71,630
Post employment benefit	145,202	56,221	–	201,423	–	201,423
Total other liabilities	$ 631,240	$ 141,640	$ (218,689)	$ 554,191	$ 24,015	$ 530,176

Accrued litigation, retroactive union arbitration liabilities, compensated absences, and landfill closure and post-closure costs are generally expected to be liquidated with resources derived from the general fund.

Changes in long-term liabilities for business-type and fiduciary activities were as follows for the year ended September 30, 2011 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Business-type activities:						
Workers compensation claims	$ 17,900	$ 11,094	$ (8,652)	$ 20,342	$ 4,559	$ 15,783
Capital Lease - WICO	188	–	(188)	–	–	–
Note payable - WICO	22,721	–	(464)	22,257	501	21,756
Total business-type activities	$ 40,809	$ 11,094	$ (9,304)	$ 42,599	$ 5,060	$ 37,539
Fiduciary activities:						
Note payable:						
Pension trust fund	$ 9,963	$ –	$ (9,963)	$ –	$ –	$ –

11. Long-Term Liabilities (continued)

Debt Margin

Pursuant to 48 U.S.C. Section 1574(b)(i) of the Revised Organic Act, the Government may issue revenue bonds for public improvements or undertakings authorized by an act of the Legislature, without limitation as to principal amount. Such revenue bonds are payable solely from the revenue directly derived from and attributable to such public improvements or undertakings. Pursuant to 48 U.S.C. Section 1574(b)(ii), the Government is authorized to issue general obligation bonds for any public purpose provided that no such indebtedness is in excess of 10% of the aggregate assessed valuation of the taxable real property in the U.S. Virgin Islands. In addition, pursuant to 48 U.S.C. Section 1574(a) (Public Law 94-932), the U.S. Virgin Islands is authorized to cause to be issued bonds or other obligations in anticipation of the matching funds to be received from the federal government pursuant to 26 U.S.C. Section 7652(b)(3). There is no legal limit on the value of bonds that the Government may issue pursuant to 48 U.S.C. Section 1574(a). The Legislature of the U.S. Virgin Islands must authorize all bond issuances. PFA is authorized to issue bonds for the purpose of financing any project or for the purpose authorized by the Legislature. Given that PFA's powers to issue bonds are derived from 48 U.S.C. Section 1574(b), the bonds issued by PFA are subject to the limitations of said 48 U.S.C. Section 1574(b).

On August 23, 1999, the Legislature amended the V.I. Code to add a Mandatory Balanced Budget Provision. Such provisions, specifically Title 2 of the V.I. Code Section 256, provide that the amount of debt of the Government existing on October 1, 2000 shall be the debt limit of the Government, exclusive of bond principal and interest that may become due. The debt limit specified under Title 2 of the V.I. Code Section 256 does not include bonds authorized by law for which a specific source of revenue is identified and committed to retiring those bonds. As used in Title 2 of the V.I. Code Section 256, the term "debt" means the total accumulated unpaid obligations that are due and payable, including unpaid income tax refunds, amounts owed to vendors, and current year unpaid debt service obligations, if any. As used in the statute, the term "debt" does not include that portion of principal or interest on bonds that is not yet due and payable.

11. Long-Term Liabilities (continued)

Bonds Payable

Bonds payable outstanding at September 30, 2011, are comprised of the following (thousands):

Primary Government - Bonds Payable

Bonds Payable	Final Maturity	Interest Rates (%)	Balance
2010 Series A & B Revenue Bonds	2029	4.00 - 5.25	$ 399,050
2009 Series A Revenue Bonds (Cruzan)	2039	3.00 - 6.00	38,640
2009 Series A-1, A-2, B & C Revenue and Refunding Bonds	2040	3.00 - 5.00	450,380
2009 Series A Revenue Bonds (Diageo)	2038	6.00 - 6.75	250,000
2006 Series A Revenue Bonds	2029	3.50 - 5.00	214,385
2006 Series A, B, C & D Tobacco Turbo and Capital Appreciation Bonds	2035	6.25 - 7.625	7,290
2004 Series A Revenue Bonds	2025	4.00 - 5.25	75,235
2003 Series A Revenue Bonds	2033	4.00 - 5.25	248,960
2001 Series A Tobacco Bonds	2031	5.00	15,545
1999 Series A Revenue Bonds	2020	4.20 - 6.50	81,115
Subtotal			1,780,600
Plus (less):			
Deferred costs on refundings			(14,980)
Bonds premium			31,341
Bonds discount			(5,465)
Bonds accretion			3,087
Total			$ 1,794,583

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

On July 8, 2010, the Public Finance Authority ("PFA") issued the 2010 Series A and B Revenue Bonds, the proceeds of which amounted to $399.1 million. The Government has pledged matching funds, described below, for the timely payment of the principal and interest on the 2010 Series A and B Revenue Bonds. The 2010 Series A Bonds, amounting to $305.0 million, bear interest at rates ranging from 4.0% to 5.0% mature from 2012 to 2029. The 2010 Series B Bonds, amounting to $94.1 million, bear interest at rates ranging from 4.2% to 5.2% and mature from 2020 to 2029. The bonds were issued to: (i) provide working capital to the PG to finance various operating expenses, (ii) refinance a portion of the outstanding Series 2009 B1 and B2 Notes, (iii) fund the debt service requirements of the bond issuance, and (iv) pay the costs of issuing the bonds.

The 2010 Series A Bonds maturing on October 1, in the years 2012, 2025, and 2029 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

The 2010 Series B Bonds maturing on October 1, in the years 2020 and 2029 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption

The matching funds pledged for the payment of the bonds consist of annual advance payments received from the U.S. Department of the Treasury of excise taxes imposed and collected under the Internal Revenue laws of the United States on rum products produced in the U.S. Virgin Islands and exported to the United States from the Virgin Islands.

The amount required to be remitted to the Government by the U.S. Department of the Treasury is an amount no greater than the total amount of local revenue (primarily taxes) collected by the Government in each fiscal year. As a result, the term "matching fund revenue" is used to denote these payments.

Amounts to be received by the Government from federal rum excise tax are deposited directly into trust accounts in accordance with the Indenture of Trust for bond debt service payments. The amounts to be received are subject to adjustment for the amount of local revenue actually collected by the U.S. Department of the Treasury during such year. Prepayments of matching fund revenue are recorded as deferred revenue in the accompanying statement of net assets, and recognized as income in the subsequent fiscal year.

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

The rate of federal rum excise tax is determined by Congress. In November 1999, Congress increased the federal rum excise tax rate from $10.50 to $13.25 per proof gallon. Since then, Congress has extended the higher rate six times. Under the 2010 Tax Relief Act, it will be in effect through January 1, 2012.

On December 17, 2009, PFA issued the 2009 Series A Revenue Bonds (the “Cruzan Bonds”) amounting to $39.2 million. The Government has pledged matching funds generated from the sale of Cruzan rum products for the timely payment of the principal and interest of the Cruzan Bonds. The Cruzan Bonds bear interest at rates ranging from 3.0% to 6.0% and mature from 2010 to 2039. The proceeds of the Cruzan Bonds were used to: (i) finance the costs of a wastewater treatment facility and renovations at the Cruzan VIRIL, Ltd. (“Cruzan”) rum distillery on the island of St. Croix, (ii) fund debt service reserve accounts and (iii) pay the costs of issuing the bonds. The bonds maturing October 1, 2039 are subject to mandatory sinking fund redemptions beginning October 1, 2020, at a redemption price equal to 100% of the principal amount plus interest accrued to the date of redemption.

In association with the issuance of the Cruzan Bonds, the Government entered into an agreement with Cruzan on October 6, 2009, to provide marketing support payments, production incentive payments, continuation of molasses subsidies and other tax incentives to retain Cruzan as part of the rum industry in the U.S. Virgin Islands. Marketing and incentive payments to Cruzan amounted to $54.7 million, $40.2 million and $3.9 million for the years ended September 30, 2011, 2010 and 2009.

On October 1, 2009, PFA issued the 2009 Series A-1, A-2, B and C Revenue and Refunding Bonds, the proceeds of which amounted to $458.8 million. The Government has pledged matching funds for the timely payment of principal and interest on the 2009 Series A-1, A-2, B and C Revenue and Refunding Bonds. The 2009 Series A-1 Bonds amounted to $86.4 million. The 2009 Series A-1 Bonds bear interest at rates ranging from 3.0% to 5.0% and mature from 2010 to 2039. The Series A-1 Bonds were issued to: (i) fund certain capital projects, (ii) fund debt service reserve accounts, and (iii) pay certain costs of issuing the bonds. The 2009 Series A-2 Bonds amounted to $8.7 million. The 2009 Series A-2 Bonds bear an interest rate of 3.00% and mature from 2010 to 2011. The Series A-2 Bonds were issued to: (i) fund certain capital projects, (ii) fund debt service reserve accounts and (iii) pay certain costs of issuing the bonds.

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

The 2009 Series B Bonds amounted to $266.3 million, bear an interest rate of 5.0%, and mature from 2010 to 2025. The 2009 Series B Bonds were issued to: (i) current refund the 1998 Series A Bonds, (ii) fund debt service reserve accounts, and (iii) pay certain costs of issuing the bonds.

The 2009 Series C Bonds amounted to $97.4 million, bear an interest rate of 5.0% and mature from 2010 to 2022. The 2009 Series C Bonds were issued to: (i) current refund the 1998 Series E Revenue and Refunding Bonds, (ii) fund debt service reserve accounts and (iii) pay certain costs of issuing the bonds.

The current refunding of the 1998 Series A and E Bonds, on October 28, 2009, was made in order to obtain lower interest rates. The economic gain obtained by this current refunding is the difference between the present value of old debt service requirements and the new debt service.

This refunding resulted in a debt service saving of approximately $35.9 million and an economic gain of approximately $35.6 million.

The 2009 Series A-1, B and C Bonds are subject to mandatory sinking fund installment redemptions beginning October 1, 2020 at a redemption price equal to 100% of the principal amount, plus interest accrued, to the date of redemption.

On July 9, 2009, PFA issued the 2009 Series A Bonds (the "Diageo Bonds") amounting to $250.0 million. The Diageo Bonds mature from 2013 to 2038 at interest rates ranging from 6.0% to 6.75%. The proceeds of the bonds were issued to: (i) provide a grant to Diageo USVI, Inc. (the producer of Captain Morgan rum products) to construct a rum distillery and warehouse on the island of St. Croix, (ii) to redeem the Subordinated Revenue Bond Anticipation Notes Series 2009A issued to finance preliminary costs of the Diageo construction project, (iii) to fund debt service reserve accounts, and (iv) to finance capitalized interest and costs associated with the issuance of the bonds.

The PG has pledged matching funds generated from the sale of Captain Morgan rum products for the timely payment of the principal and interest on the Diageo Bonds. The Diageo Bonds maturing on or after October 1, 2020 are subject to optional redemption on or after October 1, 2019, at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

On September 28, 2006, PFA issued the 2006 Series Gross Receipts Revenue Bonds ("2006 Series Bonds"), the proceeds of which amounted to $219.5 million. The Government has pledged gross receipts tax revenues for the timely payment of the principal and interest on the 2006 Series Bonds. The 2006 Series Bonds bear interest at 3.5% to 5.0% and mature from 2007 to 2029. The proceeds of the bonds were issued to: (i) advance refund a portion of the Series 1999A Revenue Bonds, (ii) pay the cost of a termination fee in connection with an outstanding swap option agreement, (iii) fund certain capital projects, (iv) fund debt service reserve accounts, (v) pay certain costs of issuing the Series 2006 Bonds, and (vi) fund a net payment reserve account for a new swap agreement in connection with the refunding. The 2006 Series Bonds maturing on or before October 1, 2016 are not subject to optional redemption.

The advance refunding of the 2020 through 2029 maturities of the 1999 Series A Bonds was made in order to obtain lower interest rates. The economic gain obtained by this advance refunding is the difference between the present value of old debt service requirements and the new debt service. This refunding resulted in a debt service saving of approximately $40.8 million and an economic gain of approximately $25.6 million.

The proceeds of the 2006 Series Bonds related to the refunding were placed in a trust account to provide for all future debt service payments on the 2020 through 2029 maturities of the 1999 Series A Bonds. Approximately $180 million in funds were deposited into the Escrow Fund accounts. At September 30, 2011, $162.9 million of defeased 1999 Bonds remained outstanding.

On March 15, 2006, the Tobacco Settlement Financing Corporation ("TSFC") issued the 2006 Tobacco Settlement Asset-Backed Bonds, Subordinated Series 2006 A, B, C & D Turbo and Capital Appreciation Bonds amounting to $48.1 million, with an issue value of $7.3 million (net of accretion of $40.8 million). The bonds are secured and payable from collections including all Tobacco Settlement Revenues to be received by TSFC, reserves, amounts held in other accounts established by the indenture and TSFC's rights under the purchase agreement. The proceeds have been used for the purpose of (i) financing several capital hospital and health development projects for the benefit of the Virgin Islands and its residents, (ii) pay certain costs of issuance relating to the Series 2006 Bonds, and (iii) fund operating costs.

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

Interest on the Series 2006 Tobacco Settlement Asset-Backed Bonds is not paid currently, but accretes from the date of delivery, compounded every May 15 and November 15, commencing May 15, 2006 through the final maturity date of May 15, 2035. Interest yields on the Bonds range from 6.25% to 7.625%. The series are subject to early redemption at accreted value beginning May 15, 2023, provided that the 2001 Tobacco Settlement Asset-Backed Series A Bonds have been paid in full.

On December 1, 2004, PFA issued the 2004 Series A Bonds, the proceeds of which amounted to $94.0 million. The Government has pledged the Matching Fund Revenues to the timely payment of principal and interest on the 2004 Series A Bonds. The bonds bear interest at 4.0% to 5.25% and mature from 2005 to 2025. The proceeds of the bonds were issued to: (i) finance the planning, development, constructing, renovating, and equipping of wastewater treatment facilities and collection systems on St. Thomas and St. Croix, (ii) finance the repairs, renovations, and construction of solid waste facilities in the Territory, (iii) finance the repair and construction of public roads in the Territory, (iv) provide start-up capital for the Virgin Islands Waste Management Authority, (v) fund the Series 2004A Senior Lien Debt Service Reserve Subaccount, and (vi) pay certain costs of issuing the Series 2004A Bonds. The Series 2004A Bonds are not subject to optional redemption prior to October 1, 2014.

On December 17, 2003, PFA issued the Series 2003A Revenue Bonds, the proceeds of which amounted to approximately $268.0 million. The bonds were issued to: (i) repay the Government outstanding Revenue Bond Anticipation Notes, Series 2003, (ii) fund certain necessary public safety and other public sector capital development projects, (iii) fund debt service accounts for the bond issuance, and (iv) to pay certain costs of issuing the bonds. The Government has pledged gross receipts taxes for the timely payment of the principal and interest on the Series 2003A Revenue Bonds. Interest is payable semiannually on April 1 and October 1, and principal is payable annually on October 1. The Series 2003A Revenue Bonds are not subject to optional redemption prior to October 1, 2014.

On November 20, 2001, TSFC issued the 2001 Tobacco Settlement Asset-Backed Series A Bonds amounting to $23.7 million of the aggregate principal. The proceeds were used for the purpose of (i) purchasing all rights, title, and interest in certain litigation awards under the master settlement agreement (MSA) entered into by participating cigarette manufacturers, (ii) issuance of Tobacco Settlement Asset-Backed Bonds to pay the purchase price for the rights, and (iii) to provide funds for hospital and healthcare projects in the U.S. Virgin Islands.

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

Interest on the 2001 bonds is payable semiannually each May and November 15 for the term bonds amounting to $15.5 million and convertible capital appreciation bonds amounting to $8.2 million, with a nominal value of $6.2 million.

The convertible capital appreciation bonds accrete interest prior to November 15, 2007 and accrue interest subsequent to that date. Interest on the capital appreciation bonds will compound on May 15th and November 15th.

2001 Series A Tobacco Bonds payable at September 30, 2011 amounted to $15.5 million. Under early redemption provisions, any MSA payments exceeding annual debt service requirements of the 2001 Series A Tobacco Bonds must be applied to early redemption of principal. MSA payments and interest earnings on the trust funds during the year ended September 30, 2011, resulted in early redemption of $135 thousand during fiscal year 2011.

On November 16, 1999, PFA issued the 1999 Series A Revenue Bonds amounting to $299.9 million. These bonds were issued to (i) pay certain working capital obligations of the Government, (ii) repay the Government outstanding tax and revenue anticipation notes, (iii) fund the Series debt service accounts, and (iv) finance certain costs of issuing the bonds.

On September 28, 2006, PFA advance refunded a portion of the 1999 Bonds with maturity dates of October 1, 2020 to October 1, 2029 totaling $162.9 million. The proceeds of the refunding were placed in a trust account to provide for all future debt service payments on the 2020 through 2029 maturities of the bonds. Approximately $180.0 million was deposited with the refunding bond escrow agent to fund the Escrow Fund accounts. At September 30, 2011, $81.1 million of the defeased 1999 Series A Revenue Bonds remain outstanding.

The Government has pledged gross receipts taxes for the timely payment of the principal and interest on the 1999 Series A Bonds. Interest is payable semiannually on April 1 and October 1, and principal is payable annually on October 1. Gross receipts revenue amounted to $147.9 million for the year ended September 30, 2011.

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

Governmental Activities – Bonds

	Revenue Bonds Series 1999 A		Tobacco Bonds Series 2001 A		Revenue Bonds Series 2003 A		Revenue Bonds Series 2004 A		Revenue Bonds Series 2006	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:										
2012	$ 6,950	$ 4,948	$ 1,265	$ 771	$ 3,635	$ 12,448	$ 3,805	$ 3,814	$ 2,705	$ 10,330
2013	7,395	4,485	1,335	711	3,815	12,262	3,995	3,619	2,805	10,192
2014	7,865	4,057	1,405	647	4,010	12,066	4,195	3,414	2,905	10,049
2015	8,365	3,546	–	577	4,210	11,860	4,405	3,199	3,015	9,901
2016	8,900	2,885	–	577	4,420	11,639	4,625	2,967	3,125	9,748
2017 – 2021	41,640	5,460	3,495	2,885	25,840	54,363	27,020	10,829	29,565	46,007
2022 – 2026	–	–	–	2,011	33,270	46,769	27,190	2,946	87,710	31,104
2027 - 2031	–	–	8,045	2,011	64,830	36,779	–	–	82,555	7,871
2032 - 2036	–	–	–	–	104,930	8,040	–	–	–	–
Total	$ 81,115	$ 25,381	$ 15,545	$ 10,190	$ 248,960	$ 206,226	$ 75,235	$ 30,788	$ 214,385	$ 135,202

	Tobacco Bonds Series 2006		Revenue Bonds Series 2009 A (Diageo)		Revenue Bonds Series 2009 A-1		Revenue Bonds Series 2009 A-2		Revenue Bonds Series 2009 B	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:										
2012	$ –	$ –	$ –	$ 16,703	$ 1,505	$ 3,974	$ 6,650	$ 100	$ 15,145	$ 12,763
2013	–	–	–	16,703	1,550	3,928	–	–	15,920	11,986
2014	–	–	4,040	16,581	1,600	3,881	–	–	16,740	11,170
2015	–	–	4,290	16,331	1,650	3,830	–	–	17,600	10,311
2016	–	–	4,575	16,048	1,705	3,773	–	–	18,505	9,409
2017 – 2021	–	–	28,120	74,985	9,615	17,782	–	–	107,760	31,798
2022 – 2026	–	–	39,245	63,863	12,090	15,309	–	–	71,160	8,103
2027 – 2031	–	–	54,665	48,439	15,460	11,938	–	–	–	–
2032 – 2036	48,145	–	76,475	26,624	19,850	7,546	–	–	–	–
2037 – 2041	–	–	38,590	2,649	19,865	2,049	–	–	–	–
Less unamortized discount	(40,855)	–	–	–	–	–	–	–	–	–
Total	$ 7,290	$ –	$ 250,000	$ 298,926	$ 84,890	$ 74,010	$ 6,650	$ 100	$ 262,830	$ 95,540

	Revenue Bonds Series 2009 C		Revenue Bonds Series 2009 A (Cruzan)		Revenue Bonds Series 2010 A		Revenue Bonds Series 2010 B		Total Government Activities	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:										
2012	$ 6,350	$ 4,642	$ 565	$ 2,227	$ –	$ 15,188	$ –	$ 4,833	$ 48,575	$ 92,741
2013	6,675	4,316	585	2,210	1,990	15,148	–	4,833	46,065	90,393
2014	7,015	3,974	605	2,186	2,065	15,067	–	4,834	52,445	87,926
2015	7,210	3,618	640	2,154	2,155	14,983	–	4,834	53,540	85,144
2016	7,745	3,244	670	2,122	2,270	14,883	–	4,834	56,540	82,129
2017 – 2021	42,900	9,964	3,910	10,051	13,330	72,534	1,050	24,145	334,245	360,803
2022 – 2026	18,115	841	5,205	8,756	92,260	61,609	37,460	20,922	423,705	262,233
2027 – 2031	–	–	7,035	6,933	190,930	19,689	55,540	6,023	479,060	139,683
2032 – 2036	–	–	9,490	4,472	–	–	–	–	258,890	46,682
2037 – 2041	–	–	9,935	1,237	–	–	–	–	68,390	5,935
Less unamortized discount	–	–	–	–	–	–	–	–	(40,855)	–
	$ 96,010	$ 30,599	$ 38,640	$ 42,348	$ 305,000	$ 229,101	$ 94,050	$ 75,258	$ 1,780,600	$ 1,253,669

11. Long-Term Liabilities (continued)

Conduit Debt

In March 2007, the PFA issued private activity bonds, the Refinery Facilities Senior Secured Tax-Exempt Revenue Bonds (HOVENSA Refinery), the "Series 2007 Tax-Exempt Bonds", amounting to $104.1 million, to finance modifications to diesel and gasoline desulfurization units for a refinery on the island of St. Croix. The bonds have an interest rate of 4.7% and are limited obligations of PFA, payable solely from, and secured by, a pledge and assignment of the amounts payable under a loan agreement between PFA and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Government is not obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Government's basic financial statements. The amount outstanding at September 30, 2011 of $104.1 million was subsequently defeased by HOVENSA under a buy-back option offered to bondholders in January 2012.

In April 2004, the PFA issued private activity bonds, the Refinery Facilities Senior Secured Tax-Exempt Revenue Bonds (HOVENSA Refinery), the "Series 2004 Tax-Exempt Bonds", amounting to $50.6 million, to finance construction of a delayed coking unit for a refinery on the island of St. Croix. The bonds have an interest rate of 5.9% and are limited obligations of PFA, payable solely from, and secured by, a pledge and assignment of the amounts payable under a loan agreement between PFA and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Government is not obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Government's basic financial statements. The amount outstanding at September 30, 2011 of $50.6 million was subsequently defeased by HOVENSA under a buy-back option offered to bondholders in January 2012.

In December 2003, the PFA issued private activity bonds, the Refinery Facilities Senior Secured Tax-Exempt Revenue Bonds (HOVENSA Refinery), the "Series 2003 Tax-Exempt Bonds", amounting to $74.2 million, to finance the costs of a Clean Fuels Program for a refinery on the island of St. Croix. The Clean Fuels Program consists of three major projects to comply with regulatory standards for low sulfur gasoline. The Clean Fuels Program is a federally mandated program effective January 2004. The bonds have an interest rate of 6.1% and are limited obligations of PFA, payable solely from, and secured by, a pledge and assignment of the amounts payable under a loan agreement between PFA and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Government is not

11. Long-Term Liabilities (continued)

Conduit Debt (continued)

obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Government's basic financial statements. The amount outstanding at September 30, 2011 of $74.2 million was subsequently defeased by HOVENSA under a buy-back option offered to bondholders in January 2012.

In November 2002, the PFA and the PG issued private activity bonds, the Refinery Facilities Revenue Bonds (HOVENSA Coker Project), the "Series 2002 Tax-Exempt Bonds", amounting to $63.8 million and $63.0 million respectively ($126.8 million in total) to finance costs of construction of a coker plant for a refinery on the island of St. Croix. The bonds have an interest rate of 6.50% and are limited obligations of PFA and the PG, payable solely from and are secured by, a pledge and assignment of the amounts payable under a loan agreement between PFA, PG and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Government is not obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Government's basic financial statements. The amount outstanding at September 30, 2010 of $126.8 million was subsequently defeased by HOVENSA under a buy-back option offered to bondholders in January 2012.

Notes Payable

On April 29, 2011, PFA entered into the Subordinate Lien Revenue Bond Anticipation Notes (the "Series 2011A Notes"), in the amount of $32.2 million, for the purpose of upgrading the broadband infrastructure, equipment and technology in the U.S. Virgin Islands. The Series 2011 A Notes are a general obligation of the PG, secured by gross receipts taxes. Interest accrues quarterly at the rate of 4.75% and the Notes reach maturity on April 29, 2012, at which time principal and accrued interest are due.

Proceeds of the Series 2012A and 2012B were used in part to refinance broadband project obligations, Series 2011A Notes.

Debt service requirements for the Series 2011A Notes at September 30, 2011, are as follows (expressed in thousands):

Year	Principal	Interest
2012	$ 32,235	$ 1,140
	$ 32,235	$ 1,140

11. Long-Term Liabilities (continued)

Notes Payable (continued)

On November 4, 2010, PFA entered into the Subordinated Lien Revenue Bond Anticipation Notes (the “Series 2010A Notes”), which modified and amended the Series 2009B Notes, extending the maturity date to October 1, 2013, with a maximum amount of $78.8 million from the Agent Lender and $52.5 million from the Syndicate Lender. The Series 2010A Notes are a general obligation of the PG, secured by gross receipts taxes and, commencing October 1, 2012, a set-aside amount equal to four percent (4%) of matching fund revenues. The Series 2010A Notes accrue interest at a rate of 400 points above the 90-day LIBOR rate, not to exceed a maximum rate of 5.50%, with interest payments due on the first business day of the month.

Debt service requirements for the Series 2010A Notes at September 30, 2011, are as follows (expressed in thousands):

Year	Principal
2012	$ –
2013	131,400
	$ 131,400

On September 25, 2009, PFA entered into the Tax Increment Revenue Bond Anticipation Note Purchase Agreement (the “Agreement”) with a local bank. Under the terms of the Agreement, the bank will purchase up to $15.7 million in federally taxable Bond Anticipation Notes (the “Series 2009A Notes”). The purpose of the Series 2009A Notes is to provide a loan to the PG (the “Series 2009A Tax Increment Revenue Loan Note”) to finance the developmental costs of a shopping complex on the island of St. Croix. The Series 2009A Notes have a term of three years, maturing on October 1, 2012, with interest of 300 points above the J.P. Morgan Chase Prime Rate or 6.25%, whichever is higher. On October 1, 2012, the Series 2009A Notes will convert to a term loan with payments in eleven quarterly payments, based on a twenty-five (25) year amortization schedule, with a final payment on October 1, 2015. Under the terms of the Agreement, PFA may issue Tax Increment Revenue Bonds to defease the debt prior to that date. As of September 30, 2011, PFA had sold $14 million in Series 2009A Notes.

11. Long-Term Liabilities (continued)

Notes Payable (continued)

The proceeds were used to: (i) fund a capitalized interest account and (ii) fund the first phase of the development of the shopping center complex. The debt is a special limited obligation of the PG, secured by Tax Incremental Financing ("TIF") revenues. TIF revenues consist of 100% of the incremental property taxes and 90% of the incremental gross receipts taxes, derived from the development project.

Debt service requirements for the Series 2009A Notes at September 30, 2011, were as follows (expressed in thousands):

Year	Principal
2012	$ –
2013	180
2014	253
2015	269
2016	13,329
	$ 14,031

On September 18, 2009, PFA issued the Subordinated Lien Revenue Bond Anticipation Notes (Series 2009B Notes) in two series: the Series 2009 B-1 Notes in the aggregate amount of $150 million with the agent lender First Bank of Puerto Rico and the Series B-2 Notes in the aggregate amount of $100 million with the syndicate lender Banco Popular de Puerto Rico. The purpose of the Notes was to provide working capital to the PG for operating expenses and to pay the costs of the issuances. As of September 30, 2010, $6.4 million of the credit facility remained outstanding. On November 4, 2010, this amount was defeased with the issuance of the Series 2010A Notes.

11. Long-Term Liabilities (continued)

Notes Payable (continued)

In August 2009, the current unemployment insurance taxes and reserve balances of the Unemployment Trust Fund (UTF) held by the U.S. Treasury became inadequate to cover territory expenditures for unemployment compensation (UC) benefits. UC benefits are an entitlement program and the PG is legally liable to pay benefits even if the UTF becomes insolvent. As of September 30, 2011, the PG had borrowed $26.6 million from the U.S. Treasury Federal Unemployment Account (FUA) to meet U.C. obligations. The American Recovery and Reinvestment Act of 2009 (P.L. 111-5 Section 2004) temporarily waives interest payments and the accrual of interest on FUA loans.

On February 12, 2009, PFA issued the Subordinate Lien Revenue Bond Anticipation Notes ("Series 2009 Notes"), in the amount of $8.0 million. The Government has pledged gross receipts taxes for the timely payment of the Series 2009 Notes. The Series 2009 Notes initially had an interest rate of 4.8% and a due date of February 1, 2010. PFA elected a conversion of the Series 2009 Notes to term notes with principal and interest payable semi-annually on February 1 and August 1, at an interest rate of 5.4% and a maturity date of August 1, 2015. The proceeds of the Series 2009 Notes were issued: (i) to finance the purchase and installation of 911 emergency communication equipment for the Virgin Islands Police Department and (ii) to pay certain costs of issuing the Series 2009 Notes.

Debt service requirements for the Series 2009 Notes at September 30, 2011, were as follows (expressed in thousands):

Year	Principal	Interest
2012	$ 1,553	$ 294
2013	1,639	208
2014	1,728	119
2015	900	24
Total	$ 5,820	$ 645

11. Long-Term Liabilities (continued)

Notes Payable (continued)

On August 12, 2008, PFA issued the Subordinate Lien Revenue Notes, Series 2008 (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of $7.7 million (the "Series 2008 Notes"). The Series 2008 Notes accrued interest monthly at a rate of 4.8% for 36 months. The proceeds of the Series 2008 Notes were loaned to the PG under the same terms, for the purposes of (i) financing the acquisition of a fleet of vehicles for the Virgin Islands Police Department and (ii) paying certain costs of issuing the Series 2008 Notes. The PG pledged gross receipts taxes for the payment of the Series 2008 Notes, which were defeased in August 2011.

On June 1, 2008, WICO refinanced its outstanding notes payable and obtained an additional $2.3 million in financing for infrastructure improvements. The consolidated notes amounted to $23.6 million, to be repaid in 120 consecutive monthly installments of $154.9 thousands at a fixed interest rate of 6.2%, plus a final payment of the balance of principal, plus any unpaid interest, in 2018. The notes may be prepaid, in whole, or in part, at any time without penalty.

WICO has pledged all leases and revenues to secure the notes, and may not declare dividends, or issue additional equity interests without lender approval.

As of September 30, 2011, WICO was not in compliance with note covenants requiring 1) minimum operating revenue thresholds and 2) the maintenance of a restricted debt service reserve account equal to debt service requirements for the following year. On May 13, 2011, WICO obtained a waiver from the lender for its failure to comply with these covenants.

Debt service requirements for the WICO loan at September 30, 2011, were as follows (expressed in thousands):

Year:	Principal
2012	$ 501
2013	533
2014	567
2015	603
2016	641
2017 - 2018	19,412
Total	$ 22,257

11. Long-Term Liabilities (continued)

Fiduciary Funds – Notes Payable

On October 2, 2006, GERS entered into a loan agreement with Banco Popular de Puerto Rico to provide working capital and to pay issuance and closing costs associated with the agreement. The line of credit is a revolving credit facility with a maximum principal amount of $25.0 million, which accrues interest at a fixed interest rate of 6.3% calculated on a 360-day basis and is due and payable quarterly, commencing on the first day of the fourth calendar month following the closing of the loan. The line of credit facility is available to GERS for a period up to three years, subject to annual renewals. At any time that an event of default occurs, the loan will bear interest at a rate equal to 3.0% above a variable interest rate based on the bank's transfer rate. The bank retains a certificate of deposit in the amount of $20.0 million as security on the loan agreement. As of September 30, 2011, there was no outstanding balance under the line-of-credit agreement.

Standby Credit Facility

On October 9, 2010, PFA entered into a standby credit facility ("credit facility") with Banco Popular de Puerto Rico in an aggregate principal amount of up to $45.0 million. The purpose of the credit facility is to provide financial liquidity for payments required under Chapter 10 of Title 22 of the VIC upon the failure of a Virgin Islands insurance carrier. Under that legislation, the Virgin Islands Insurance Guaranty Fund is to maintain a minimum balance of $50.0 million for claimant payments. The credit facility is secured and payable from gross receipts taxes. The credit facility will terminate once the Virgin Islands Insurance Guaranty Fund has been restored to an amount of $50.0 million. The initial term of the credit facility is three (3) years at an interest rate on drawn funds equal to the 90-Day LIBOR plus 400 basis points with a minimum rate of 5.5%, payable quarterly in advance, with an option to extend the credit facility for an additional three (3) year term. The credit facility is subject to: (i) an issuance fee of one-hundred seventy-five (175) basis points annually, payable quarterly in advance, on the outstanding amount of the credit facility for the principal not drawn upon, (ii) a fee upon each draw of twenty-five (25) basis points, and (iii) extension fees to be negotiated with Banco Popular de Puerto Rico, should the credit facility be extended. As of September 30, 2011, no draws have been made on the credit facility, and the amount in the Virgin Islands Insurance Guaranty fund was $18.9 million.

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable

Bonds payable of discretely presented component units are those liabilities that are paid out of resources pledged by such entities. Bonds payable, outstanding at September 30, 2011, are as follows (expressed in thousands):

Bonds Payable	Maturity	Interest Rates (%)		Balance
Virgin Islands Water and Power Authority (Electric System)				
Revenue bonds of 2010	2033	5.0	$	85,335
Revenue bonds of 2007	2031	5.0		57,585
Revenue bonds of 2003	2023	4.00 – 5.00		60,385
Revenue bonds of 1998	2021	4.25 – 5.30		16,965
Virgin Islands Water and Power Authority (Water System)				
Revenue bonds of 1998	2017	4.90 – 5.50		22,005
Virgin Islands Port Authority				
Series A Revenue bonds of 2003	2023	5.00 – 5.25		18,005
Series B Revenue bonds of 2003	2015	3.73 – 5.43		6,555
Series C Revenue bonds of 2003	2023	4.40		8,171
Virgin Islands Housing Finance Authority:				
Revenue bonds of 1998	2028	4.10 – 5.25		1,420
Revenue bonds of 1995	2025	5.50 – 6.50		990
Subtotal			$	277,416
Plus unamortized premium				6,029
Less unamortized discount				(131)
Less deferred costs on debt refunding				(375)
Bonds payable, net			$	282,939
Less amount due within one year				(11,588)
Bonds payable, due in more than one year			$	271,351

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

Following is a schedule of changes in bonds payable, loans payable and other long-term liabilities for discretely presented component units for fiscal year ended September 30, 2011, (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Bonds payable:						
University of the Virgin Islands	$ 40,746	$ –	$ (40,746)	$ –	$ –	$ –
Virgin Islands Water and Power Authority:						
Electric System	233,901	–	(7,800)	226,101	6,635	219,466
Water System	23,828	–	(2,236)	21,592	2,670	18,922
Virgin Islands Port Authority	34,782	–	(1,946)	32,836	2,023	30,813
Virgin Islands Housing Finance Authority	2,810	–	(400)	2,410	260	2,150
Total bonds payable, net	336,067	–	(53,128)	282,939	11,588	271,351
Notes payable:						
Virgin Islands Economic Development Authority	544	–	(70)	474	55	419
Virgin Islands Water and Power Authority:						
Electric System	28,461	15,200	(7,141)	36,520	7,342	29,178
Virgin Islands Port Authority	1,301	3,173	(2,959)	1,515	1,515	–
Virgin Islands Housing Finance Authority	1,816	–	(290)	1,526	112	1,414
University of the Virgin Islands	1,733	37,445	(116)	39,062	1,503	37,559
Total loans payable	33,855	55,818	(10,576)	79,097	10,527	68,570
Line of credit payable:						
Virgin Islands Water and Power Authority:						
Electric System	26,000	–	(3,000)	23,000	–	23,000
Water System	–	2,500	–	2,500	–	2,500
Total line of credit payable	$ 26,000	$ 2,500	$ (3,000)	$ 25,500	$ –	$ 25,500
Other long-term liabilities:						
University of the Virgin Islands	115	5,183	–	5,298	–	5,298
Virgin Islands Housing Authority	6,514	1,351	(489)	7,376	511	6,865
Virgin Islands Water and Power Authority:						
Electric System	16,809	6,761	–	23,570	–	23,570
Water System	3,943	1,428	–	5,371	–	5,371
Economic Development Authority	–	234	–	234	–	234
Juan F. Luis Hospital	477	–	(240)	237	186	51
Waste Management Authority	2,725	383	–	3,108	–	3,108
Virgin Islands Housing Finance Authority	20,309	–	(12,161)	8,148	–	8,148
Total other long-term liabilities	$ 50,892	$ 15,340	$ (12,890)	$ 53,342	$ 697	$ 52,645

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

In June 2011, the University of the Virgin Islands entered into two capital project loan agreements (loan agreements) in the amounts of $44.0 million and $16.0 million, with Rice Capital Access Program, LLC. The purpose of the capital project loans was to: (i) advance refund the University's 1999 Series A Bonds and 2004 Series A Bonds, and (ii) to pay for construction costs of a 100 bed student residence facility and other construction improvement costs of facilities on the St. Thomas and St. Croix campuses. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old outstanding bonds of approximately $4.5 million and an economic gain of $6.8 million.

On March 30, 2010, the Electric System of WAPA issued the $39.1 million 2010A Electric System Revenue Refunding Bonds; the $8.9 million 2010B Electric System Revenue Bonds; and the $37.3 million 2010C Electric System Revenue Refunding Bonds. The proceeds of the Series 2010A Bonds were used to: i) refund a portion of the Electric System Revenue Refunding Bonds, Series 1998, and ii) pay certain costs of issuance of the Series 2010A Bonds. The proceeds of the Series 2010B and 2010C Bonds were used to: i) finance certain capital expenditures temporarily funded through draws on a line of credit ($9.0 million) and, ii) to make certain deposits into the Debt Service Revenue Fund sufficient to satisfy the Debt Service Reserve Fund requirement. The proceeds of the three series were also used to pay certain costs of issuance of the 2010A, 2010B, and 2010C Revenue and Refunding Bonds.

On June 28, 2007, the Electric System of WAPA issued the $57.6 million 2007A Electric System Subordinated Revenue Bonds, to pay certain costs of issuance of the bonds, to finance the costs of certain capital improvements, refinance capital improvements funded through draws on a Line of Credit and to reinstall a $10.0 million Line of Credit.

On June 15, 2003, the Electric System issued the Electric System Revenue Bonds, Series 2003, amounting to $69.9 million. The proceeds from the bonds were used to finance capital improvements, repay $18.0 million of then outstanding lines-of-credit, cover underwriters' costs, and establish a debt service fund.

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

On June 1, 1998, the Electric System of WAPA issued $110.9 million of 1998 Series A Electric System Revenue and Refunding Bonds. The proceeds from the bonds, and approximately $14.0 million in funds from the existing debt service and debt service funds, were used to repay outstanding line-of-credit balances, to provide for approximately $30.0 million in funds for the construction of certain capital projects, and to pay underwriters discount and issuance costs of approximately $1.7 million. The remaining proceeds were used to purchase direct obligations of the U.S. government which were placed in an irrevocable trust with an escrow agent to provide all future debt service on the remaining $69.0 million principal amount of the 1991 Series A Electric System Revenue Bonds.

Under the terms of the Bond Resolution relating to the Electric System Revenue and Refunding Bonds, payment of the principal and interest is secured by an irrevocable lien on the Electric System's net revenue, (exclusive of any funds that may be established pursuant to the Bond Resolution for certain specified purposes), including the investments and income, if any, thereof.

Under the General Resolution, the Authority is required to maintain a Debt Service coverage ratio at least equal to 1.25 times the principal of and interest on all Outstanding Senior Bonds for the current and each future fiscal year (the Senior Coverage). Under the Electric System Subordinated Revenue Bond Resolution, adopted by the Authority on May 17, 2007, as amended and supplemented (the Subordinated Bond Resolution), the Authority must satisfy the Debt Service coverage ratio of the General Resolution for the Senior Bonds, must maintain a Subordinated Debt Service coverage ratio at least equal to 1.15 times the principal of and interest on all Outstanding Bonds (the Senior and Subordinate Coverage) and all Outstanding Subordinated Bonds for the current and each future fiscal year, and must maintain at least 1.0 times the Maximum Aggregate Debt Service for each such fiscal year (total debt coverage).

For the year ended June 30, 2011, the Authority's debt coverage ratio was .91. Section 606(2) of the Subordinated Bond Resolutions provides that if the Authority fails to achieve the required coverage ratios, then the Authority must "take whatever steps it can to produce the amount of net electric revenues required in the following year". Section 701(3) of the Subordinated Bond Resolutions further provides that if the covenant default continues for 60 days after notice of default without the Authority proceeding with diligence to cure the default. The Authority believes it is taking such steps currently to ensure future compliance with required debt coverage ratios.

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

The Series 2003 Bonds maturing on or after July 1, 2023 are subject to redemption prior to their stated maturity date, at the option of the Electric System, on or after July 1, 2013, as a whole or in part at any time, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption.

The Electric System Revenue Bonds are subject to mandatory redemption if (i) any significant part of the Electric System was damaged, destroyed, taken, or condemned, or (ii) any for-profit nongovernmental investor shall acquire an ownership interest in some or all of the assets of the Electric System.

On June 1, 1998, the Water System of WAPA issued the 1998 Water System Revenue and Refunding Bonds amounting to $44.1 million. The proceeds from the bonds were used to repay the 1990 Series A Water System Revenue Bonds at a redemption price of 100% and to refund the 1992 Series B Water System Revenue Bonds, repay outstanding lines of credit balances, pay underwriters' costs, provide funding for a Renewal and Replacement Reserve Fund, and to purchase obligations of the United States Government, which were placed in an irrevocable trust with an escrow agent to provide all future debt service on the remaining principal amount of the 1992 Series B Bonds.

Payment of principal and interest of the 1998 Series Bonds is secured by an irrevocable lien on the Water System's net revenues (exclusive of any funds that may be established pursuant to the Bond Resolution for certain other specified purposes) and funds established under the Bond Resolution, including investment securities. To provide additional security, the Water System has conveyed to the bond trustee, a subordinate lien and security interest in the Water System's General Fund. The Water System is also required to make deposits in a debt service reserve fund in accordance with the Bond Resolution.

The Bond Resolution contains certain restrictions and commitments, including the Water System's covenant to establish and maintain reasonable rates, fees, rentals, and other charges to produce net water revenue, as defined, that will be at least 125% of aggregate annual principal and interest payments. The Water System's net water revenue for the fiscal year ended June 30, 2010 was 109% of the aggregate debt service as defined in the Bond Resolution.

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

The 1998 Series Bonds maturing on or after July 1, 2010 are subject to redemption prior to their stated maturity date, at the option of the Water System, as a whole or in part at any time, at a redemption price of 101% through June 30, 2010 and 100% thereafter. The Water System Revenue Bonds are subject to mandatory redemption if (i) any significant part of the water system shall be damaged, destroyed, taken, or condemned or (ii) any for-profit non-governmental investor shall acquire an ownership interest in some or all assets of the Water System.

On January 16, 2003, VIPA issued the Marine Revenue Bonds Series 2003A (AMT) and 2003B (federally taxable) with principal amounts of approximately $18.0 million and $17.4 million, respectively. VIPA is using the proceeds of the bonds to finance the dredging, rehabilitation, and construction of berthing piers for cruise and seagoing vessels at Crown Bay in St. Thomas, and the construction of a mixed used commercial facility.

On October 20, 2003, VIPA issued the Marine Revenue Bonds Series 2003C (non-AMT), with an authorized principal amount not to exceed approximately $10.8 million. VIPA used the proceeds of the bonds to finance the completion of several projects of rehabilitation and construction of berthing piers and dredging for cruise and seagoing vessels at Crown Bay on the island of St. Thomas, and the construction at Red Hook, Enighed Pond, Gallows Bay Dock, and dredging of the Charlotte Amalie Harbor.

The bonds' indentures contain certain account restrictions and funding covenants to cover interest, debt service, maintenance, and other costs as specified in the corresponding bond indentures.

The bonds' indentures also specify certain debt service coverage requirements determined from net available revenue (as defined) of the Authority's Marine Division. The provisions of each of the bonds' indentures require that rates and fees charged for the use of each facility should be sufficient to generate enough revenue to pay all operation and maintenance expenses, exclusive of depreciation and certain noncash charges, of the respective facilities, plus: (i) at least 125% of the principal and interest and redemption account sinking fund deposit requirement of each of the bonds becoming due during such year; (ii) the amount of the debt service reserve fund deposit requirement for such period; (iii) the deposit required to the Renewal and Replacement Fund; and (iv) the amount of the capital improvements appropriations for such period. VIPA did not

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

comply with the requirement to issue the audited financial statements within 150 days after year-end. However, as per the Authority's bond indenture, this noncompliance event does not constitute an event of default until the Trustee sends a notification of failure and such failure continues for 90 days. As of February 24, 2012, the Authority has not received a notification of failure from the Trustee.

On August 1, 1998, VIHFA issued the 1998 Revenue Bonds Series A in the amount of $3.0 million, and on March 1, 1995, VIHFA issued the 1995 Revenue Bonds Series A in the amount of $6.2 million, for the purpose of building single-family housing. The indenture agreements for the bonds require the VIHFA to deposit with the trustee the full amount of the bond proceeds, to purchase Government National Mortgage Association (GNMA) certificates. The servicer is obligated to pay the principal and interest due on the GNMA certificates to the trustee in an amount equal to the scheduled principal and interest payments of the underlying mortgages. All mortgage loans issued by the VIHFA must be originated by the participants and secured by a first priority mortgage lien on the applicable single-family residences.

Fixed maturities required to pay principal and interest on discretely presented component units' bonds payable with fixed maturities at September 30, 2011, are as follows (expressed in thousands):

Year	Principal	Interest	Total
2012	$ 11,588	$ 13,185	$ 24,773
2013	12,105	12,656	24,761
2014	12,388	12,125	24,513
2015	12,962	11,558	24,520
2016	13,577	10,940	24,517
2017 – 2021	74,087	45,204	119,291
2022 – 2026	55,134	31,862	86,996
2027 – 2031	57,705	18,267	75,972
2032 – 2036	27,870	4,239	32,109
Total	277,416	$ 160,036	$ 437,452
Plus unamortized premium	6,029		
Less unamortized discount	(131)		
Less deferred costs on debt refunding and reacquisition	(375)		
Bonds payable, net	$ 282,939		

12. General Tax Revenue

For the year ended September 30, 2011, general tax revenue of the PG consisted of the following (expressed in thousands):

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total
Income taxes	$ 291,755	$ –	$ –	$ –	$ 291,755
Real property taxes	79,648	–	–	6,783	86,431
Gross receipts taxes	3,486	140,121	4,509	250	148,366
Excise taxes rum products	95,915	55,430		4,027	155,372
Other taxes	48,007	–	–	1,300	49,307
Tax revenue	$ 518,811	$ 195,551	$ 4,509	$ 12,360	731,231
Tax revenue not recognized on the modified accrual basis					(47,032)
Total tax revenue - government-wide					$ 684,199

13. Governmental Fund Balances

For the year ended September 30, 2011, the PG implemented Statement No. 54 of the Governmental Accounting Standards Board, *"Fund Balance Reporting and Governmental Fund Type Definitions."* This Statement establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. The classifications reported by the PG include: nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance.

The PG utilizes the classification of nonspendable fund balance to report prepaid expenses, restricted fund balance to report debt service accounts, committed fund balance to report those fund balances restricted by grantors, external parties, regulations and litigation, assigned fund balances to report those funds assigned by the legislature, boards and authorities of the PG, and unassigned fund balances of the General Fund.

The PG's policy is to expend unassigned fund balances before assigned, committed or restricted balances.

13. Governmental Fund Balances (continued)

Following is a detail of the aggregated fund balances presented in the Balance Sheet – Governmental Funds as of September 30, 2011:

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total
Fund balances:					
Restricted for:					
Debt Service	$ –	$ 214,743	$ –	$ –	$ 214,743
Capital Projects	–	–	127,509	–	127,509
General Government	–	–	–	29,597	29,597
Health	–	–	–	7,025	7,025
Public Housing & Welfare	–	–	–	10,318	10,318
Education	–	–	–	30,875	30,875
Transp. & Communication	–	–	–	13,953	13,953
Culture & Recreation	–	–	–	8	8
Total Restricted:	–	214,743	127,509	91,776	434,028
Committed to:					
General Government	29,090	–	–	25,663	54,753
Public Housing & Welfare	–	–	–	361	361
Transp. & Communication	–	–	–	7,509	7,509
Culture & Recreation	481	–	–	473	954
Total Committed:	29,571	–	–	34,006	63,577
Unassigned:	(103,408)	–	–	(49,385)	(152,793)
Total Fund Balances	$ (73,837)	$ 214,743	$ 127,509	$ 76,397	$ 344,812

The assigned fund balance includes approximately $48.8 million in unexpended encumbrances. Encumbrances are utilized to determine commitments related to unperformed (executor) contracts for goods and services, and to prevent the over-spending of an appropriation.

14. Commitments and Contingencies

Primary Government

Collective Bargaining Agreements

The current labor relations environment of the Government is defined by 13 distinct labor organizations subject to approximately 26 collective bargaining agreements. Fourteen bargaining units are without collective bargaining agreements. As specific disciplines are not grouped under a single pay plan, it is common to have clerical and nonprofessional workers in different departments throughout the Government, represented by different unions. Of the approximately 9,600 government workers, including employees of the executive branch of the Government, approximately 7,200 belong to unions. The present collective bargaining statute requires binding arbitration for certain classified employees in the event of an impasse during salary negotiations between the Government and any union. Under this process, each side chooses an arbitrator and a third impartial arbitrator is selected by the chosen arbitrators. The arbitration panel investigates and reviews the issues in dispute and renders a final and binding decision. For other classified employees, the Government must decide to go to impasse or to enjoin any strike.

As of September 30, 2011, the Government has contractual liabilities for retroactive union arbitration salary increases estimated at $195.3 million accruing from fiscal years 1993 through 2011, as established by the Virgin Islands Retroactive Wage Commission.

Under Title 24, Section 374(h) of the Virgin Islands Code, the PG may not make any payments of retroactive salaries until there is an appropriation of funds by the Legislature.

Federal Assistance Programs

The Government receives financial assistance from the federal government in the form of loans, grants, and entitlements. Loans received are described in Note 11. Monetary and nonmonetary federal financial assistance to governmental funds amounted to approximately $339.2 million and $47.9 million, respectively, for the year ended September 30, 2011.

14. Commitments and Contingencies (continued)

Primary Government (continued)

Federal Assistance Programs (continued)

In February 2009, the federal government passed the American Recovery and Reinvestment Act ("ARRA") to create jobs and stimulate the economy. Under Title I, Section 1001(b) of ARRA, the federal government acknowledged that certain refundable tax credits authorized by the Act imposed an economic hardship on United States territories that operate under "mirror" income tax systems. To alleviate this economic hardship, Congress provided for federal loss reimbursements to the mirrored system territories. During fiscal years 2009, 2010 and 2011, the PG received $23.4 million, $21.1 million and $7.7 million in loss reimbursements for the Making Work Pay refundable tax credit. During fiscal year 2011, the PG received $18.6 million in loss reimbursements of the Additional Child Tax refundable tax credit.

Receipt of grants and loss reimbursements is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to audit under OMB Circular A-133. Disallowances as a result of these audits may become liabilities of the Government.

Management of the Government believes that the future outcome of any changes in federal financial assistance programs will not have a material adverse effect on the basic financial statements.

Compliance Agreement U.S. Department of Education

On September 23, 2002, the Government entered into a three-year compliance agreement with the U.S. Department of Education requiring that the Government develop integrated and systemic solutions to problems in managing its federally funded education programs. The compliance agreement focuses on the areas of program design and evaluation, financial management, human capital, and property management and procurement. The compliance agreement expired on September 23, 2005. The Government had not fully complied with all terms and conditions of the compliance agreement. The U.S. Department of Education subsequently implemented a special condition for the Government to designate a third-party fiduciary to administer U.S. Department of Education grants.

14. Commitments and Contingencies (continued)

Primary Government (continued)

Compliance Agreement U.S. Department of Education (continued)

On August 22, 2006, the PG entered into a contract with a third-party fiduciary to administer U.S. Department of Education grants, effective October 1, 2006. The terms and conditions of the original compliance agreement have been extended until the Government is in full compliance with the agreement.

Legal Proceedings and Litigation Claims

The Government is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Title 33, Section 3411(c) of the V.I. Code, no judgment shall be awarded against the Government in excess of $25,000 for tort claims filed under Government statutes. In cases involving several survivors, each award must be construed separately for purposes of applying the limitation upon recovery imposed by the Tort Claims Act. Under Title 27, Section 166(e) of the V.I. Code, the Government's waiver of immunity is expanded to $250,000 for medical malpractice actions, including actions for wrongful death based on malpractice. Under certain circumstances, as provided in Title 33, Section 3414 of the V.I. Code, the Government may assume the payment of a judgment entered against an officer or employee who acted reasonably and within the scope of his employment. The Government may pay up to a maximum amount of $100,000 of the settlement. With respect to pending and threatened litigation, the Government has accrued a provision for legal claims and judgments of approximately $27.2 million for awarded and anticipated unfavorable judgments as of September 30, 2011. Management believes that any liability in excess of amounts recorded will not have a material effect on the basic financial statements.

14. Commitments and Contingencies (continued)

Primary Government (continued)

Legal Proceedings and Litigation Claims (continued)

Changes in the reported provision for legal claims since October 1, 2009, resulted from the following activity (expressed in thousands):

	Beginning Balance at October 1, 2009	New Claims	Claim Payments and Changes in Estimates	Ending Balance at September 30, 2010
Provision for legal claims	$ 16,639	$ 6,449	$ (2,284)	$ 20,804

	Beginning Balance at October 1, 2010	New Claims	Claim Payments and Changes in Estimates	Ending Balance at September 30, 2011
Provision for legal claims	$ 20,804	$ 20,995	$ (14,536)	$ 27,263

The breakdown of the provision for legal claims at September 30, 2011 is as follows (expressed in thousands):

Governmental activities	
Current portion of provision for legal claims	$ 15,470
Long-term portion of provision for legal claims	11,793
	$ 27,263

14. Commitments and Contingencies (continued)

Primary Government (continued)

Property Tax Assessments

As of September 2002, the Government was a defendant in a lawsuit regarding the assessment of property taxes. Under the lawsuit, taxpayers asserted that properties should be assessed at actual value in accordance with the Organic Act of 1933. The U.S. District Court agreed with the plaintiffs and, in May 2003, imposed an injunction on the collection of real property taxes at values higher than the 1998 assessed value. The Government complied with the Court order to develop a plan to implement the new valuation method. In February 2007, the 2005 property tax assessments, based on 1998 assessment levels, were issued. In August 2008, the 2006 property tax assessments, based at actual value in accordance with the Organic Act of 1933, were issued. In September 2008, the 2006 property tax bills were rescinded by court order. In May 2009, the Government received court approval to reissue the 2006 property tax assessments; however, that approval was rescinded in June 2009. The Government subsequently issued the 2006, 2007 and 2008, 2009 property tax assessments, based on 1998 assessment levels, in April 2010, February 2011, August 2011, and February 2012 respectively. The 2010 and 2011 property tax assessments were issued in June 2012 and March 2013, at the 2008 assessment levels.

Landfill Closure and Post-Closure Costs

Federal laws and regulations, including the Clean Air Act, 42 U.S.C. § 7401 *et seq*. ("CAA"), and regulations promulgated thereunder, including the federal standards set forth in 40 C.F.R. Part 62, Subpart GGG ("Federal Plan"), and the National Emission Standards for Hazardous Air Pollutants for Municipal Landfill Maximum Achievable Control Technology, set forth in 40 C.F.R. Part 63, Subpart AAAA ("Landfill MACT"), and the Solid Waste Disposal Act, 42 U.S.C. § 6901 *et seq*. ("RCRA"), and regulations promulgated thereunder, including federal municipal solid waste landfill operating, closure, and post-closure criteria set forth in 40 C.F.R. Part 258, and three EPA administrative orders issued pursuant to RCRA § 7003(a), 42 U.S.C. § 6973(a), and Territorial laws and regulations, including V.I. Code Title 19, Chapter 56 (Solid and Hazardous Waste Management), Title 12, Chapter 9 (Air Pollution Control), and Title 12, Chapter 21 (Virgin Islands Coastal Zone Management), and regulations promulgated thereunder, require the Government 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. Compliance costs during the operational phase will be paid prior to closure.

14. Commitments and Contingencies (continued)

Primary Government (continued)

Landfill Closure and Post-Closure Costs (continued)

Although closure and post-closure costs will be paid only near or after the date that the landfill stops accepting waste, the Government reports a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The $71.6 million reported as landfill compliance, closure, and post-closure care liability at September 30, 2011, represents the cumulative amount reported to date based on the use of the estimated capacity of each landfill. The Government will recognize the remaining estimated cost of closure and post-closure care as the remaining estimated capacities are filled. These amounts are based on what it would cost to perform all closure and post-closure care as of September 30, 2011.

The estimated used capacity and expected closure of each of the Government landfills is as follows:

Landfill	Estimated used capacity	Estimated closure date
Bovoni	66%	2020
Angilla	100%	Closed
Susannaberg	100%	Closed

The actual cost to perform closure and post-closure may be higher due to inflation, changes in technology, or changes in regulations. The Government is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and post-closure care. The Government began making annual contributions to a trust in fiscal year 2007 to finance closure and post-closure costs. The Government expects that future inflation costs will be paid from interest earnings on these annual contributions and other financing measures. However, if interest earnings and financing measures should prove to be inadequate, or additional post-closure care requirements are determined due to changes in technology or applicable laws or regulations, these costs may need to be covered by charges to future landfill users.

14. Commitments and Contingencies (continued)

Primary Government (continued)

Wastewater Treatment Plant Consent Decree

Since 1985, the Government has been subject to a consent decree issued by the Virgin Islands District Court, governing the operation of its wastewater treatment plants. The consent decree was amended in 1996 and further modified with the 2002 Stipulation to the Amended Consent Decree (the Stipulation) to establish deadlines for the construction of new secondary treatment facilities, including the replacement of the existing St. Croix and Airport Lagoon (Charlotte Amalie) wastewater treatment plants. The Stipulation requires that the new St. Croix wastewater treatment plants be completed by the end of 2006 and the new Charlotte Amalie wastewater treatment plants be completed by the end of 2007. However, the plants were completed by the end of 2007 and 2008, respectively. The cost of both facilities is estimated at approximately $50 million. The Stipulation also establishes certain interim deadlines and performance standards that must be met by the Government pending completion of the new facilities. In addition, the Stipulation establishes specified penalties for violation of any of the deadlines or performance standards set forth therein. As of the date of the basic financial statements, the Government is current on all of its outstanding obligations pursuant to the stipulation. In January 2004, the Government's Legislature authorized the creation of the Virgin Islands Waste Management Authority (WMA) for the purpose of meeting environmental requirements of waste treatment in the U.S. Virgin Islands. On December 2004, the PFA issued revenue bonds amounting to $94 million for the purpose of constructing and rehabilitating wastewater treatment plants noted above.

Memorandum of Understanding - EPA

On August 21, 2002, the Government and the United States Environmental Protection Agency (EPA) entered into a memorandum of understanding documenting the EPA's agreement to support the renewal of the Territorial Pollutant Discharge Elimination System permit for its St. Croix distillery operations provided that the Government make certain funding available to (1) conduct treatability studies regarding the Virgin Islands Rum Industries, Ltd. effluent and the means to mitigate its potential environmental effects in the vicinity of the discharge, (2) identify practicable, available, reliable, and cost-effective potential mitigation measures, and (3) implement (or assist in the implementation of) such mitigation measures in the event such measures are determined by the V.I. Department of Planning and Natural Resources after consultation with EPA to be necessary and appropriate.

14. Commitments and Contingencies (continued)

Primary Government (continued)

Memorandum of Understanding – EPA (continued)

Pursuant to the memorandum of understanding, the Government's obligation to fund such activities is limited to $6 million in the aggregate, commencing on October 13, 2003. In June 2004, the Government entered into a three year contract with a locally licensed environmental consulting firm to facilitate the Government's commitments with the memorandum of understanding with the EPA.

Workers' Compensation Liability

The Government is exposed to risk of loss related to workers' compensation claims. The Government is self-insured for this risk. Self-insured risk liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend upon such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Changes in the claims liability amount in fiscal year 2011, as recorded in the Government Insurance Fund was as follows (expressed in thousands):

	2011	2010
Claims payable - October 1	**$ 17,900**	$ 15,495
Incurred claims and changes in estimates	**11,094**	10,705
Payments for claims and adjustments expenses	**(8,652)**	(8,301)
Claims payable - September 30	**$ 20,342**	$ 17,899

The Government continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

14. Commitments and Contingencies (continued)

Component Units

In September 1989, WAPA Electric facilities were damaged by Hurricane Hugo. WAPA reconstructed the facilities with proceeds from insurance and FEMA. Subsequent to the receipt of funds, FEMA de-obligated approximately $7.9 million in questioned costs. Approximately $2.6 million of these questioned costs related to an oil spill that was subsequently settled with FEMA. During 1998, WAPA submitted a second appeal for $4.4 million of the remaining questioned costs, and agreed to refund approximately $900 thousand of questioned costs to FEMA. During 1999, FEMA denied the second appeal and formally closed the disaster claim. WAPA has recorded a liability for $5.0 million related to the questioned costs. FEMA has not made a formal request for repayment of the funds.

In September 2005, WAPA Electric facilities were damaged by Tropical Storm Jeanne. Damages amounted to $1.3 million, and FEMA has determined that $438 thousand is eligible for reimbursement. WAPA has reported a receivable of $438 thousand as of June 30, 2011.

In October 2008, WAPA Electric facilities on the island of St. Croix were damaged by Hurricane Omar. WAPA has expended $2.7 million for storm cleanup and system restoration as of June 2010. The territory was declared a federal disaster after the hurricane and is eligible for reimbursement of 75% of what was expended according to the category of the damage. WAPA Electric has recorded a receivable from FEMA through the Office of Management and Budget – Public Assistance (OMB-PA) amounting to approximately $2.3 million.

In August 2010, WAPA Electric facilities were damaged by Hurricane Earl. WAPA has expended over $2 million for storm clean-up and restoration, which was completed in October 2010. The territory was declared a Federal disaster area after the Hurricane and is eligible for reimbursement of 75% - 80% of what was expended according to the category damage. WAPA recorded a receivable of $1.1 million from FEMA through the Virgin Islands Territorial Emergency Management Agency (VITEMA) Public Assistance Program as of June 30, 2011.

Six former employees have individually filed suits against the VIHA for wrongful discharge over the period 1997 through 2006. Three of the lawsuits were settled, with VIHA being required to pay $174,000 in settlement costs. Three lawsuits remain open as of September 30, 2011.

A subcontractor has sued the VIHA for nonpayment for work done in 2000. It is not possible to predict the eventual outcome, nor estimate the amount or range of potential loss in the event of an unfavorable outcome.

14. Commitments and Contingencies (continued)

Component Units (continued)

In 2002, the Federal Aviation Administration (FAA) conducted an on-site wildlife evaluation of the Anguilla Landfill, which is located next to the St. Croix airport. The FAA determined that the landfill posed an environmental and navigational threat to the airport due to flocks of birds that reside in the landfill area. The FAA may require VIPA to repay $9.3 million in federal grants and has refused further discretionary grants for the airport until VIPA shows progress toward closing the landfill. The landfill is now under the jurisdiction of the WMA. VIPA negotiated a remediation plan with FAA to close the landfill by December 2009, and subsequently WMA received an extension on the closure date to January 31, 2012.

In connection with the purchase of lands adjacent to the St. Croix airport, VIPA was awarded federal financial assistance from 1990 to 2002, totaling $8.02 million under a Real Property Acquisition Relocation Assistance Program. VIPA is in noncompliance with certain federal requirements of the assistance program. Noncompliance with requirements of federal financial assistance programs may result in a refund of the funds granted. VIPA management believes that noncompliance instances should not materially affect VIPA's financial position.

WAPA, VIPA, and other discretely presented component units are presently a defendant or codefendant in various lawsuits. The financial managers of the component units have advised the PG that any adverse outcome involving a material claim is expected to be substantially covered by insurance. Government property is exempt from lien, levy, or sale as a result of any judgment under the Virgin Islands Code.

15. Retirement Systems

Plan Description

GERS is the administrator of a cost-sharing, multiple-employer, defined-benefit pension plan established as of October 1, 1959 by the Government to provide retirement, death, and disability benefits to its employees. The following description of the plan is provided for general information purposes only. Refer to the actual text of the retirement law in the V.I. Code, Title 3, Chapter 27 for more complete information. Regular employees are eligible for a full-service retirement annuity when they have completed 30 years of credited service or have attained the age of 60 with at least 10 years of credited service. Members who are considered "safety employees," as defined in the V.I. Code, are eligible for full retirement benefits when they have

15. Retirement Systems (continued)

Plan Description (continued)

earned at least 20 years of government service or have reached the age of 55 with at least 10 years of credited service. Regular employees who have attained the age of 50 with at least 10 years of credited service can elect to retire early with a reduced benefit. Senators and members of the Legislature may receive a retirement annuity when they have attained the age of 50 and upon the completion of 6 years of credited service as a member of the Legislature.

Funding Policy

The monthly annuity benefit payment is determined by applying a stipulated benefit ratio to the member's average compensation. Average compensation is determined by averaging the three highest years of salary the member earned within the last 10 years of service. The maximum annual salary that can be used in this computation is $65,000, except for senators and judges, whose annual salary is used. The board of trustees of GERS may set cost-of-living increases for annuitants and pensioners and determine when the annuity should be paid on the basis of the most recent actuarial valuation and the Consumer Price Index.

GERS is a blended component unit included in the financial reporting entity and is presented as a pension trust fund of the PG. GERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Employees' Retirement System of the Government of the Virgin Islands, 3438 Kronprindsens Gade, St. Thomas, Virgin Islands 00802.

Contributions to GERS are made by the Government and the members. Government and members contributions are not actuarially determined but are set by statute. The Government and members' contributions together with the income of GERS should be sufficient to provide an adequate actuarially determined reserve for the benefits prescribed by the VI Code.

The contributions required to fund GERS on an "actuarial reserve basis" are calculated periodically by the GERS actuarial consultant. The actuarial valuation as of September 30, 2006, indicates that the current combined statutory employer and employee contribution rates are not sufficient to meet the cost of the pension trust fund on an actuarial basis, as required by law.

15. Retirement Systems (continued)

Funding Policy (continued)

The Government's required contribution for the year ended September 30, 2011 was 17.5% of the member's annual salary. Since April 1, 1991, required member contributions are 8.0% of annual salary for regular employees, 9.0% for senators, 11.0% for judges, and 10.0% for safety (hazardous employees) and eligible employees under Act 5226. Prior to June 29, 2000, member contributions were refundable without interest upon withdrawal from employment before retirement. Effective July 1, 2009, legislation was passed that provided for annual interest on refunded contributions of not less than 2.0%, nor more than 4.0%, per annum. GERS Board of Trustees approved a 2.0% effective annual interest rate on refunded contributions effective July 1, 2009. The Government's estimated annual required contributions (based on a fiscal year 2006 actuarial valuation), actual contributions made, and percentage contributed to the plan for the years ended September 30, 2011, 2010, and 2009, were as follows (expressed in thousands):

	Contractually Required Contributions	Contributions Made	Percentage Contributed
2009	$ 80,177	$ 80,177	100%
2010	$ 77,005	$ 77,005	100%
2011	$ 80,850	$ 80,850	100%

In August 1994, legislation providing an early retirement incentive was passed. The legislation was subsequently amended on October 13, 1994, December 30, 1994, and December 5, 1995. Among other matters, the legislation allows a member of GERS who has a combined aggregate number of years of credited service plus number of years of age, equal to at least 75 years as of the date of the legislation, to retire without reduction of annuity. Members, who have attained the age of 50 with at least 10 but less than 30 years of credited service, may add an additional 3 years to their age for this computation. Members with 30 years of service or who can retire without penalty under the V.I. Code shall have their average compensation increased by 4 percentage points.

15. Retirement Systems (continued)

Funding Policy (continued)

For each employee electing to retire pursuant to Section 8(a) of the Early Retirement Act of 1994 (the Act), the Government contributes to GERS, on a quarterly basis, an amount equal to the employer and employee contributions that would have been made until the employee reached the age of 62 had the employee not elected to retire under this provision.

For employees electing to retire under Section 8(b) of the Act, the Government contributes to GERS a sum equal to the additional contribution the employer and employee would have made had the employee received a salary four percent higher during the three years used to compute the employee's average compensation figure, plus a sum of $5,000. Based on this calculation, the amount due to GERS was $26.9 million as of September 30, 2011, of which $26.8 million had been remitted to GERS.

The actuaries of GERS have determined that the specific funding provided under the Act is inadequate to cover the costs of the program. GERS is seeking to recover any unfunded costs of the program under a newly enacted provision of the retirement law, which provides that the Government will compensate GERS for the costs of any special early retirement program.

The University has two retirement plans in which all eligible employees are required to participate, the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and GERS. The TIAA-CREF is a defined-contribution pension plan covering participating, full-time faculty members and other exempt employees, under which the contributions, including employees' contributions, are used to purchase annuities. There are no unfunded past service costs, and vested benefits are equal to the annuities purchased under TIAA-CREF. As of September 30, 2011, 255 faculty members and other employees were TIAA-CREF participants. The number of active participants from the University participating in GERS as of September 30, 2011 was 243. Total contributions made by the University to TIAA-CREF and GERS participant accounts amounted to $2.4 million and $1.4 million, respectively.

15. Retirement Systems (continued)

Postemployment Benefits

In addition to the pension benefits described in Note 15, the Government provides other postemployment benefits (OPEB) of healthcare, prescription, dental and life insurance coverage. These benefits are provided in accordance with Title 3, Chapter 25, Subchapter VIII of the VI Code as part of a cost-sharing, multiple employer defined benefit OPEB plan, in which all component units of the PG participate and contribute. All employees who retire from government service after attaining age 55 with at least 30 years of service; except for policemen and firemen who can retire with at least 20 years of service, are eligible for these benefits.

Based on census data included in the October 1, 2009 actuarial valuation of OPEB, approximately 10,751 active employees, 5,915 service retirees, 1,581 spouses of service retirees covered for medical and dental benefits, 104 disability retirees and 158 deferred vested (i.e., non-retired employees who have already terminated employment with the PG, but who are eligible for medical and life insurance benefits when they subsequently reach the qualifying age) meet the eligibility requirements of OPEB.

Healthcare, prescription and dental insurance is provided through negotiated contracts with private insurance companies. Participants in the plan may elect coverage for their spouses and dependent children. Participants are required to contribute 35% of medical, prescription and dental premiums. Retirees of UVI that participate in the 403(b) retirement plan may obtain coverage on a fully contributory basis. Life insurance is offered to retirees on a fully contributory basis.

The contribution requirements of plan members and the PG are legislated within the Virgin Islands Code, and may be amended, by the Virgin Islands Legislature. The plan is a non-funded pay-as-you-go plan, and expenditures are paid as they become due. For the years ended September 30, 2011 and 2010, the Legislature budgeted, and paid, $22.3 million and $19.6 million for retiree health insurance payments.

The PG's postemployment benefit cost is calculated on the annual required contribution of the PG, an amount actuarially determined. The first actuarial valuation was prepared as of October 1, 2007, in accordance with provisions of GASB Statement 45, *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."* This standard was implemented prospectively. Prior to the implementation of GASB Statement 45, the PG did not report an OPEB obligation. In future years, the actuarial valuation will be prepared bi-annually. For the fiscal year ended September 30, 2011, a roll-forward actuarial report was prepared by the actuarial consultant.

15. Retirement Systems (continued)

Postemployment Benefits (continued)

The annual required contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year, and amortize any unfunded actuarial liabilities over a period not to exceed an open thirty (30) year period.

The following table shows the components of the PG's annual postemployment benefits cost for the fiscal year ended September 30, 2011, and the changes in the net estimated obligation for future payments of benefits:

Annual OPEB Cost and Net Postemployment Benefit Obligation

In thousands		
Annual required contribution	$	89,925
Interest on underfunded OPEB obligation		5,720
Adjustment to underfunded OPEB obligation		(5,683)
Annual OPEB cost		89,962
Employer contributions		(31,541)
Change in the net OPEB obligation	$	58,421
Net OPEB obligation - beginning of year	$	143,002
Change in the net OPEB obligation		58,421
Net OPEB obligation - end of year	$	201,423

Actuarial Accrued Liability and Funding Status

In thousands	
Actuarial Valuation Date	October 1, 2009
Actuarial Accrued Liability (AAL)	$1,069,562
Unfunded AAL	$1,069,562
Funded Ratio	0%

15. Retirement Systems (continued)

Postemployment Benefits (continued)

The PG's obligation to provide health insurance to retirees is an unfunded plan. The actuarial valuation of the amount required to fund the plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Estimated annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members), and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the PG and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities, and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the actuarial valuation dated October 1, 2007, liabilities at October 1, 2008 were rolled back to October 1, 2007, and actual benefit payments were used for the fiscal years ending September 30, 2009, 2010 and 2011.

Covered health care and dental care expenses were assumed to increase in future years with an initial increase of 10.0% for medical and 7.5% for dental and an ultimate rate of 5.0% for both medical and dental care expenses.

The entry age normal actuarial cost method with costs on a level percentage of payroll basis was used to determine the annual required cost of OPEB benefits to retirees. Amortization is over an open thirty (30) year period as a level percentage of payroll. Payroll growth is assumed to be 3.0% per year for purposes of amortization.

This method is consistent with the cost method used by GERS and typically produces the most level annual required contribution each subsequent year as a percentage of payroll. The normal cost was rolled back using the ultimate trend rate. A discount rate of 4.0% per annum was used, compounded annually. The valuation assumed that the annual unit cost per covered individual (i.e., retiree or spouse) for medical, prescription drugs and dental care for fiscal year 2009 was $6,155, $1,401 and $184 for retirees under age 65; and $1,591, $1,885 and $184 for retirees over age 65. The normal cost reflects the average age of the covered population and is based on claims experience for fiscal years 2008 and 2009, with a two-thirds weighting applied to the more recent year.

15. Retirement Systems (continued)

Postemployment Benefits (continued)

Combined experience and a combined cost were used for the pre-65 and post-65 populations. A composite cost was determined for retirees and spouses by combining their claim experience. Dependent children claims were included in developing the composite retiree and spouse cost. Costs were trended forward to fiscal year 2011 and adjusted to reflect the fiscal 2011 plan design and the anticipated lag in claim payment.

16. Liquidity

Governmental Activities

At September 30, 2011, the Government reported an unrestricted net deficit in governmental activities amounting to $1.72 billion. The net deficit resulted from: (1) the 2008 financial markets collapse and subsequent recession resulting in a reduction in income tax revenue and increase in unemployment, (2) the delay in the issuance of the 2009, 2010 and 2011 property taxes due to a class action lawsuit, and (3) the negative effect of Internal Revenue Service regulations redefining the requirements for residency, and sourcing of income, for the Territory. The revised Internal Revenue Service regulations negatively impacted economic growth in the Territory and reduced the participants in the Government's economic development programs. Following is a summary of the Government's unrestricted net deficit for governmental activities for fiscal years 2007 through 2011:

Governmental Activities Unrestricted Net Deficit
(In thousands, as restated)

Fiscal Year	Governmental Unrestricted Net Deficit	Decrease (Increase)
2007	$ (335,924)	$ (29,457)
2008	(513,201)	(177,277)
2009	(1,110,871)	(597,670)
2010	(1,408,601)	(297,730)
2011	(1,548,488)	(139,887)

16. Liquidity (continued)

Governmental Activities (continued)

The Government has initiated specific actions to improve its liquidity and future cash flows. The Government established the Office of Economic Opportunity to pursue grants through the American Recovery and Reinvestment Act of 2009, to generate jobs, to promote energy efficient appliances and automobiles, and to improve infrastructure. The Government has successfully attracted a rum producer (Captain Morgan) and retained an existing rum producer (Cruzan Rum) within the Territory. The Government has imposed budgetary restraints, including incentives for early retirement of government workers, salary reductions, personnel reductions and budgetary cut-backs for the entire government. The Government has also legislated increases in local taxes such as the gross receipts taxes and hotel taxes. The Government has met certain District Court requirements in connection with a taxpayer class-action lawsuit, allowing the release of 2007 and 2008 property tax assessments in fiscal year 2011, and the release of 2009 and 2010 property tax assessments in fiscal year 2012.

General Fund

At September 30, 2011, the Government reported a deficit fund balance in the General Fund of $73.8 million. This deficit represents an increase in the General Fund balance of $16.6 million from the 2010 fiscal year, mainly due to the issuance of working capital loans to offset deficits resulting from a decrease in tax revenue and expenditures exceeding revenues. Following is a summary of the General Fund balance for fiscal years 2010 and 2011:

General Fund Unreserved Fund Balance (Deficit)
(In thousands)

Fiscal Year	Committed	Unassigned	Total
2011	$29,571	$358,255	$(73,837)

17. Fund and Net Assets Deficit

The following non-major funds have a fund or net assets deficit as of September 30, 2011 (in thousands):

Governmental Funds	
General Fund	$ 142,404
Payroll Default	43,429
Antilitter & Beautiful Fund	49,680
Interest Revenue Fund	2,780
Sewer Waste Water Fund	14,227
Indirect Cost	1,847
Indirect Cost	2,733
Indirect Cost Fund - New	1,064
V.I. Insurance Guarantee	1,361
Union Arbitration Award	29,609
Pharmaceutical Insurance	19,830
Internal Revenue Matching	990
Matching Fund	306,306
Matching Fund	34,375
Caribbean Basin Initiative	73,788
Health Revolving Fund	85,269
Central Warehouse Revolving	756
Transportation Revolving	998
Data Processing Revolving	74
Public Transit Fund	10,059
Tourism Advanced Revolving Fund	10,460
Water Purchases Revolving Fund	30
Transportation Trust Fund	39,744
Industrial Development	1,682
GR Bond Proceeds Fund	6,338
Employment Security Administration	2,232
Rural Library Extension Fund	567
Fish and Game Fund	183
Federally-Aided Educational Programs	15,509
Special Federal Grant to Education	842
Air and Water Pollution Control	6,376
V.I. Planning Board Projects	2,978
Highway Safety Fund	4,503
Ving Fed/State Agreement	2,812
V.I. Energy Office	3,641

Proprietary Funds	
PFA / viNGN	$ 983
Bureau of Motor Vehicles	3,710
V.I. Lottery	1,687
VI Housing Finance Authority	3,000
Consumer Protection Fund	200
Homestead & Home Loan Fund	–
Emergency Housing Fund	499
Veteran's Housing Fund	–
Housing Conservation Revolving Fund	1,467
Housing Conservation Revolving Fund	1,537
Frederiksted Small Business Revenue Fund	47
Opening Fund Balance Adjustment for Major Fund Calulation	3,209
Government Insurance Fund	28,931
Unemployment Insurance Benefit Payment (VIESA)	11,128
Unemployment Insurance Clearing (VIESA)	33,758
	$ 90,156

17. Fund and Net Assets Deficit (continued)

Governmental Funds		Proprietary Funds
Federal Programs / Department of Conservation	3,785	
PWD Federal Contribution	10,524	
Federal-Aided CAA	181	
Commission On Aging	24	
Land Bank Fund	8,462	
Air Pollution Cont Agency	278	
JTPA of 1983-1984	8,683	
Financial Service Fund	10,184	
Technical Assistant Grant - Cap	64	
Lt Government Law Revision Commission	3	
American Recovery Reinvestment Act	339	
Health Information Council Assistance	18	
State Fiscal Stabilization	9	
Drug Education Training Program	123	
Federal Health Program Not On Federal Letter of Credit System	526	
Food Stamp Welfare	2,496	
Elementary / Secondary Education	19	
Law Library	184	
Civil Defense Protection	908	
Rural Comm Fire Protection Program	187	
Boating Safety Program	576	
V.I. Law Enforcement	4,691	
V.I. Law Enforcement	293	
Forensic Science	74	
Vocational Rehabilitation	1,835	
V.I. Education Initiative Fund/N-Laps	4,689	
Hurricane Hugo Insurance Claims	5,711	
V.I. Army National Guard	2,266	
Emergency Drought Relief	178	
Outdoor Recreation Program	40	
WAPA Water Credits	1,000	
NSF Forfeiture Fund	3	
SBDA Management / Technical Assistance	8	
Juvenile Detention Center Fund	19	
Road Fund	2,814	
Road Fund	3,516	
Bond Proceeds	37,521	
Major Repair and Improvement Fund	56	
Water and Electrical Systems Project	1,698	
St. John Capital Improvement	19,924	
Disaster Relief Fund-Hugo	519	
St. Croix Capital Improvement	5,857	
District Potable Water Fund	1,151	

17. Fund and Net Assets Deficit (continued)

Governmental Funds		Proprietary Funds
District Streets Lighting Fund	2,721	
Federal Grants for all Agencies except Department of Education	1,691	
ARRA Grants for all Agencies except Department of Education	1,293	
DOE Federal Grants except ARRA	2,457	
PFA/Office of Economic Opportunity	1,180	
Paternity & Child Support	11,696	
Home Aged Revolving Fund	325	
Asset Recovery Fund	798	
V.I. Waste H20 Corrective Action Fund	3,225	
Hess Oil VI Co Endowment	–	
	$ 1,086,298	

18. Restatement and Component Units and Enterprise Fund Audit Report Modifications

Restatement

During the 2010 audit, the Waste Management Authority (WMA) restated its 2009 financial statements for $63.4 million to correct identified errors and properly reflect capital contributions and transfers in from the Government. As previously noted in Note 1, the balances of the WMA, which are reported as a nonmajor component unit, are reported one year in arrears. Therefore, the restatement to the 2009 WMA balances must be reflected as a restatement to the 2010 Government balances of the component units. Because the capital assets were previously recorded by the Government within governmental activities, the previously reported balances of governmental activities also require restatement. In addition, during 2011 the Virgin Islands Port Authority (VIPA) restated the 2010 financial statements to correct errors in the accounting of federal government capital contributions which were understated by $2.2 million. The following table represents the impact of the restatements on the Government's net assets (deficit) as of September 30, 2010:

	As previously reported	Adjustment	As Restated
Governmental activities	$ (943,958)	$ (61,316)	$ (1,005,274)
Component units	679,712	65,625	745,337

The following table represents the impact of the restatements on the Government's changes in net assets (deficit) for the year ended September 30, 2010:

	As previously reported	Adjustment	As Restated
Governmental activities	$ (204,173)	$ 707	$ (203,466)
Component units	(356)	3,602	3,246

Component Units and Enterprise Fund Audit Report Modifications

For the year ended September 30, 2011 the audit reports for the following component units and enterprise fund were modified to include qualifications over certain balances.

18. Restatement and Component Units and Enterprise Fund Audit Report Modifications (continued)

Virgin Islands Housing Finance Authority (VIHFA)

Effective March 11, 2008 the Legislature of the Virgin Islands transferred the housing components of the Virgin Islands Department of Housing, Parks and Recreation, the Community Development Block Grants and the Emergency Shelter Grants programs, which were previously operated by the Virgin Islands Department of Planning and Natural Resources, to VIHFA. Significantly all loans and unobligated cash balances were also transferred subsequent to March 11, 2008. VIHFA has not been able to record the assets which were transferred because titles and related values of such assets have not been provided. The independent auditor's report included a qualification on cash and cash equivalents of $17.0 million, investments of $4.4 million and capital assets of $11.9 million for the effects of not including the transferred assets in the September 30, 2011 financial statements.

Virgin Islands Public Television System (VIPTS)

Because of significant deficiencies in the management of capital assets VIPTS has not been able to provide a reliable inventory record of all assets owned by VIPTS, proper quantification of recorded values on the statement of net assets and proper accounting for the expiration and usefulness of capital assets the independent auditor's report included a qualification of the capital assets balance for $5.9 million as of September 30, 2011.

Virgin Islands Lottery Financial Statements (VI Lottery)

The Lottery did not maintain sufficient documentation for the amount Due to the Treasury of the Virgin Islands of $4.4 million in 2011; therefore the amount could not be substantiated. Accordingly, the independent auditor was unable to conclude whether such amount was fairly stated. Consequently, the VI Lottery audit report includes a qualification for the effects of adjustments, if any, to the Due to Treasury balance as of September 30, 2011.

18. Restatement and Component Units and Enterprise Fund Audit Report Modifications (continued)

Employees' Retirement System of the Government of the Virgin Islands (GERS)

The financial statements of GERS include investments in limited partnerships valued at $52.9 million. GERS lacks the procedures to assess the reasonableness of the reported values provided by the fund managers. GERS estimate of the recorded limited partnerships' value is based on information provided by the general partner of the limited partnerships. At September 30, 2011 GERS management elected to maintain the investment balance reported in the prior year for one of the limited partnerships due to uncertainty regarding the ultimate recoverability of the investment. In the opinion of the auditor, those procedures are not adequate to determine whether the investments approximate fair value is in conformity with accounting principles generally accepted in the United States of America. The effect of on the September 30, 2011 financial statements of GERS of not applying adequate procedures to determine the fair value of the securities is not determinable. The audit report was qualified due to this reason.

Virgin Islands Waste Management Authority (WMA)

In 2004 PFA issued Series 2004A revenue bonds for the purpose of using the proceeds to finance the planning, development, construction, renovation and equipping of a wastewater treatment facility, certain waste water collection systems and solid waste facilities. The maximum allocation to WMA of proceeds for the projects was $79 million. As of September 30, 2009, WMA has been able to record approximately $67 million of such assets; however, because of the effects of a possible adjustment resulting from the recording assets for the remaining $12 million, if any, the capital assets balance as of September 30, 2010 for $79.4 has been qualified. As previously discussed, the balances of the WMA, which are reported as a nonmajor component unit, are reported one year in arrears. Therefore, the VMA capital assets balance of $79.4 million which has been qualified is reflected in the component units' capital asset balance at September 30, 2011.

The resolution of the qualifications described above could result in the restatement of previously reported amounts of component units.

19. Subsequent Events

Primary Government

On November 14, 2011, PFA entered into a Property Tax Revenue Anticipation Note Loan Agreement ("the Retirement Incentive Program Notes"). Under the terms of the Loan Agreement, a local bank will loan PFA $13 million to fund: (i) payments made to employees who elect to retire under the Virgin Islands Economic Stability Act and receive the incentive payment of $10,000, (ii) expenses incurred by the Office of the Lieutenant Governor related to processing, issuing and collecting property tax bills, and (iii) loan issuance costs. The Retirement Incentive Program Notes have a term of five years, with interest based on the current rate of a five-year US Treasury Note, at the time of closing, plus 400 basis points. After the five year term expires, the Retirement Incentive Program Notes will convert to a term loan not to exceed two years.

On January 18, 2012, Hovensa, LLC, an oil refinery and major employer on the island of St. Croix, announced that it will cease operations in February 2012, due to significant operating losses. The refinery employs 1,200 people and has approximately 960 contractors. The company proposed a conversion of the facility to an oil storage terminal that will employ approximately 100 people, including contractors. In August 2012, the PG has requested HOVENSA to reopen the refinery using more fuel efficient technology, either under current ownership or new ownership.

On January 25, 2012, Hovensa, LLC published an offer to repurchase the outstanding tax-exempt private activity bonds, issued through PFA, amounting to $355.8 million, at a purchase price of $1,000 per $1,000 in aggregate principal amount, plus accrued but unpaid interest. The offer was accepted by the bond holders before the expiration date of February 17, 2012.

On February 15, 2012, property tax assessments for 2009 were issued at the 1998 assessment rates. On June 30, 2012, property tax assessments for 2010 were issued at the 2008 assessment rates. On March 5, 2013, property tax assessments for 2011 were issued at the 2008 assessment rates. The issuance of property taxes was delayed due to a Third Circuit Court of Appeals decree issued in June 2009 in connection with a class action lawsuit, which enjoined the Government from collecting property taxes at the 2008 assessment rate. The injunction was lifted in January 2011.

19. Subsequent Events (continued)

Primary Government (continued)

On September 7, 2012, PFA issued the 2012 Series A Working Capital Bonds ("2012 Series A Bonds"), the proceeds of which amounted to $142.6 million. The Government has pledged matching fund excise tax revenues for the timely payment of the principal and interest on the 2012 Series A Bonds. The 2012 Series A Bonds bear interest at 3.8% to 4.5% and mature from 2022 to 2032. The proceeds of the bonds were issued to: (i) provide a loan to the PG to be used for working capital required to finance certain operating expenses and other PG obligations; (ii) to fund certain debt service reserve accounts of the 2012 Series A Bonds, and (iii) to pay certain costs of issuing the Series 2012 Series A Bonds. The 2012 Series A Bonds maturing on or after October 1, 2023 are subject to optional redemption on or after October 1, 2022. The Series 2012 Series A Bonds maturing on October 1, 2022 are subject to mandatory sinking fund redemptions beginning on October 1, 2014. The PG has covenanted, commencing October 1, 2012, to annually set aside 4% of the matching fund revenues transferred to the PG pursuant to the Cruzan and Diageo Agreements and Indentures, and to apply that amount first to the outstanding principal of the 2012 Series A Bonds, if any, and next, for the early optional redemption of outstanding bonds issued for working capital purposes, including the 2012 Series A Bonds.

On September 4, 2012, the U.S. Department of Justice, and the PG, reached a proposed agreement that would settle the legal battle for control of the Golden Grove Correctional Facility (the "Facility") on the island of St. Croix. The case was first brought against the PG in 1986 when the U. S. Department of Justice alleged unconstitutional conditions at the prison under the Civil Rights of Institutionalized Persons Act. The settlement agreement would allow the PG to continue to run the Facility, if it complies with the U.S. Department of Justice requirement to hire an independent monitor to oversee implementation of court orders that would bring prison conditions up to constitutional standards.

On November 9, 2012, PFA issued the Series 2012A and Series 2012B Revenue Refunding Bonds amounting to $228.8 million, to pay working capital obligations amounting to $197.1 million, and to refinance broadband project obligations amounting to $31.7 million.

19. Subsequent Events (continued)

Primary Government (continued)

On February 12, 2013, Moody's Investors Service withdrew the ratings on the U.S. Virgin Islands general obligation gross receipts tax debt, issued through PFA, due to the lack of sufficient financial and operating information. The territory released its fiscal 2010 audited financial statements on November 30, 2012, twenty-six (26) months after the end of the fiscal year.

Component Units

As of September 30, 2011, a significant amount of work was completed by viNGN's architects on a NOC/DC/HQ building. On October 27, 2011, the viNGN Board met and decided to remove the CEO of viNGN and on December 8, 2011, the Board met and voted to have the agreement with viNGN's architect amended, to delete the design of the NOC/DC/HQ. As a consequence the work performed by viNGN's architects had to be written down. This resulted in an impairment loss of $262 thousand.

On September 30, 2011, The WAPA Governing Board held an emergency meeting to approve an extension of the $10 million working capital line of credit WAPA has with Banco Popular. In addition, the Board approved the extension of the $3 million fuel hedge line of credit with the bank until December 31, 2011.

On September 30, 2011, WAPA entered into a Memorandum of Agreement (MoA) with viNGN, Inc., a Virgin Islands Corporation and wholly owned subsidiary of the Virgin Islands Public Finance Authority (PFA), an autonomous instrumentality of the PG. Under the terms of the MoA, WAPA provided an in-kind land match amounting to $15.2 million in connection with the development and construction by viNGN of underground broadband lines utilizing the roadwork systems of the Virgin Islands. The term of the MoA is twenty-five (25) years upon execution, with two additional twenty-five (25) year terms unless either party provides a written notice of non-renewal not less than twelve (12) months, but no sooner than twenty-four (24) months prior to the expiration of the original term or any additional term.

19. Subsequent Events (continued)

Component Units (continued)

On October 1, 2012, PFA converted the Series 2009A Notes to the 2012A Loan Note. The notes have a term of five years, maturing on October 1, 2017 with interest of 300 points above the J.P. Morgan Chase Prime Rate, or 6.25%, whichever is higher.

On November 9, 2012, PFA issued the Series 2012A and Series 2012B Revenue Refunding Bonds amounting to $228.8 million, to pay PG working capital obligations amounting to $197.1 million, and to refinance viNGN project obligations amounting to $31.7 million.

On December 17, 2012, PFA issued the Series 2012C Revenue Bonds amounting to $35.1 million to (i) finance capital projects, (ii) fund debt service on the 2012C Bonds, and (iii) pay the costs and expenses of issuing the 2012C Bonds.

On December 15, 2011, the Legislature passed Act 7327, which forgave $30.8 million owed to the primary Government by the Governor Roy L. Schneider Hospital, and $52.6 million owed to the primary Government by the Governor Juan F. Luis Hospital and Medical Center, as of the date the Act was passed.

In January, 2013, the extension on the rum excise tax at a rate of $13.25 per proof gallon was approved by the US Congress through December 31, 2013, and made retroactive to January 1, 2012.

On April 15, 2012, WAPA Electric issued the 2012 Series A, B and C Electric System Revenue Refunding Bonds amounting to $65 million. The 2012 Series A Bonds amounted to $16 million and were issued to: i) refund WAPA Electric's outstanding Series 1998 bonds, and ii) pay certain costs associated with the issuance of the 2012 Series A bonds. The 2012 Series B Bonds amounted to $19 million and were issued to: i) refinance short-term loans, ii) fund certain debt service reserve accounts and iii) pay certain costs associated with the issuance of the 2012 Series B Bonds. The 2012 Series C Bonds amounted to $30 million and were issued to: i) refinance WAPA's working capital lines of credit and overdraft credit facilities, ii) fund certain debt service reserve accounts, and iii) pay certain costs associated with the issuance of the Series C Bonds.

19. Subsequent Events (continued)

Component Units (continued)

On June 28, 2012, WAPA filed an emergency rate increase with the Public Service Commission (PSC), WAPA was seeking a $16.2 million increase in base electric rate and a $2.6 million increase in base water rate. On July 6, 2012, the PSC approved an increase of $8.6 million for the electric system and $1.5 million for the water system, to be effective with bills rendered after August 1, 2012.

Should WAPA be unable to realize an increase in net assets in 2013, Management believes they will discontinue the application of ASC No. 980.

ACT 7373 prohibits WAPA from back billing customers for the water system or the electric system except for faulty meters and billing errors after three months.

There are proposed changes to the retirement system that could affect WAPA's employees going forward. The GERS is proposing increasing the Tier 1 regular employee and Tier 1 Class 3 hazardous duty employee contribution rate by 1 percent each year for three years beginning October 1, 2013. The Tiers are based on an employee's hire date relative to when the GERS Reform Act of 2005 went into effect; those before October 1, 2005, are Tier 1 and those hired after that date are Tier 2 employees.

Pension Trust Fund

On October 1, 2011, the Virgin Islands Economic Stability Act of 2011 requires any member of GERS with thirty or more years of credited service, not electing early retirement on or before September 30, 2011, to pay an additional 3 percent GERS member contribution based on gross salary. The Virgin Islands Economic Stability Act also mandated an 8% reduction in the salaries of all employees of autonomous and semi-autonomous agencies that receive funding from the general fund for the period July 4, 2011 through July 3, 2013. Eligible government employees that elect to retire on or before July 3, 2013 are permitted to have their retirement annuity calculated on gross wages before the 8% reduction amount.

19. Subsequent Events (continued)

Pension Trust Fund (continued)

On November 14, 2011, the GERS entered into a loan agreement with the Government of the Virgin Islands (GVI) in the amount of $13 million at an interest rate of 4.91% and a maturity date of December 15, 2016. The security for the note is the pledged real property tax receipts from the delinquent real property tax receivables, including penalties and interest for tax years prior to and including 2005 totaling approximately $36 million.

On November 2, 2012, GERS entered into a loan agreement with Seaborne Virgin Islands, Inc. in the amount of $1.5 million as part of a modification agreement of existing loans with Seaborne Virgin Islands, Inc. The loan term is five (5) years with an interest rate of 6.25% per annum. The loan is payable in twenty (20) quarterly installments of principal in the amount of $75 thousand each, plus interest, with the entire balance due with the 20th payment.

On July 18, 2012, GERS executed a credit facility n the amount of $10 million with a per annum interest rate of 15% with the limited partnership Attilanus L. P. The purpose of the credit facility is to meet on-going premium costs and certain other expenses in connection with senior life insurance policies owned by GERS for retirees age 65 and older who have a life expectancy of 5 to 7 years. The facility is structured as a note where principal repayments eliminate the future amount available. Unpaid principal and accrued interest become due on July 10, 2017.

Required Supplementary Information

Required Supplementary Information (other than MD&A)

Government of U.S. Virgin Islands

Schedules of Funding Progress

September 30, 2011

Employees Retirement System of the Government of the U.S. Virgin Islands

Actuarial valuation Date	(a) Actuarial value of assets	(b) Unfunded actuarial accrued liability (UAAL)	(c) Actuarial accrued liability (a) + (b)	(d) Funded Ratio (a)/(c)	(e) Annual covered payroll	UAAL as a percentage of covered payroll (b)/(e)
Pension Plan						
2009(*)	1,534,899,736	1,397,261,661	2,932,161,397	52.35%	458,154,309	304.98%
2010(**)	1,505,970,212	1,513,059,673	3,019,029,885	52.53%	458,154,309	343.86%
2011(***)	1,448,926,591	1,719,110,906	3,168,037,497	45,74%	403,473,988	426.08%

(*) Estimated based on the financial information provided as of September 30, 2009, for the actuarial value of assets. For the unfunded actuarial accrued liability (UAAL) amount was projected from the last completed actuarial valuation as of October 1, 2006, assuming that actual experience during the October 1, 2006 to September 30, 2009, matched that assumed by the actuarial assumptions.

(**) Estimated based on the financial information provided as of September 30, 2010, for the actuarial value of assets. For the unfunded actuarial accrued liability (UAAL) amount was projected from the last completed actuarial valuation as of October 1, 2006, assuming that actual experience during the October 1, 2006 to September 30, 2010, matched that assumed by the actuarial assumptions.

(***) Estimated based on the financial information provided as of September 30, 2011, for the actuarial value of assets. For the unfunded actuarial accrued liability (UAAL) amount was projected from the last completed actuarial valuation as of October 1, 2006, assuming that actual experience during the October 1, 2006 to September 30, 2011, matched that assumed by the actuarial assumptions.

Actuarial valuation -September 30, 2006 and thereafter:
Actuarial accrued liability determined under the Entry Age Normal Method.

Required Supplementary Information (other than MD&A)

Government of United States Virgin Islands

Schedules of Funding Progress (continued)

Postemployment Benefits Other Than Pensions

Actuarial valuation Date	**(a) Actuarial value of assets**	**(b) Unfunded actuarial accrued liability (UAAL)**	**(c) Actuarial accrued liability (a) + (b)**	**(d) Funded Ratio (a)/(c)**	**(e) Annual covered payroll**	**UAAL as a percentage of covered payroll (b)/(e)**
OPEB						
2007	$ –	$ 976,455,000	$ 976,455,000	–	N/A	N/A
2009	$ –	$1,069,562,000	$1,069,562,000	–	$418,467,000	255.59%

Required Supplementary Information (other than MD&A)

Employees' Retirement System of the Government of U.S. Virgin Islands

Schedule of Employer Contributions

September 30, 2011

	Annual required contributions	Contributions made	Percentage contributed
Year ended September 30,			
2008*	$138,488,871	$75,871,146	54.79%
2009*	147,490,851	80,177,004	52.35%
2010*	157,817,709	77,004,630	48.79%
2011*	162,841,336	80,849,762	49.65%

* Estimated based on Fiscal Year 2006 actuarial valuation.

Report on Internal Control

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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*

The Honorable Governor
of the Government of the United States Virgin Islands:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of the United States Virgin Islands (the Government) as of and for the year ended September 30, 2011, which collectively comprise the Government's basic financial statements, and have issued our report thereon dated June 28, 2013. Our report was modified to include a reference to other auditors. In addition, the scope of our audit work was not sufficient to enable us to express, and we did not express, an opinion on the financial position, the changes in the financial position and cash flows, where applicable, of the business-type activities and aggregate remaining fund information as of and for the year ended September 30, 2011, because the basic financial statements do not include a liability for medical malpractice claims in the guaranty insurance fund (a non-major enterprise fund). The Government's records do not permit, nor is it practical to extend our auditing procedures sufficiently to determine the extent by which the business-type activities and the aggregate remaining fund information may have been affected by this condition.

In addition, our auditors' report for the aggregate discretely presented component units and the governmental activities, based on our audit and the reports of other auditors, was qualified for the following:

- The effect of the adjustments, if any, as might be determined to be necessary, had the other auditors been able to obtain sufficient audit evidence to determine whether; (1) capital assets of $5.9 million in the financial statements of VIPTS, (2) cash and cash equivalents of $17.0 million, investments of $4.4 million, and capital assets of $11.9 million in the financial statements of VIHFA, (3) amounts due to the general fund of $4.5 million in the financial statements of the V.I. Lottery, (4) capital assets of $79.4 million in the financial statements of WMA, and (5) investments in a limited partnership valued at $52.9- million in the GERS financial statements, were fairly stated, as described in paragraphs four through eight of the Report of Independent Auditors.

- The effects of the adjustments as might have been determined to be necessary, had we been able to obtain sufficient audit evidence to determine whether the opening balances accrued compensated absences and the landfill closure and post-closure liabilities, and the retroactive union arbitration liability in the governmental activities were fairly stated, as described in paragraph nine of the Report of Independent Auditors.

Except as described above, we conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Tobacco Settlement Financing Corporation (TSFC), Virgin Islands Housing Authority (VIHA), Virgin Islands Public Television System (VIPTS), Virgin Islands Lottery (V.I. Lottery), Virgin Islands Economic Development Authority (VIEDA), Magens Bay Authority (MBA), Virgin Islands Government Hospital and Health Facilities Corporation (Roy L. Schneider Hospital and Juan F. Luis Hospital and Medical Center), Employees' Retirement System of the Government of the Virgin Islands (GERS), Waste Management Authority (WMA), and the Virgin Islands Housing Finance Authority (VIHFA), 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. The financial statements of the Juan Luis Hospital and Medical Center and GERS were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

Management of the Government is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audit, we considered the Government's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Government's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider findings 11-01 through 11-08 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Government's financial statements are free of 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 determination of financial statement amounts. 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 tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described as finding 11-01.

The Government's responses to the findings identified in our audit are described above. We did not audit the Government's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Honorable Governor of the United States Virgin Islands, management, others within the entity, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

June 28, 2013

Single Audit Report

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Report of Independent Auditors on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards

The Honorable Governor
the Government of the United States Virgin Islands:

Compliance

We have audited the Government of the United States Virgin Islands (the Government)'s compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Government's major federal programs for the year ended September 30, 2011. The Government's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Government's management. Our responsibility is to express an opinion on the Government's compliance based on our audit.

The Government's basic financial statements include the operations of the discretely presented component units (as defined in the notes to the Government's basic financial statements), some of which received federal awards, which are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2011. Our audit described below did not include the operations of the aforementioned component units because the component units engaged other auditors to perform audits in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Government's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Government's compliance with those requirements.

The Government did not comply with the types of compliance requirements that are applicable to each major federal program as described in the accompanying schedule of findings and questioned costs and referenced by finding number below:

CFDA Number	Major Program	Compliance Requirement	Finding Reference
81.041, ARRA-81.041	State Energy Program	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Period of Availability	11-16 11-16 11-10 11-16
ARRA-84.394, ARRA-81.397	State Fiscal Stabilization Fund Cluster	Activities Allowed or Unallowed; Allowable Costs/ Cost Principles; Cash Management; Period of Availability; Subrecipient Monitoring	11-18 11-18 11-10 11-18 11-17
93.778	Medical Assistance Program (Medicaid; Title XIX)	Activities Allowed or Unallowed; Allowable Costs/ Cost Principles; Cash Management; Eligibility; Matching, Level of Effort, Earmarking; Period of Availability; Reporting; Special Tests and Provisions	11-26, 11-27 11-26, 11-27 11-09 11-28 11-29 11-26, 11-27 11-30 11-31, 11-32, 11-33, 11-34

Compliance with such requirements is necessary, in our opinion, for the Government to comply with the requirements applicable to those programs.

In our opinion, because of the effects of the noncompliance described in the table above, the Government did not comply, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the following major federal programs: State Energy Program (CFDA Nos. 81.041 an ARRA-81.041); State Fiscal Stabilization Fund Cluster (CFDA Nos. ARRA-84.394, ARRA-84.397); and Medical Assistance Program (Medicaid; Title XIX) (CFDA No. 93.778), for the year ended September 30, 2011.

The Government did not comply with the types of compliance requirements that are applicable to each major federal program as described in the accompanying schedule of findings and questioned costs and referenced by finding number below:

CFDA Number	Major Program	Compliance Requirement	Finding Reference
93.558	Temporary Assistance for Needy Families (TANF)	Cash Management;	11-10
		Equipment and Real Property Management;	11-19
		Procurement, Suspension and Debarment;	11-20
		Reporting;	11-21
		Special Tests and Provisions	11-22
93.563	Child Support Enforcement	Cash Management;	11-09
		Matching, Level of Effort, and Earmarking;	11-23
		Reporting;	11-24
		Special Tests and Provisions	11-25

Compliance with such requirements is necessary, in our opinion, for the Government to comply with the requirements applicable to those programs.

Also, in our opinion, except for the noncompliance described in the table above, the Government complied, in all material respects, with the compliance requirements referred to above that could have direct and material effect on the following major federal programs: Temporary Assistance for Needy Families (TANF) (CFDA No. 93.558); and Child Support Enforcement (CFDA No. 93.563).

Moreover, in our opinion, the Government complied, in all material respects, with the compliance requirements referred to in the first paragraph that could have a direct and material effect on each of its major federal programs, other than those major programs referred to in the two preceding tables for the year ended September 30, 2011. However, the results of our auditing procedures also disclosed other instances of non-compliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 11-09 through 11-15.

Internal Control over Compliance

The management of the Government is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Government's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Government's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and others deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance 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, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 11-09 through 11-34 to be material weaknesses.

The Government's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Government's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Honorable Governor of the Government of the United States Virgin Islands, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

August 30, 2013

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2011

CFDA Number	Federal grantor/ pass through grantor / program or cluster title		Federal Expenditures
	U.S. Department of Agriculture		
10.025	Plant and Animal Disease, Pest Control, and Animal Care		$ 57,056
10.156	Federal-State Marketing Improvement Program		723
10.170	Specialty Crop Block Grant Program - Farm Bill		142,721
	SNAP Cluster		
10.551	Supplemental Nutrition Assistance Program (SNAP)	47,878,716	
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	5,543,439	
ARRA-10.561	ARRA- State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	428,133	
	SNAP Cluster Total		53,850,288
	Child Nutrition Cluster		
10.555	National School Lunch Program (NSLP)	7,638,225	
10.559	Summer Food Service Program for Children (SFSPC)	409,353	
	Child Nutrition Cluster Total		8,047,578
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)		7,242,641
10.558	Child and Adult Care Food Program		139,055
10.560	State Administrative Expenses for Child Nutrition		63,498
10.664	Cooperative Forestry Assistance		272,931
10.676	Forest Legacy Program		119,023
10.678	Forest Stewardship Program		84,639
			70,020,153
	U.S Department of Commerce		
11.302	Economic Development Support for Planning Organizations		97,493
11.306	Economic Development District Operational Assistance		5,500
11.405	Anadromous Fish Conservation Act Program		25,950
11.407	Interjurisdictional Fisheries Act of 1986		825
11.413	Fishery Products Inspection and Certification		46,944
11.419	Coastal Zone Management Administration Awards		1,161,040
11.426	Financial Assistance for National Centers for Coastal Ocean Science		116,762
11.433	Marine Fisheries Initiative		72,551
11.434	Cooperative Fisheries Statistics		210,446
11.441	Regional Fishery Management Councils		618
11.555	Public Safety Interoperable Communications Grant Program		56,850
			1,794,979
	U.S Department of Defense		
12.401	National Guard Military Operations and Maintenance (O&M) Projects		4,341,600
	U.S Department of the Interior		
	Fish and Wildlife Cluster		
15.605	Sport Fish Restoration Program	530,087	
15.611	Wildlife Restoration and Basic Hunter Education	111,460	
	Fish and Wildlife Cluster Total		641,547
15.615	Cooperative Endangered Species Conservation Fund		13,872
15.622	Sport Fishing and Boating Safety Act		40,150
15.626	Enhanced Hunter Education and Safety Program		4,740
15.633	Landowner Incentive Program		2,172
15.634	State Wildlife Grants		51,728
15.875	Economic , Social, and Political Development of the Territories		1,539,692
15.904	Historic Preservation Fund Grants - In-Aid		366,192
			2,660,093
	U.S Department of Justice		
16.017	Sexual Assault Services Formula Program		17,829
16.523	Juvenile Accountability Block Grants		4,285
16.540	Juvenile Justice and Delinquency Prevention - Allocation to States		23,972
16.575	Crime Victim Assistance		668,759
16.576	Crime Victim Compensation		170,090
16.579	Edward Byrne Memorial Formula Grant Program		87,730
16.588	Violence Against Women Formula Grants		737,146
16.593	Residential Substance Abuse Treatment for State Prisoners		480
16.606	State Criminal Alien Assistance Program		225,062
16.710	Public Safety Partnership and Community Policing Grants		457,292
16.727	Enforcing Underage Drinking Laws Program		339,983
			2,732,628
16.738	Edward Byrne Memorial Justice Assistance Grant Program	525,031	
ARRA-16.738	ARRA-Edward Byrne Memorial Justice Assistance Grant Program	1,533,174	
	Edward Byrne Memorial Justice Assistance Grant Program Total		2,058,205
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program		7,644
16.750	Support for Adam Walsh Act Implementation Grant Program		103,043
			4,901,520

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards (continued)

Year Ended September 30, 2011

CFDA Number	Federal grantor/ pass through grantor / program or cluster title		Federal Expenditures
	U.S Department of Labor		
17.002	Labor Force Statistics		302,129
17.005	Compensation and Working Conditions		53,452
	Employment Service Cluster		
17.207	Employment Service/Wagner-Peyser Funded Activities	1,080,971	
ARRA-17.207	Employment Service/Wagner-Peyser Funded Activities	164,529	
17.804	Local Veteran's Employment Representative Program	2,501	
	Employment Service Cluster Total		1,248,001
17.225	Unemployment Insurance	30,507,593	
ARRA-17.225	ARRA-Unemployment Insurance	82,680	
	Unemployment Insurance Total		30,590,273
17.250	Job Training Partnership Act		(39,374)
17.235	Senior Community Service Employment Program	1,289,407	
ARRA-17.235	ARRA-Senior Community Service Employment Program	1,171	
	Senior Community Service Employment Program Total		1,290,578
	WIA Cluster		
17.258	WIA Adult Program	1,346,248	
ARRA-17.258	ARRA-WIA Adult Program	515,460	
17.259	WIA Youth Activities	1,141,047	
	WIA Cluster Total		3,002,755
17.266	Work Incentive Grants		3,292
17.503	Occupational Safety and Health State Program		241,679
			36,692,785
	U.S Department of Transportation		
20.205	Highway Planning and Construction	17,928,672	
ARRA-20.205	ARRA-Highway Planning and Construction	3,471,909	
	Highway Planning and Construction Total		21,400,581
20.218	National Motor Carrier Safety		167,048
	Federal Transit Cluster		
20.500	Federal Transit - Capital Investment Grants	68,750	
20.507	Federal Transit Formula grant	188,516	
ARRA-20.507	ARRA-Federal Transit Formula grant	694,309	
	Federal Transit Cluster Total		951,575
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities		81,756
20.600	State and Community Highway Safety		1,095,078
			23,696,038
	National Foundation on the Arts and Humanities		
45.025	Promotion of the Arts_Partnership Agreement		331,700
45.310	Grants to States		106,434
45.312	National Leadership Grants		25,587
			463,721
	U.S Environmental Protection Agency		
66.034	Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act		8,828
66.418	Construction Grants for Wastewater Treatment Works	27,336	
ARRA-66.418	ARRA-Construction Grants for Wastewater Treatment Works	1,249,705	
	Construction Grants for Wastewater Treatment Works Total		1,277,041
66.424	Surveys, Studies, Investigations, Demonstrations, Training Grants_Section 1442 of the Safe Drinking Water Act		32,640
66.454	Water Quality Management Planning		61,992
66.461	Regional Wetland Program Development Grants		36,665
66.468	Capitalization Grants for Drinking Water State Revolving Fund	2,924,581	
ARRA-66.468	ARRA-Capitalization Grants for Drinking Water State Revolving Fund	756,524	
	Capitalization Grants for Drinking Water State Revolving Fund Total		3,681,105
66.471	State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs		15,188
66.472	Beach Monitoring and Notification Program Implementation Grants		157,835
66.605	Performance Partnership Grants		2,469,998
66.804	Underground Storage Tank Prevention, Detection and Compliance Program		97,012
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action program		256,615
66.817	State and Tribal Response Program Grants		123,896
			8,218,815

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards (continued)

Year Ended September 30, 2011

CFDA Number	Federal grantor/ pass through grantor / program or cluster title		Federal Expenditures
	U.S Department of Energy		
81.041	State Energy Program	30,005	
ARRA-81.041	ARRA-State Energy Program	12,628,028	
	State Energy Program Total		12,658,033
81.042	Weatherization Assistance for Low Income Persons		779,540
81.117	Energy Efficiency and Renewable Energy Information, Dissemination, Outreach, Training and Technical Analysis/Assistance		14,258
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis		475,750
ARRA-81.128	ARRA-Energy Efficiency and Conservation Block Grant Program (EECBG)		3,637,053
			17,564,634
	U.S Department of Education		
	Special Education Cluster (IDEA)		
84.027	Special Education - Grants to States (IDEA, Part B)	9,423,053	
ARRA-84.391	ARRA-Special Education Grants to States, Recovery Act	198,826	
	Special Education Cluster (IDEA) Total		9,621,879
84.041	Impact Aid		123,392
	Vocational Rehabilitation Cluster		
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	2,018,037	
ARRA-84.390	ARRA-Rehabilitation Services - Vocational Rehabilitation Grants to States, Recovery Act	133,785	
	Vocational Rehabilitation Cluster Total		2,151,822
	Living State Grants Cluster		
84.169	Independent Living - State Grants	28,693	
ARRA-84.398	ARRA-Independent Living State Grants, Recovery Act	8,000	
	Living State Grants Cluster Total		36,693
84.177	Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind		44,097
84.181	Special Education - Grants for Infants and Families		1,196,726
84.187	Supported Employment Services for Individuals with the Most Severe Disabilities		9,688
84.215	Fund for the Improvement of Education		99,333
84.298	State Grants for Innovative Programs (Part A, Title V)		(67,031)
84.330	Advanced Placement Program		21,511
84.357	Reading First State Grants		11,666
84.364	Improving Literacy Through School Libraries		30,456
	State Fiscal Stabilization Fund Cluster		
ARRA-84.394	ARRA-State Fiscal Stabilization Fund (SFSF) - Educational State Grants, Recovery Act	28,216,700	
ARRA-84.397	ARRA-State Fiscal Stabilization Fund (SFSF) - Government Service, Recovery Act	3,473,343	
	State Fiscal Stabilization Fund Cluster Total		31,690,043
ARRA-84.402	ARRA-Consolidated Grants to the Outlying Areas, Recovery Act		4,864,035
84.403	Consolidated Grants to the Outlying Areas		21,631,929
ARRA-84.410	Educational Jobs Fund		13,239,690
84.922	Consolidated Block Grant		89,661
			84,795,590
	U.S. Department of Health and Human Services		
93.008	Medical Reserve Corps Small Grant Program		2,311
93.041	Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation		12,582
93.042	Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals		45,528
93.043	Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services		536,588
	Aging Cluster		
93.044	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	493,539	
93.045	Special Programs for the Aging-Title III, Part C-Nutrition Services	1,297,895	
	Aging Cluster Total		1,791,434
93.048	Special Programs for the Aging-Title IV-and Title II-Discretionary Projects		73,121
93.052	National Family Caregiver Support, Title III, Part E		201,059
93.069	Public Health Emergency Preparedness		775,458
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs		75,874
93.127	Emergency Medical Services for Children		96,081
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices		1,340,837
93.136	Injury Prevention and Control Research and State and Community Based Programs		14,438
93.150	Projects for Assistance in Transition from Homelessness (PATH)		50,000
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth		239,221
93.217	Family Planning-Services		890,200
93.243	Substance Abuse and Mental Health Services-Projects of Regional and National Significance		52,027
93.268	Immunization Grants		1,685,560
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance		533,239
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges		14,428

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards (continued)

Year Ended September 30, 2011

CFDA Number	Federal grantor/ pass through grantor / program or cluster title		Federal Expenditures
93.556	Promoting Safe and Stable Families		533,669
93.557	Education and Prevention to Reduce Sexual Abuse of Runaway, Homeless and Street Youth		2,267,054
93.558	Temporary Assistance for Needy Families (TANF)		5,022,523
93.563	Child Support Enforcement		4,693,391
93.568	Low-Income Home Energy Assistance		216,830
93.569	Community Services Block Grant		972,773
	CCDF Cluster		
93.575	Child Care and Development Block Grant	2,244,850	
ARRA-93.713	ARRA-Child Care and Development Block Grant	1,203,925	
	CCDF Cluster Total		3,448,775
93.590	Community-Based Child Abuse Prevention Grants		200,000
93.597	Grants to States for Access and Visitation Programs		73,911
	Head Start Cluster		
93.600	Head Start	7,867,964	
ARRA-93.708	ARRA - Head Start	105,708	
	Head Start Cluster Total		7,973,672
93.643	Children's Justice Grants to States		57,099
93.667	Social Services Block Grant		1,577,345
93.669	Child Abuse and Neglect State Grants		60,736
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters Grants to States and Indian Tribes		129,792
ARRA-93.711	ARRA - Strengthening Communities Fund		138,048
ARRA-93.719	ARRA - State Grants to Promote Health Information Technology		203,096
ARRA-93.729	ARRA - Health Information Technology and Public Health		36,592
93.767	Children Health Insurance Program		11,168
93.778	Medical Assistance Program (Medicaid; Title XIX)		21,012,301
93.782	Medicare Transitional Drug Assistance Program for Territories		109,423
93.783	Medicare Transitional Drug Assistance Program for States		670,379
93.887	Health Care and Other Facilities		723
93.889	National Bioterrorism Hospital Preparedness Program		229,080
93.917	HIV Care Formula Grants		963,781
93.940	HIV Prevention Activities-Health Department Based		518,692
93.941	HIV Demonstration, Research, Public and Professional Education Projects		139,702
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance		35,418
93.958	Block Grants for Community Mental Health Services		67,894
93.959	Block Grants for Prevention and Treatment of Substance Abuse		470,795
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants		169,949
93.991	Preventive Health and Health Services Block Grant		118,104
93.994	Maternal and Child Health Services Block Grant to the States		22,139
			60,574,840
	Corporation for National and Community Service		
94.002	Retired and Senior Volunteer Program		34,644
94.011	Foster Grandparent Program		196,538
			231,182
	Executive Office of the President		
95.001	High Intensity Drug Trafficking Program		125,380
	Department of Homeland Security		
97.001	Pilot Demonstration or Earmarked Projects		23,065
97.012	Boating Safety Financial Assistance		865,473
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants		610,396
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)		673,487
97.039	Hazard Mitigation Grant		84,418
97.042	Emergency Management Performance Grants		583,456
97.044	Assistance to Fire Fighters Grant		9,691
97.045	Cooperating Technical Partners Grant		3,952
	Homeland Security Cluster		
97.067	Homeland Security Grant Program	884,251	
97.073	State Homeland Security Program	191,768	
	Homeland Security Cluster Total		1,076,019
97.070	Map Modernization Management Support		5,000
97.082	Earthquake Consortium		5,001
97.089	Driver's License Security Grant Program		355,199
			4,295,157
	Total expenditures of federal awards		**$ 320,376,487**

See accompanying notes.

Government of the United States Virgin Islands

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2011

1. Basis of Presentation

For purposes of complying with the Single Audit Act Amendments of 1996, the Government of the United States Virgin Islands (the Government or GVI) is defined in a manner consistent with the entity defined in the basic financial statements as of and for the year ended September 30, 2011, except that the discretely presented component units (as defined in the notes to the aforementioned basic financial statements) are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the federal financial assistance programs administered by the Government for the year ended September 30, 2011, excluding the discretely presented component units.

2. Basis of Accounting

The accompanying Schedule was prepared using the modified accrual basis of accounting, except for nonmonetary programs, which are presented based on the fair value of the food stamps (CFDA No. 10.551 in the amount of $47,878,716), and the food costs (CFDA No. 10.557 in the amount of $5,403,804) distributed during the year. The Government's accounting system provides the primary information from which the schedule is prepared.

3. Matching Costs

Matching costs, such as the nonfederal share of certain program costs, are not included in the accompanying Schedule, except Unemployment Insurance (CFDA Nos. 17.225 and ARRA – 17.225), as indicated in Note 5.

4. Relationship to Federal Financial Reports

The regulations and guidelines governing the preparation of Federal Financial Reports vary by federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the Federal Financial Reports do not necessarily agree with the amounts reported in the accompanying Schedule, which is prepared on the basis of accounting explained in Notes 1 and 2.

4. Relationship to Federal Financial Reports (continued)

Office of Management and Budget (OMB) Circular A-133 requires that Federal Financial Reports and claims for advances and reimbursements contain information that is supported by the books and records from which the basic financial statements have been prepared. The Government's departments prepare the Federal Financial Reports and claims for advances and reimbursements primarily based on information from the internal accounting records of the respective Government's program departments.

5. Unemployment Insurance Program (UI)

The U.S. Department of Labor in consultation with the Office of Management and Budget officials has determined that for the purpose of audits and reporting under OMB Circular A-133, state UI funds as well as federal funds should be considered federal awards for determining Type A programs. The State receives federal funds for administrative purposes. State unemployment taxes must be deposited to a state account in the Federal Unemployment Trust Fund, used only to pay benefits under the federally approved state law. State UI funds as well as federal funds are included on the Schedule. The following schedule provides a breakdown of the state and federal portions of the total expended under CFDA Nos. 17.225 and ARRA – 17.225:

	Expenditures
Federal fund expenditures (Administration)	$ 2,587,152
State fund expenditures (Trust fund)	28,003,121
Total expenditures	$30,590,273

6. Subrecipients

Of the federal expenditures presented in the schedule, the Government provided federal awards to subrecipients related to major programs as follows:

Federal CFDA Number	Program Title	Amount Provided to Subrecipients
66.468	Capitalization Grants for Drinking Water State Revolving Fund	$2,916,063
ARRA-66.468	ARRA-Capitalization Grants for Drinking Water State Revolving Fund	752,861
		3,668,924
ARRA-81.041	State Energy Program	604,900
ARRA-81.128	Energy Efficiency and Conservation Block Grant Program	3,539,829
ARRA-84.397	ARRA-State Fiscal Stabilization Fund (SFSF) – Government Services	2,027,739
	Total federal awards provided to subrecipients	$9,841,392

Government of the United States Virgin Islands

Schedule of Findings and Questioned Costs

Year Ended September 30, 2011

Part I - Summary of Auditor's Results

Financial Statement Section

Type of auditor's report issued on the basic financial statements:

Opinion Unit	Type of Report
Governmental Activities	Qualified
Business-type Activities	Disclaimer
General fund	Unqualified
Debt Service Fund	Unqualified
Capital Projects Fund	Unqualified
West Indian Company fund-enterprise fund	Unqualified
Unemployment Insurance-enterprise fund	Unqualified
Aggregate Remaining Fund Information	Disclaimer
Aggregate discretely presented component units	Qualified

Internal Control over Financial Reporting

Material weaknesses identified?.. Yes

Significant deficiencies identified? ....None reported

Noncompliance material to financial statements noted?... Yes

Federal Awards Section

Internal control over major programs:

Material weaknesses identified?.. Yes

Significant deficiencies identified?... No

Part I - Summary of Auditor's Results (continued)

Identification of major programs and type of auditor's report issued on compliance for major each program:

CFDA Number	Major Program	Type of Report Issued on Compliance
10.551, 10.561, ARRA-10.561	SNAP Cluster	Unqualified
10.555, 10.559	Child Nutrition Cluster	Unqualified
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	Unqualified
12.401	National Guard Military Operations and Maintenance (O&M) Projects	Unqualified
17.225, ARRA-17.225	Unemployment Insurance	Unqualified
17.258, ARRA-17.258 17.259	WIA Cluster	Unqualified
20.205, ARRA-20.205	Highway Planning and Construction	Unqualified
66.468, ARRA-66.468	Capitalization Grant for Drinking Water State Revolving Funds	Unqualified
81.041, ARRA-81.041	State Energy Program	Adverse
ARRA-81.128	Energy Efficiency and Conservation Block Program	Unqualified
84.027,ARRA-84.391	Special Education Cluster (IDEA)	Unqualified
ARRA-84.394, ARRA-84.397	State Fiscal Stabilization Fund Cluster	Adverse
ARRA-84.402	Consolidated Grants to the Outlying Areas, Recovery Act	Unqualified
84.403	Consolidated Grant to the Outlying Areas	Unqualified
ARRA-84.410	Educational Jobs Fund	Unqualified
93.558	Temporary Assistance for Needy Families (TANF)	Qualified
93.563	Child Support Enforcement	Qualified
93.575, ARRA-93.713	CCDF Cluster	Unqualified
93.600, ARRA-93.708	Head Start Cluster	Unqualified
93.778	Medical Assistance Program (Medicaid; Title XIX)	Adverse

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133……………………………… Yes

Dollar threshold used to distinguish between Type A and Type B programs: …$3,000,000

Auditee qualified as low-risk auditee:………………………………………………… No

Part II - Financial Statement Findings Section

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

Part II - Financial Statement Findings Section

Finding Number 11-01

Topic
Data Collection Form and Single Audit reporting package not submitted on time.

Category
Internal Control / Compliance

Criteria
OMB Circular, Subpart C, Section .320 (a) General establishes that the audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine 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. Unless restricted by law or regulation, the auditee shall make copies available for public inspection. (b) Data Collection. (1) The auditee shall submit a data collection form which states whether the audit was completed in accordance with this part and provides information about the auditee, its Federal programs, and the results of the audit. The form shall be approved by OMB, available from the Federal clearinghouse designated by OMB, and include data elements similar to those presented in this paragraph. A senior level representative of the auditee (e.g., State controller, director of finance, chief executive officer, or chief financial officer) shall sign a statement to be included as part of the form certifying that: the auditee complied with the requirements of this part, the form was prepared in accordance with this part (and the instructions accompanying the form), and the information included in the form, in its entirety, are accurate and complete.

Condition
The Data Collection Form (DCF) and the Single Audit reporting package were not submitted within nine months after the end of the audit period.

Part II - Financial Statement Findings Section

Finding Number 11-01 (continued)

Questioned Costs
None.

Underlying Cause
Information needed to complete the Single Audit was not available for examination within the required period.

Effects
The lack of appropriate procedures to ensure a complete reporting package and data collection form submission may cause delays in the audit process thus affecting future grant awards.

Recommendation
The Government should improve the procedures to ensure that the OMB Circular A-133 reporting package, including a complete and accurate schedule of expenditures of federal awards, is available for examination by the external auditors with sufficient time to complete and issue the reporting package within the required period.

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

Part II - Financial Statement Findings Section

Finding Number: 11-02

Primary Agencies/Departments Affected: DOF, IRB, LGO

Topic
The Government's lack of control over the income, excise, property and sales tax revenues processes led to significant audit adjustments being recorded in the financial statements. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a material weakness.

Category
Internal Control

Criteria
A sound system of internal controls is essential in enabling the Government to prepare timely and accurate financial statements by helping ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
Management's calculation of its tax revenues processes were not properly performed, resulting in significant audit adjustments. The following items resulted in audit adjustments which could have been prevented had Management implemented sound internal controls over its tax revenue recognition processes: (a) Management used an inappropriate date on the report used to calculate the income tax receivable causing an understatements of revenues, and (b) the calculation for property tax receivables was not properly supported and thus significant audit adjustments were proposed in order to correctly present these accounts.

Questioned Costs
Not applicable.

Underlying Cause
The Government's tax revenue process has grown in complexity. Additionally, supervisory review of the tax revenue process was not effective in all instances.

Part II - Financial Statement Findings Section

Finding Number 11-02 (continued)

Effect
The lack of supervisory review led to significant adjustments in the Government's financial statements.

Recommendation
The Government's DOF should be more closely involved in the monitoring and review of the tax revenues processes. Management should consider performing these controls on a quarterly basis in order to detect and correct errors on a timely basis, while enhancing the Government's knowledge over its financial condition.

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

Part II - Financial Statement Findings Section

Finding Number: 11-03

Primary Agencies/Departments Affected: DOF, P&P, DPW, PFA

Topic
The Government's lack of control over its capital assets process led to significant adjustments in the financial statements.

Category
Internal Control

Criteria
A sound system of internal controls is essential in enabling the Government to prepare timely and accurate financial statements by helping ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
During our review of construction in progress accounts, we noted a significant number of projects that had items capitalized that should have been expensed during the current period. We also noted transfers of assets from construction in progress which were duplicated when capitalized.

Questioned Costs
Not applicable.

Underlying Cause
There is a lack of timely coordination between the Department of Finance, the Department of Property and Procurement,V.I. Public Finance Authority, and the Department of Public Works.

Effect
The lack of supervisory review and coordination between the mentioned agencies led to significant audit adjustments in the Government's financial statements.

Part II - Financial Statement Findings Section

Finding Number 11-03 (continued)

Recommendation
The Government should implement a formal procedure of quarterly reviews the status of construction in progress accounts and capital assets that may require impairment.

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

Part II - Financial Statement Findings Section

Finding Number: 11-04

Primary Agency/Department Affected: DOF

Topic
The Government's lack of control over the accounts payable reconciliations process led to significant adjustments in the financial statements. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a material weakness.

Category
Internal Control

Criteria
A fundamental element of a sound system of internal controls is an effective accounts payable reconciliations process. Such process is essential in enabling companies to prevent and detect errors on a timely basis. This effective process helps ensure that all accounts payable reconciliations are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
Lack of controls over the accounts payable ERP module and accounts payable reconciliations has made it difficult for the Government to establish its accounts payable subledger. Management establishes its accounts payable subledger through a manually intensive process. This resulted in audit significant adjustments in the Government's financial statements.

Questioned Costs
Not applicable.

Underlying Cause
The Government's financial statements have grown in complexity. Additionally, supervisory review of the accounts payable reconciliation process was not effective in all instances.

Part II - Financial Statement Findings Section

Finding Number 11-04 (continued)

Effect
The lack of supervisory review led to significant adjustments in the Government's financial statements. This resulted in a material misstatement of the financial statements.

Recommendation
The Government's management should be more closely involved in the monitoring and review of the financial statement close process. Management should consider performing this process on a quarterly basis in order to detect and correct errors on a timely basis, while enhancing the Government's knowledge over its financial condition. In addition, Management should consider establishing procedures to reduce manual efforts by utilizing its ERP Accounts Payable module more effectively.

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

Part II - Financial Statement Findings Section

Finding Number: 11-05

Primary Agencies/Departments Affected: DOF

Topic
The Government's lack of control over retroactive pay liability has impaired our ability to conclude on its reasonableness. This has resulted in a modification of our audit opinion for the last three years. For the last three years, we encountered calculation errors that were significant in the retro pay liability calculation. The calculation errors have not been remediated as of the date of this report.

Category
Internal Control

Criteria
A fundamental element of a sound system of internal controls is an effective liability calculation process. Such process is essential in enabling organization to prevent and detect errors on a timely basis. This effective process helps ensure that all liability transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
The Government was not able to substantiate its calculation of the retroactive pay liability, which resulted in a qualification of our opinion of governmental activities in the Government's basic financial statements.

Questioned Costs
Not applicable.

Underlying Cause
Supervisory review of the liability calculation process was not effective. As a result, supporting documentation for calculation was not sufficiently accurate to support Management's assertions.

Part II - Financial Statement Findings Section

Finding Number: 11-05 (continued)

Effect
The Government was not able to support its calculation for this liability, which resulted in a qualification of our audit opinion of governmental activities in the Government's basic financial statements.

Recommendation
The Government's management should establish controls over the review of this calculation process and effective procedures to document their support of this liability.

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

Part II - Financial Statement Findings Section

Finding Number: 11-06

Primary Agency/Department Affected: DOF

Topic
Performance and review of the bank reconciliation process has not been timely performed.

Category
Internal Control

Criteria
Performance and review of bank reconciliations should be performed within a reasonable period after month-end.

Condition Found
During our audit, we noted that bank reconciliations were not being performed and reviewed within a reasonable period. Most bank reconciliations were completed, reviewed and approved after 365 days.

Questioned Costs
Not applicable.

Underlying Cause
The Government has numerous bank accounts and its process for performing bank reconciliations is, for the most part, performed manually.

Effect
The lack of timely performance and review of bank reconciliations led to adjustments not identified on a timely basis. This could also result in a misstatement due to error or fraud. In addition, this has prevented the Government from performing monthly closing procedures, which is necessary for timely financial reporting.

Part II - Financial Statement Findings Section

Finding Number 11-06 (continued)

Recommendation
The Government should automate its bank reconciliation process and consolidate unnecessary bank accounts. This will allow for the Government's personnel to be more efficient and effective in detecting errors and provide the Government more timely and accurate financial information.

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

Part II - Financial Statement Findings Section

Finding Number: 11-07

Primary Agency/Department Affected: DOF, DOH

Topic
The Government's lack of control over its liability estimation process for medical malpractice claims led to an error in the financial statements, which could not be quantified by management.

Category
Internal Control

Criteria
A fundamental element of a sound system of internal controls is an effective liability estimation process. Such process is essential in enabling companies to prevent and detect errors on a timely basis. This effective process helps ensure that all liability estimation transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
The Government did not establish a liability for medical malpractice claims.

Questioned Costs
Not applicable.

Underlying Cause
The Government's financial statements have grown in complexity. An evaluation of the malpractice liability was not performed for fiscal year 2011.

Effect
The Government was not able to quantify this liability, which resulted in a disclaimer in the audit opinion of the business-type activities and aggregate remaining fund information.

Part II - Financial Statement Findings Section

Finding Number 11-07 (continued)

Recommendation
The Government's management should establish controls over the review its claims data process which will allow them to provide the data necessary to their actuary for the estimation of this liability for fiscal year 2012.

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

Part II - Financial Statement Findings Section

Finding Number: 11-08

Primary Agency/Department Affected: DOF

Topic
The Government's lack of control over transactions with its component units led to significant adjustments in the financial statements. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a material weakness.

Category
Internal Control

Criteria
A sound system of internal controls is essential in enabling the Government to prepare timely and accurate financial statements by helping ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
Lack of review of classification and reporting of transactions with component units led to significant errors, some which related to prior periods, in amounts recorded as capital assets in the financial statements of the Government.

Questioned Costs
Not applicable.

Underlying Cause
The Government does not have an effective process to review the classification and reporting of transactions between component units and the Government.

Effect
This control deficiency led to significant adjustments in the Government's financial statements. This resulted in a material misstatement of the financial statements, some which related to prior periods.

Part II - Financial Statement Findings Section

Finding Number 11-08 (continued)

Recommendation
The Government's management should be more closely involved in the monitoring and review of the transactions with its component units, in order to detect and correct errors on a timely basis, while enhancing the Government's knowledge over its financial condition. In addition, the Government should establish a procedure of obtaining a reporting package from all of its component units to confirm the classification and reporting of transactions with its component units. This reporting package will standardize and simplify the process of reviewing transactions with component units.

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

Part III - Federal Awards Findings and Questioned Costs Section

This section identifies the audit findings required to be reported by OMB Circular A-133, Section .510(a) (for example, material weaknesses, significant deficiencies and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-09

Programs
In accordance with the Cash Management Improvement Act Agreement
U.S. Department of Agriculture - SNAP Cluster - CFDA Nos. 10.551, 10.561; ARRA-10.561
U.S. Department of Agriculture – Special Supplemental Nutrition Program for Women, Infants and Children (WIC) - CFDA No. 10.557
U.S. Department of Labor - Unemployment Insurance - CFDA Nos. 17.225; ARRA-17.225
U.S. Department of Transportation - Highway Planning and Construction - CFDA Nos. 20.205, ARRA-20.205
U.S. Department of Health and Human Services - Child Support Enforcement Program - CFDA No. 93.563
U.S. Department of Health and Human Services - Head Start Cluster - CFDA Nos. 93.600, ARRA-93.708
U.S. Department of Health and Human Services – Medical Assistance Program (Medicaid) - CFDA No. 93.778

Category
Internal Control / Compliance

Compliance Requirement
Cash Management

Criteria
In accordance with 31 CFR part 205 and the Cash Management Improvement Act (CMIA) Treasury-State Agreement in effect for fiscal year 2011, between the Territory of the Virgin Islands (the Territory) and the U.S. Secretary of the Treasury, the Territory is required to use an "average clearance" funding technique for vendor and payroll related costs. Under the "average clearance" funding technique, the Government may submit claims for reimbursement such that the funds are deposited, by ACH on the dollar-weighted average day of clearance, in the Government's bank account on the fourth day following the release of funds for vendor disbursements and on the day in which payroll checks are released for payroll related costs. Furthermore, reimbursement requests shall be for the exact amounts disbursed.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-09 (continued)

Condition – SNAP Cluster **-** CFDA Nos. 10.551, 10.561, and ARRA-10.561
Funding Techniques per Cash Management Improvement Act Agreement:

CFDA: 10.551 and ARRA-10.561
Component: Benefit Payments
Technique: Actual Clearance, ZBA - Same Day Payment
Clearance Pattern: 0 Days

CFDA: 10.561
Component: Vendor pay and all other cost
Technique: Average Clearance
Clearance Pattern: 4 Days

During our testing of cash management procedures to verify the timing of cash drawdowns were made as close as is administratively feasible, we noted there were only 23 cash drawdowns related to payroll expenses, when there are 26 pay periods throughout the fiscal year. As per the CMIA agreement, cash draws related to payroll should be made upon every payday with an average clearance pattern of 0 (zero) days. Thus, we noted that the Government accumulated several pay periods per cash draw request, instead of requesting the cash for every pay period, to comply with the CMIA agreement average clearance pattern. While this situation did not lead to drawing funds in advance of CMIA established timing, it is evidence of lack of sufficient or effective internal controls over drawdown requirements.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-09 (continued)

Condition - WIC Program - CFDA No. 10.557
Funding Techniques per Cash Management Improvement Act Agreement:

CFDA: 10.557
Component: Salaries
Technique: Average Clearance
Clearance Pattern: 0 Days

Component: Vendor pay and all other costs
Technique: Average Clearance
Clearance Pattern: 4 Days

During our testing to determine whether the Government complied with the terms and conditions established in the Cash Management Improvement Act (CMIA) agreement, we selected a sample of 22 cash drawdowns (out of a population of 205) that amounted to $974,267 (out of a total of $6,174,226). We noted that three (3) out of the 22 drawdowns selected for testing did not comply with CMIA as follows:

Federal Grant No.	Cash drawdown requested	Component	Payment release date	Actual deposit date	Days between payment release date and deposit date
2011IW100341	$83,277	Payroll	5/4/2011	5/24/2011	20
2011IW100341	$ 6,331	Vendor payments	7/26/2011	8/10/2011	12
2011IW100341	$95,274	Payroll	9/8/2011	9/26/2011	18

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-09 (continued)

Condition - Unemployment Insurance - CFDA Nos. 17.225 and ARRA-17.225
Funding Techniques per Cash Management Improvement Act Agreement:

CFDA: 17.225 and ARRA-17.225
Component: Salaries
Technique: Average clearance
Clearance Pattern: 0 days

Component: Vendor pay and all other costs
Technique: Average clearance
Clearance Pattern: 4 days

During our testing to determine whether the Government complied with the terms and conditions established in the Cash Management Improvement Act (CMIA) agreement, we selected a sample of 16 cash drawdowns (out of a population of 156) that amounted to $381,942 (out of a total of $2,239,290). We noted that nine (9) out of the 16 drawdowns selected for testing did not comply with CMIA as follows:

Reference No.	Cash drawdown requested	Component	Payment release date	Actual deposit date	Days between payment release date and deposit date
4033709984	$283,729	Vendor payment	1/22/2011	1/13/2011	-9
4033615130	$ 6,554	Payroll	10/21/2010	11/5/2010	15
4033691604	$ 63,398	Payroll	12/16/2010	12/29/2010	13
2049230706	$ 3,736	Payroll	12/30/2010	1/14/2011	15
2049233579	$ 526	Vendor payment	1/26/2011	1/21/2011	-5
Not available	$ 418	Vendor payment	1/22/2011	1/13/2011	-9
4034006186	$ 1,802	Payroll	8/10/2011	8/11/2011	1
2049273306	$ 5,257	Payroll	4/20/2011	5/2/2011	12
4034022277	$ 4,169	Vendor payment	8/5/2011	8/24/2011	19

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-09 (continued)

Condition - Highway Planning and Construction - CFDA Nos. 20.205 and ARRA-20.205
Funding Techniques per Cash Management Improvement Act Agreement:

CFDA: 20.205 and ARRA-20.205
Component: Salaries
Technique: Average Clearance
Clearance Pattern: 0 Days

Component: Vendor pay and all other costs
Technique: Average Clearance
Clearance Pattern: 4 Days

During our testing to determine whether the Government complied with the terms and conditions established in the Cash Management Improvement Act (CMIA) agreement, we selected a sample of 40 cash drawdowns (out of a population of 465). We noted that 39 out of the 40 drawdowns selected for testing did not comply with CMIA as follows:

Cash drawdown requested	Payment release date	Date funds requested per PR-20	Days between payment release date and request date
$43,950	4/1/2011	3/29/2011	-3
$ 715	10/27/2010	9/17/2010	-40
$ 6,600	10/28/2010	1/31/2011	95
$ 450	12/9/2010	12/6/2010	-3
$ 1,000	12/9/2010	12/6/2010	-3
$ 587	10/6/2011	9/16/2011	-20
$ 592	10/6/2011	9/16/2011	-20
$ 198	2/8/2011	3/24/2011	44

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-09 (continued)

Condition - Highway Planning and Construction - CFDA Nos. 20.205 and ARRA-20.205 (continued)

Cash drawdown requested	Payment release date	Date funds requested per PR-20	Days between Payment release date and request date
$ 77	9/28/2011	8/26/2011	-33
$ 77	7/20/2011	6/23/2011	-27
$ 424	5/2/2011	3/11/2011	-52
$ 70	2/2/2011	1/28/2011	-5
$ 70	2/2/2011	1/28/2011	-5
$ 77	1/21/2011	1/28/2011	7
$ 67	1/21/2011	12/8/2010	-44
$ 70	1/21/2011	12/8/2010	-44
$ 69	9/26/2011	11/14/2011	49
$ 57	6/1/2011	8/3/2011	63
$ 55	6/1/2011	8/3/2011	63
$ 53	3/2/2011	4/26/2011	55
$ 54	12/9/2010	1/31/2011	53
$ 62	12/9/2010	1/31/2011	53
$ 69	8/4/2011	9/12/2011	39
$ 4,808	7/7/2011	9/16/2011	71
$ 3,672	9/16/2011	9/12/2011	-4
$253,601	9/9/2011	8/26/2011	-14
$ 160	8/11/2011	8/29/2011	18
$ 256	12/15/2010	8/29/2011	257
$ 510	10/6/2010	10/1/2010	-5
$ 4,041	9/7/2011	8/14/2011	-24

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-09 (continued)

Condition - Highway Planning and Construction - CFDA Nos. 20.205 and ARRA-20.205 (continued)

Cash drawdown requested	Payment release date	Date funds requested per PR-20	Days between payment release date and request date
$ 394	3/2/2011	3/24/2011	22
$ 2,275	12/2/2010	6/2/2010	-183
$ 184	8/19/2011	9/12/2011	24
$ 173	8/19/2011	9/12/2011	24
$ 12,025	11/15/2010	11/5/2010	-10
$ 1,585	9/1/2011	8/17/2011	-15
$ 3,297	11/15/2010	11/5/2010	-10
$ 23,907	9/1/2011	8/17/2011	-15
$ 4,099	6/8/2011	6/3/2011	-5

Condition - Child Support Enforcement Program - CFDA No. 93.563
Funding Techniques per Cash Management Improvement Act Agreement:

CFDA: 93.563
Component: Salaries
Technique: Average Clearance
Clearance Pattern: 0 Days

Component: Vendor pay and all other costs
Technique: Average Clearance
Clearance Pattern: 4 Days

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-09 (continued)

Condition - Child Support Enforcement Program - CFDA No. 93.563 (continued)
During our testing to determine whether the Government complied with the terms and conditions established in the Cash Management Improvement Act (CMIA) agreement, we selected a sample of nine (9) cash drawdowns (out of a population of 90) that amounted to $447,946 (out of a total of $4,201,918). We noted that seven (7) out of the nine (9) drawdowns selected for testing did not comply with CMIA as follows:

Reference No.	Cash drawdown requested	Component	Payment release date	Actual deposit date	Days between payment date and deposit date
4033616811	$83,190	Payroll	11/4/2010	11/8/2010	4
4033677649	$80,353	Payroll	12/16/2010	12/20/2010	4
4033687095	$20,062	Vendor payment	1/20/2011	12/27/2010	-24
4033794744	$80,098	Payroll	3/10/2011	3/11/2011	1
4033808499	$18,251	Vendor payment	3/26/2011	3/22/2011	-4
4033837783	$78,694	Payroll	4/7/2011	4/8/2011	1
4033957340	$ 3,090	Vendor payment	7/5/2011	7/7/2011	-2

Condition - Head Start Cluster - CFDA Nos. 93.600 and ARRA-93.708
Funding Techniques per Cash Management Improvement Act Agreement:

CFDA: 93.600
Component: Salaries
Technique: Average Clearance
Clearance Pattern: 0 Days

Component: Vendor pay and all other costs
Technique: Average Clearance
Clearance Pattern: 4 Days
Finding Number: 11-09 (continued)

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Condition - Head Start Cluster - CFDA Nos. 93.600 and ARRA-93.708 (continued)
During our assessment to determine whether the Government have complied with the terms and conditions of the CMIA Treasury-State Agreement we noted that there were only 22 cash drawdowns during the period, when there are 26 pay periods throughout the fiscal year. As per the CMIA agreement, cash draws related to payroll should be made upon every payday with an average clearance pattern of 0 (zero) days. Thus, we noted that the Government accumulated several pay periods per cash draw request, instead of requesting the cash for every pay period in order to comply with the CMIA agreement average clearance pattern. While this situation did not lead to drawing funds in advance of CMIA established timing, it is evidence of lack of sufficient or effective internal controls over drawdowns requirements.

Condition – Medical Assistance Program (Medicaid) - CFDA No. 93.778
Funding Techniques per Cash Management Improvement Act Agreement:

CFDA: 93.778
Component: Salaries
Technique: Average Clearance
Clearance Pattern: 0 Days

Component: Vendor pay and all other costs
Technique: Average Clearance
Clearance Pattern: 4 Days

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-09 (continued)

Condition - Medical Assistance Program (Medicaid) - CFDA No. 93.778 (continued)
During our testing to determine whether the Government complied with the terms and conditions established in the Cash Management Improvement Act (CMIA) agreement, we selected a sample of 12 cash drawdowns (out of a population of 58) that amounted to $2,414,066 (out of a total of $16,559,270). We noted that 11 out of the 12 drawdowns selected for testing did not comply with CMIA as follows:

Reference No.	**Cash drawdown requested**	**Component**	**Payment release date**	**Actual deposit date**	**Days between payment release date and deposit date**
4034058002	$ 61,885	Payroll	7/21/2011	9/21/2011	62
4033925400	$ 19,987	Payroll	6/9/2011	6/14/2011	5
4033892074	$201,008	Payroll	5/26/2011	5/19/2011	-7
4033769820	$ 63,068	Vendor payment	2/10/2011	2/24/2011	14
4033748429	$ 59,758	Vendor payment	2/24/2011	2/9/2011	-15
4033937852	$ 4,285	Vendor payment	6/16/2011	6/22/2011	6
4033917287	$ 4,693	Vendor payment	6/2/2011	6/8/2011	6
4033917287	$172,560	Payroll	6/9/2011	6/8/2011	-1
4033886986	$813,122	Payroll	4/27/2011	5/16/2011	19
4033871891	$632,475	Payroll	5/2/2011	5/4/2011	-2
4033769820	$106,226	Payroll	2/18/2011	2/24/2011	6

Questioned Costs
Could not be determined

Underlying Cause
Internal controls related to cash management to minimize the timing between the time funds are released and the transfers are made are not operating effectively in accordance with CMIA requirements.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-09 (continued)

Effect

Requesting reimbursement in advance of payment of expenditures is not permissible under the requirements of grant programs and could result in reimbursement for unallowable or unsupported costs.

Recommendation

The Government should ensure that policies and procedures are enforced in order to comply with the appropriate funding patterns set forth in the CMIA Treasury-State Agreement.

Management's Response

The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-10

Programs
U.S. Department of Defense – National Guard Military Operations and Maintenance (O&M) Projects – CFDA No. 12.401
U.S. Department of Labor - WIA Cluster - CFDA Nos. 17.258; ARRA-17.258; and ARRA-17.259
U.S. Department of Energy- State Energy Program- CFDA Nos. 81.041 and ARRA-81.041
U.S. Department of Education-State Fiscal Stabilization Fund Cluster- CFDA Nos. ARRA-84.394 and ARRA-84.397
U.S. Department of Health and Human Services – Temporary Assistance for Needy Families (TANF) - CFDA No. 93.558
U.S. Department of Health and Human Services – CCDF Cluster – CFDA Nos. 93.575 and ARRA – 93.713

Category
Internal Control / Compliance

Compliance Requirement
Cash Management

Criteria
According to the 31 CFR 205 "Subpart B—Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement": A State must minimize the time between the drawdown of federal funds from the federal government and their disbursement for federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-10 (continued)

Condition – National Guard Military Operations and Maintenance (O&M) Projects - CFDA No. 12.401
During our testing to determine whether the Government complied with the terms and conditions established in 31 CFR 205 "Subpart B—Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement", we noted that drawdowns are organized in binders and management could not provide a complete list of cash drawdowns. However, we selected a sample of 35 cash drawdowns that amounted to $732,066. We noted that all 35 drawdowns selected for testing did not comply with conditions established in 31 CFR 205 as follows:

Reference No.	Reimbursement request amount	Date of the last invoice	Reimbursement request date	Days between date of the last invoice and reimbursement request
SF1-025-2011	$30,386	8/27/2011	9/23/2011	27
SF1-013-2011	$37,401	3/12/2011	4/13/2011	32
SF1-016-2011	$42,379	4/23/2011	7/7/2011	75
SF1-019-2011	$38,424	6/4/2011	7/14/2011	40
SF1-029-2011	$ 264	9/30/2011	12/8/2011	69
SF2-002-2011	$ 750	12/14/2010	1/12/2011	29
SF2-007-2011	$ 198	4/27/2011	6/27/2011	61
SF2-010-2011	$ 1,496	10/25/2010	8/20/2011	299
SF2-013-2011	$38,841	9/28/2011	10/26/2011	28

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-10 (continued)

Condition – National Guard Military Operations and Maintenance (O&M) Projects - CFDA No. 12.401 (continued)

Reference No.	Reimbursement request amount	Date of the last invoice	Reimbursement request date	Days between the last invoice and reimbursement request
SF1-002-2011	$ 9,724	10/23/2010	12/2/2010	40
SF1-018-2011	$ 9,724	5/21/2011	7/6/2011	46
SF1-024-2011	$ 9,028	8/13/2011	9/8/2011	26
SF1-028-2011	$ 4,514	9/30/2011	10/25/2011	25
SF-009-2011	$15,649	9/8/2011	1/19/2011	72
SF-008-2011	$ 9,030	7/8/2011	11/7/2011	122
SF-004-2011	$ 8,739	3/1/2011	6/6/2011	97
SF-002-2011	$ 3,079	1/1/2011	4/4/2011	93
SF1-009-2011	$ 2,486	6/4/2011	9/13/2011	101
SF1-006-2011	$ 2,486	4/23/2011	6/6/2011	44
SF1-015-2011	$ 2,312	8/27/2011	10/3/2011	37
SF1-016-2011	$10,534	6/21/2011	7/14/2011	23
SF1-015-2011	$28,042	6/1/2011	7/6/2011	35
SF1-010-2011	$15,173	4/19/2011	5/18/2011	29
SF3-025-2011	$12,551	8/27/2011	9/19/2011	23
SF1-006-2011	$73,308	3/25/2011	4/4/2011	10
SF1-005-2011	$10,511	1/1/2011	2/22/2011	52
SF1-004-2011	$74,313	1/18/2011	2/10/2011	23
SF1-003-2011	$33,888	12/18/2010	2/3/2011	47
SF1-002-2011	$63,257	12/29/2010	1/12/2011	14

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-10 (continued)

Condition – National Guard Military Operations and Maintenance (O&M) Projects - CFDA No. 12.401 (continued)

Reference No.	Reimbursement request amount	Date of the last invoice	Reimbursement request date	Days between the last invoice and reimbursement request
SF1-001-2011	$66,145	11/30/2010	12/29/2010	29
SF1-026-2011	$ 9,028	9/10/2011	10/25/2011	45
SF1-014-2011	$ 9,734	4/26/2011	4/19/2011	-7
SF2-002-2011	$ 1,400	1/31/2011	4/2/2011	61
SF2-004-2011	$ 100	2/26/2011	5/18/2011	81
SF1-009-2011	$57,173	4/1/2011	5/18/2011	47

Condition - WIA Cluster - CFDA Nos. 17.258, ARRA-17.258, 17.259
During our testing to determine whether the Government complied with the terms and conditions established in 31 CFR 205 "Subpart B—Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement", we selected a sample of 25 cash drawdowns (out of a population of 252) that amounted to $279,951 (out of a total of $3,327,130). We noted that 19 of the 25 drawdowns selected for testing did not comply with conditions established in 31 CFR 205 as follows:

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-10 (continued)

Condition - WIA Cluster - CFDA Nos. 17.258, ARRA-17.258, 17.259 (continued)

Grant award no.	Cash drawdown requested	Payment release date	Actual deposit date	Days between release and deposit
AA-171535M	$ 8,397	5/29/2011	6/30/2011	32
AA-186738G	$ 3,158	1/13/2011	2/2/2011	20
AA-186738G	$47,157	2/18/2011	2/25/2011	7
AA-186738G	$ 6,196	7/20/2011	8/2/2011	13
AA-186738G	$ 5,242	9/6/2011	9/12/2011	6
AA-186736F	$ 1,700	8/11/2011	8/26/2011	15
AA-186738E	$ 854	4/19/2011	5/18/2011	29
AA-186738E	$ 551	7/14/2011	7/26/2011	12
AA-171534B	$ 1,712	8/5/2011	9/12/2011	38
AA-20225DA	$17,626	4/19/2011	6/8/2011	50
AA-20225DA	$49,849	7/7/2011	7/19/2011	12
AA-20225CY	$32,110	3/24/2011	4/8/2011	15
AA-20225CY	$21,267	5/19/2011	6/8/2011	20
AA-20225AT	$ 2,662	3/30/2011	4/6/2011	7
AA-20225AT	$12,645	3/24/2011	4/8/2011	15
AA-20225AG	$ 8,626	6/16/2011	6/29/2011	13
AA-20225AG	$ 3,337	8/11/2011	8/26/2011	15
AA-20225AG	$ 3,190	8/25/2011	9/16/2011	22
AA-21427FA	$20,198	8/11/2011	8/17/2011	6

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-10 (continued)

Condition – State Energy Program - CFDA Nos. 81.041 and ARRA-81.041
During our testing to determine whether the Government complied with the terms and conditions established in 31 CFR 205 "Subpart B—Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement", we selected a sample of six (6) cash drawdowns (out of a population of 25) that amounted to $5,186,496 (out of a total of $12,157,123).We noted that two (2) of the six (6) drawdowns selected for testing did not comply with conditions established in 31 CFR 205 as follows:

Federal account ID	Cash drawdown requested	Payment release date	Actual deposit date	Days between payment and deposit
EE0000223	$175,220	5/25/2011	6/21/2011	27
EE0000223	$780,232	6/27/2011	6/24/2011	-3

Condition – State Fiscal Stabilization Fund Cluster- CFDA Nos. ARRA-84.394 and ARRA-84.397
During our testing to determine whether the Government complied with the terms and conditions established in 31 CFR 205 "Subpart B—Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement", we selected a sample of 12 cash drawdowns (out of a population of 117) that amounted to $20,193,433 (out of a total of $31,633,577). We noted that three (3) of the 14 drawdowns selected for testing did not comply with conditions established in 31 CFR 205 as follows:

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-10 (continued)

Condition – State Fiscal Stabilization Fund Cluster- CFDA Nos. ARRA-84.394 and ARRA-84.397 (continued)

CFDA No.	Grand award no.	Cash drawdown requested	Payment release date	Actual deposit date	Days between release and deposit
ARRA-84.397	S397A090056	$257,658	7/1/2011	6/28/2011	-3
ARRA-84.397	S397A090056	$ 6,952	5/19/2011	6/6/2011	18
ARRA-84.397	S397A090056	$ 32,800	9/21/2011	9/30/2011	9

In addition, management could not provide support for three (3) of the 12 drawdowns selected for testing as follows:

CFDA No.	Grant award No.	Cash drawdown requested	Request date
ARRA-84.397	S397A090056	$ 5,389	9/9/11
ARRA-84.397	S397A090056	$ 7,148	-
ARRA-84.397	S397A090056	$316,525	12/17/10

Condition – Temporary Assistance for Needy Families (TANF) - CFDA No. 93.558

Component: Salaries
Technique: Average Clearance
Clearance Pattern: 0 Days

Component: Vendor pay and all other costs
Technique: Average Clearance
Clearance Pattern: 4 Days

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-10 (continued)

Condition – Temporary Assistance for Needy Families (TANF) - CFDA No. 93.558 (continued)

During our testing to determine whether the Government complied with the terms and conditions established in 31 CFR 205 "Subpart B—Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement", we selected a sample of nine (9) cash drawdowns (out of a population of 43) that amounted to $1,053,266 (out of a total of $4,730,761). We noted that all nine (9) drawdowns selected for testing did not comply with conditions established in 31 CFR 205 as follows:

Federal account ID	Component	Cash drawdown requested	Payment release date	Actual Deposit Date	Days between payment and deposit
Acct. #A337P	Payroll	$257,225	8/25/2011	8/30/2011	5
Acct. #A337P	Payroll	$331,682	8/11/2011	7/27/2011	-15
Acct. #A337P	Payroll	$150,633	3/23/2011	4/11/2011	19
Acct. #A337P	Payroll	$ 86,082	3/24/2011	4/11/2011	18
	Vendor payment	$ 1,700	3/28/2011	4/11/2011	14
Acct. #A337P	Payroll	$ 37,922	1/13/2011	2/4/2011	22
Acct. #A337P	Vendor payment	$ 50,884	12/28/2010	1/11/2011	14
Acct. #A337P	Payroll	$ 61,618	12/30/2010	1/3/2011	4
Acct. #A337P	Payroll	$ 42,120	10/21/2010	10/29/2010	8
Acct. #A337P	Payroll	$ 33,400	10/7/2010	11/5/2010	29

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-10 (continued)

Condition - CCDF Cluster – CFDA No. 93.575 and ARRA-93.713

Component: Salaries
Technique: Average Clearance
Clearance Pattern: 0 Days

Component: Vendor pay and all other costs
Technique: Average Clearance
Clearance Pattern: 4 Days

During our testing to determine whether the Government complied with the terms and conditions established in 31 CFR 205 "Subpart B—Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement", we selected a sample of seven (7) cash drawdowns (out of a population of 62) that amounted to $1,038,330 (out of a total of $2,782,303). We noted that all seven (7) drawdowns selected for testing did not comply with conditions established in 31 CFR 205 as follows:

Reference No.	Component	Cash drawdown requested	Payment release date	Actual deposit date	Excess days
4033924196	Payroll	$13,890	6/2/2011	6/14/2011	12
4033897243	Payroll	$14,856	05/04/2011	5/23/2011	19
	Payroll	$14,759	05/19/2011	5/23/2011	4
4033727510	Payroll	$14,759	1//13/2011	1/26/2011	13

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-10 (continued)

Condition - CCDF Cluster – CFDA No. 93.575 and ARRA-93.713 (continued)

Reference No.	Component	Cash drawdown requested	Payment release date	Actual deposit date	Excess days
4033723196	Vendor payment	$105,073	1/28/2011	1/24/2011	-4
4033682841	Vendor payment	$ 72	12/23/2010	12/22/2010	-1
	Vendor payment	$ 144	12/17/2010	12/22/2010	5
	Vendor payment	$ 14,814	12/21/2010	12/22/2010	1
4033644980	Vendor payment	$ 1,878	11/19/2010	11/26/2010	7
	Vendor payment	$764,000	11/30/2010	11/26/2010	-4
	Payroll	$ 28,497	11/18/2010	11/26/2010	8
4034036665	Vendor payment	$ 65,588	Various	9/2/2011	-1

Questioned costs
Not applicable.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-10 (continued)

Underlying Cause
Internal controls over policies and procedures related to transfers of federal funds for programs not included in the Treasury-State Agreement, do not appear to be operating effectively in order to minimize the timing between the time funds are released, and the transfers are made, to be as close as is administratively feasible.

Effect
Requesting reimbursement in advance of payment of expenditures is not permissible under the requirements of grant programs and could result in reimbursement for unallowable or unsupported costs.

Recommendation
The Government should ensure that policies and procedures are enforced in order to comply with 31 CFR 205 Subpart B, and minimize the timing between the time funds are released and the transfers are made.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Defense
The Office of the Adjutant General

National Guard Military Operations and Maintenance (O&M) Projects
CFDA No. 12.401

The National Guard Bureau (NGB) enters into Cooperative Agreements (CA) for Army National Guard (ARNG) Facilities Programs (EP) and Air National Guard (ANG) Facility Operations & Maintenance Activities (FOMA) with States to provide federal support for services provided by the State Military Departments for authorized facilities for leases, facilities operations, and sustainment, restoration, an modernization, including operations and maintenance (O&M) and minor construction costs (NGR 5-1/ANGI 63-101).

Total National Guard Military Operations and Maintenance (O&M) Projects Federal expenditures for the fiscal year ended September 30, 2011, amounted to $4,341,600.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-11

Federal Program
Department of Defense-National Guard Military Operations and Maintenance (O&M) Projects - CFDA No. 12.401

Category
Internal controls

Compliance requirement
Reporting

Criteria
In accordance with 29 CFR 97.20 requirements: (a) A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. (b) The financial management systems of other grantees and subgrantees must meet the following standards (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. (3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes. (4) Budget control. Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-11 (continued)

Criteria (continued)
Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible. (5) Allowable cost. Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs. (6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

Condition
We selected a sample of 35 Financial Status Reports (SF-270) (out of a population of 241) to test compliance and internal control over reporting requirements. We noted a difference between the ETA Financial Status Reports and the Accounting Records (ERP) regarding the expenditures for FY2011.

Total expenditures per reports SF-270	$4,123,777
Total expenditures per ERP	4,644,318
Unreconciled difference	$ 520,542

Questioned costs
Not applicable.

Underlying Cause
Policies are not in place in order to ensure the accuracy of the information contained in the required reports, including reconciling federal expenditures with the Government's accounting records.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-11 (continued)

Effect

The Government could be reporting unallowable costs as federal expenditures. This may also lead to incorrect financial information presented in reports submitted to the federal government.

Recommendation

Management of the National Guard Military Operations and Maintenance (O&M) Projects Program should implement procedures to ensure a proper reconciliation between accounting records and Financial Status Reports (SF 270).

Management's Response

The Office of the Adjutant General does not concur with the condition, cause and recommendation of this finding.

The Master Cooperative Agreement (MCA) is a contract entered into by the Government of the Virgin Islands (Grantee) and the National Guard Bureau (Federal Government). Both parties agree to the terms and conditions established for the Cooperative Agreement which are applicable to the contribution of NGB funds for the operation and training of the Virgin Islands Army and Air National Guard.

Although the term covered by the MCA is a five-year term, funds are provided annually and allowable costs must be incurred in the same fiscal year as the funding. Likewise, the reimbursements are reported in the same fiscal year that it was expended. (NGR 5-1, Chapter 10)

Management reports are validated and reimbursements received based on the SF270s prepared for that fiscal year. Both amounts are reconciled according to records retained in the Office of the Adjutant General and are reported in that manner to the United States Property and Fiscal Officer (Grantor) as stipulated in the NGR 5-1, Chapter 10, Section 10 (a). All obligations made during the period of fund availability may not have been paid for months or years after fund availability has expired. However, an appendix cannot close out until all outstanding obligations have been paid. 'Timely close out of Agreements is the key to internal control'.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-11 (continued)

Management's Response (continued)
According to the audit's condition detailed in the finding, the ERP figure do not represent that of Fiscal Year 2011 and may be the result of the Department of Finance co-mingling the funds of prior years with that of the current year.

Auditor's Conclusion
As stated in our finding, differences remained unexplained or uncorrected; a reconciliation between the expenditures reported in the 1512 reports and the accounting records of the Central Government (ERP) was not provided during the time of our audit.

Therefore, the finding remains as stated.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Labor

WIA Cluster
CFDA Nos. 17.258, ARRA-17.258, 17.259

The WIA of 1998 reforms federal job training programs and creates a new, comprehensive workforce investment system. The reform system is intended to be customer-focused, to help American access the tools they need to manage their careers through information and high quality services, and to help U.S. companies find skilled workers. The cornerstone of the new workforce investment system is One-Stop service delivery, which unifies numerous trainings, education and employment programs into a simple, customer-friendly system in each community so that the customer has access to seamless system of workforce investment service.

Total WIA Cluster federal expenditures for the fiscal year ended September 30, 2011, amounted to $3,002,755.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-12

Program
U.S. Department of Labor – WIA Cluster - CFDA Nos. 17.258, ARRA-17.258, 17.259

Category
Internal control / Compliance

Compliance Requirement
Eligibility

Criteria
Pursuant 20 CFR Part 652, the State must determine whether required eligibility determinations were made, (including obtaining any required documentation/verifications), that individual program participants or groups of participants (including area of service delivery) were determined to be eligible, and that only eligible individuals or groups of individuals participated in the program.

Condition
We selected a sample of 40 participants (out of a population of 543) to test compliance and internal control over the eligibility requirement. Management could not provide two (2) of the participant's files selected for testing.

Islands / Office	Participant ID	Participant entry date	Entry date per file
St. Thomas One Stop Center	kturnbull	6/6/2011	5/11/2011
St. Croix One Stop Center	teqmat	6/7/2011	5/3/2011

Questioned costs
Could not be determined.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-12 (continued)

Underlying Cause
Internal controls for complete eligibility documentation to be maintained in the participant's records are not operating effectively.

Effect
The Government may have awarded federal funds to an individual who is not eligible to participate in the Program.

Recommendation
The department should ensure that all participants in the program have a corresponding file in the VIEWS system, and that the files are updated accordingly to ensure and reflect that the participant is in compliance with all requirements.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Finding Number: 11-13

Program
U.S. Department of Labor – WIA Cluster - CFDA Nos. 17.258, ARRA-17.258, 17.259

Category
Internal control / Compliance

Compliance Requirement
Reporting

Criteria
In accordance with 29 CFR 97.20 requirements: (a) A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. (b) The financial management systems of other grantees and subgrantees must meet the following standards (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. (3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property

Finding Number: 11-13 (continued)

Criteria (continued)
and must assure that it is used solely for authorized purposes. (4) Budget control. Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation

will be accepted whenever possible. (5) Allowable cost. Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs. (6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

Condition
We selected all eight (8) ETA 9130, *Financial Status Reports*, submitted during fiscal year 2011, to test compliance and internal control over reporting requirements. We noted differences between the accounting records (ERP) and the ETA 9130 reports regarding Federal Expenditures for FY2011.

ETA 9130 reports (All four quarters)	$3,178,201
Accounting records (ERP)	2,997,756
Unreconciled difference	$ 180,445

Questioned costs
Not applicable.

Underlying Cause
Effective internal controls are not in place to ensure that the program activity from the Governments accounting system records agrees to or is reconciled with the amounts reported to the Federal Government.

Finding Number: 11-13 (continued)

Effect
The Government could be reporting unallowable costs as federal expenditures. This may also lead to incorrect financial information presented in reports submitted to the federal government.

Recommendation
The Department of Labor should reconcile the amounts reported to the underlying financial reports on a quarterly basis. This would allow the department to identify any discrepancies and ensure the report accurately reflects the activities occurring during the year.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-14

Program
U.S. Department of Labor – WIA Cluster - CFDA Nos. 17.258, ARRA-17.258, 17.259

Category
Internal control

Compliance Requirement
Matching, Level of Effort, Earmarking

Criteria
Pursuant *20 CFR section 667.130* State Reserve – A State may reserve up to 15 percent of the amounts allotted for Adult, Dislocated Worker, and Youth Activities. The amounts reserved may be combined and expended on activities described in 20 CFR sections 665.200 and .210 without regard to funding source. Administrative Cost Limits – A State may spend up to five percent of the amount allotted for the State's administrative costs (i.e., one-third of the 15 percent State Reserve described in the preceding paragraph) (20 CFR section 667.210). The term "administrative costs" is defined at 20 CFR section 667.220. The funds provided for administrative costs by one of the three funding sources (Adult, Dislocated Worker, and Youth Activities) can be used for administrative costs of the other two sources.

Pursuant *20 CFR section 667.130(b)* Dislocated Worker Activities – *Rapid Response*
Statewide Rapid Response – The State must reserve for rapid response activities a portion of funds, up to 25 percent, allotted for dislocated workers. The funds are used to plan and deliver services to enable dislocated workers to transition to new employment as quickly as possible, following either a permanent closure or mass layoff, a natural or other disaster resulting in mass job relocation.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-14 (continued)

Criteria (continued)
Pursuant *20 CFR section 667.210(a)(2)* Local Areas Administrative Cost Limits - A local area may expend no more than ten percent of the Adult, Dislocated Worker, and Youth Activities funds allocated to the local area under sections 128(b) and 133(b) of the Act for administrative costs. The funds provided for administrative costs by one of the three fund sources (Adult, Dislocated Worker, Youth Activities) can be used for administrative costs of the other two sources.

Pursuant *20 CFR section 664.320* Youth Activities Out-of School Youth – Thirty percent of the Youth Activity funds allocated to the local areas, except for the local area expenditures for administration, must be used to provide services to out-of-school youth. Pursuant *20 CFR section 664.22* Low-Income Youth – A minimum of 95 percent of eligible participants in Youth Activities must meet the criteria of disadvantaged low-income youth as defined in 29 USC 2801(25).

Adult and Dislocated Workers Funds, Transfers of Funds – Section 133(b)(4) of the WIA authorizes workforce investment areas, with the approval of the Governor, to transfer up to 20 percent of the Adult Activities funds to Dislocated Workers Activities, and up to 20 percent of Dislocated Workers Activities funds to Adult Activities. Effective for Program Year 2003, the transfer limits were raised to 30 percent by the DOL Appropriations Act (Section 133(b)(4) of the WIA, as amended by Pub. L. No. 108-7).

Condition
During our audit, we requested information which would enable us to test earmarking for the WIA program. However, the information necessary to ascertain compliance with this requirement was not provided; therefore we were unable to reach a conclusion on this requirement.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-14 (continued)

Questioned costs
Could not be determined.

Underlying Cause
Information necessary to perform earmarking tests were not provided by the Government.

Effect
Funds may be inappropriately allocated between specified purposes. Maximum amounts allocated to for a specified purpose may be exceeded, and minimum allocations required may not be met.

Recommendation
Procedures should be put in place to document fund used for specified purposes as per the earmarking requirement, and the procedure should be properly documented.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Transportation

Highway Planning and Construction
CFDA Nos. 20.205, ARRA-20.205

The objectives of the Highway Planning and Construction Cluster are to: (1) assist States in the planning and development of an integrated, interconnected transportation system important to interstate commerce and travel by constructing and rehabilitating the National Highway System (NHS), including Interstate highways and most other public roads; (2) provide aid for the repair of federal-aid highways following disasters; (3) foster safe highway design, and replace or rehabilitate structurally deficient or functionally obsolete bridges; and (4) to provide for other special purposes. This cluster also provides for the improvement of roads in Puerto Rico, Guam, the Virgin Islands, American Samoa, the Northern Mariana Islands, the Alaskan Highway, and the Appalachian Development Highway System (ADHS). The objective of the ADHS program is to provide a highway system which, in conjunction with other federally aided highways, will open up areas with development potential within the Appalachian region where commerce and communication has been inhibited by lack of adequate access.

Total Highway Planning and Construction federal expenditures for the fiscal year ended September 30, 2011, amounted to $23,037,444.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-15

Program
Department of Transportation - Highway Planning and Construction CFDA Nos. 20.205, ARRA-20.205

Category
Internal Control/ Compliance

Compliance Requirement
Reporting

Criteria
In accordance with 29 CFR 97.20 requirements: (a) A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. (b) The financial management systems of other grantees and subgrantees must meet the following standards (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. (3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes. (4) Budget control. Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-15 (continued)

Criteria (continued)
Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible. (5) Allowable cost. Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs. (6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

Condition
We selected a sample of two (2) Section 1512 reports (out of a population of 8) to test compliance and internal control over reporting requirements. The Department of Transportation uses the Financial Management Information System (FMIS) which records all expenditures as support for reports; however, the amounts are not reconciled against the accounting records of the Central Government (ERP); records used to prepare the Schedule of Expenditures of Federal Awards (SEFA).

Expenditures per reports 1512	$5,930,716
Expenditures per accounting records (ERP)	3,471,909
Unreconciled difference	$2,458,807

Questioned costs
Not applicable.

Underlying Cause
The Government did not reconcile the information included in the 1512 reports with the accounting records to ensure that the report was accurate and complete prior to submission to the federal government.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-15 (continued)

Effect
The Government could be reporting unallowable costs as federal expenditures. This may also lead to incorrect financial information presented in reports submitted to the federal government, which could affect future funding amounts.

Recommendation
The Department of Transportation should implement formal review procedures that include appropriate documentation to ensure that federal reports are appropriately reviewed and approved prior to timely submission and reconciled with the Government's accounting records.

Management's Response
The Department of Public Works (DPW) does not concur with the finding. The department has all the supporting documentation to substantiate the expenditures reported on the 1512 reports.

Auditor's Conclusion
As stated in our finding, differences remained unexplained or uncorrected; a reconciliation between the expenditures reported in the 1512 reports and the accounting records of the Central Government (ERP) was not provided during the time of our audit.

Therefore, the finding remains as stated.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Energy

State Energy Program
CFDA Nos. 81.041, ARRA-81.041

The objective of the State Energy Program (SEP) is to work with the States, Territories, and the District of Columbia (hereinafter "States") to increase the use of energy efficiency and renewable energy across all sectors of the economy nationwide. States use SEP funds to design and implement State-wide energy plans and programs that best meet their individual energy needs. SEP also provides a wide range of technical assistance and support to the States to increase key skills and enhance their ability to design and carry out effective programs.

Total State Energy Program federal expenditures for the fiscal year ended September 30, 2011, amounted to $12,658,033.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-16

Program
U.S Department of Energy– State Energy Program- CFDA Nos. 81.041, ARRA-81.041

Category
Internal Control/Compliance

Compliance Requirement
Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Availability.

Criteria
OMB Circular A-87 Revised; Attachment B Selected Items of Cost; 8. *Compensation for personal services.* h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation. Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

Condition
We selected a sample of 5 employees (out of a population of 25) that charged time to the State Energy program to test internal control and compliance over the activities allowed or unallowed, allowable costs/cost principles, and period of availability requirements. Management could not provide the personnel activity reports for the employees selected for testing.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-16 (continued)

Condition (continued)

Employee no.	Pay period	Gross salary per payroll register
211538	December 19, 2010 to January 1, 2011	$ 1,091
	April 24, 2011 to May 7, 2011	$ 974
	May 8, 2011 to May 21, 2011	$ 116
	June 5, 2011 to June 18, 2011	$ 1,163
	July 31, 2011 to August 13, 2011	$ 1,163
23077	December 19, 2010 to January 1, 2011	$ 1,731
	April 24, 2011 to May 7, 2011	$ 1,385
	May 8, 2011 to May 21, 2011	$ 1,352
	June 5, 2011 to June 18, 2011	$ 1,547
	July 31, 2011 to August 13, 2011	$ 796
173077	December 19, 2010 to January 1, 2011	$ 1,367
	April 24, 2011 to May 7, 2011	$ 1,385
	May 8, 2011 to May 21, 2011	$ 1,352
	June 5, 2011 to June 18, 2011	$ 1,350
	July 31, 2011 to August 13, 2011	$ 1,250
196154	December 19, 2010 to January 1, 2011	$ 883
	April 24, 2011 to May 7, 2011	$ 844
	May 8, 2011 to May 21, 2011	$ 794
	June 5, 2011 to June 18, 2011	$ 839
	July 31, 2011 to August 13, 2011	$ 629
118389	December 19, 2010 to January 1, 2011	$ 965
	April 24, 2011 to May 7, 2011	$ 1,058
	May 8, 2011 to May 21, 2011	$ 1,058

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-16 (continued)

Questioned Costs
$25,093

Underlying Cause
Policies are not in place to ensure that all time reports and/or semi-annual wage certifications are prepared and signed by a supervisory official having first-hand knowledge of the work performed by the employee.

Effect
The Government could be requesting reimbursement for, and reporting, unallowable costs as federal expenditures. This may also lead to incorrect financial information presented in reports submitted to the federal government.

Recommendation

Management of the State Energy program should implement formal review procedures that include appropriate controls to ensure that all time reports and/or semi-annual wage certifications are prepared and signed by a supervisory official.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

US. Department of Education

State Fiscal Stabilization Fund Cluster
CFDA Nos. ARRA-84.394 and ARRA-84.397

The purpose of the State Fiscal Stabilization Fund is to: (1) support public safety and other government services, which may include assistance for elementary and secondary education and public institutions of higher education (IHEs) (2) for modernization, renovation or repair of public school facilities and IHE facilities.

Total State Fiscal Stabilization Fund Cluster Federal expenditures for the fiscal year ended September 30, 2011, amounted to $31,690,043.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-17

Program
U.S. Department of Education - State Fiscal Stabilization Fund Cluster CFDA Nos. ARRA-84.394 and ARRA-84.397

Category
Internal Control / Compliance

Compliance Requirement
Subrecipient Monitoring

Criteria
Pursuant Circular A-133 Subpart D - Federal Agencies and Pass-Through Entities Section 400(d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the federal awards it makes: Monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Ensure that subrecipients expending $300,000 ($500,000 for fiscal years ending after December 31, 2003) or more in federal awards during the subrecipients' fiscal year have met the audit requirements of this part for that fiscal year. Issue a management decision on audit findings within six months after receipt of the subrecipients' audit report and ensure that the subrecipient takes appropriate and timely corrective action.

Condition
During our test of compliance and internal controls over Subrecipient monitoring requirements, we noted that during the fiscal year under audit funds totaling $2,027,739 were disbursed to (2) two subrecipients.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-17 (continued)

Condition (continued)
We noted that program management failed to monitor the activities of these subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and those performance goals are achieved.

Moreover, management could not ensure whether the subrecipients met the audit requirements of Circular A-133. As result, management could not evaluate if a management decision on audit findings was required.

Questioned costs
$2,027,739

Underlying Cause
Internal controls regarding subrecipient monitoring and reviewing single audit reports submitted by subrecipients were not operating effectively.

Effect
Management did not perform proper monitoring over subrecipients and could not issue a management decision on audit findings (if any) within six (6) months after receipts of subrecipients' audit report. Additionally, noncompliance with the requirements presented above could lead to significant administrative actions by the grantor, including reduction in amounts to be awarded or return of funds provided to the subrecipient to the U.S. Department of Education. It is also possible that the subrecipient could have spent the monies on unallowable costs.

Recommendation
Management of the State Fiscal Stabilization Fund Program should use the following guidelines to timely monitor the subrecipients' compliance with federal programs requirements:

Finding Number: 11-17 (continued)

Recommendation (continued)

1) Perform site visits to subrecipients to review financial and programmatic records, observe operations, establish regular contacts with subrecipients, and make appropriate inquiries concerning the federal program.

2) Review subrecipients' reports and follow-up on areas of concern, monitor subrecipients budgets and offer technical assistance when needed.

3) Review written policies and procedures to ensure they provide for communication of federal award requirements to subrecipients, responsibilities for monitoring, and process and procedures for monitoring. Such policies and procedures shall also include the methodology for resolving findings of subrecipients' noncompliance or weaknesses in internal control, and the requirements for and processing of subrecipients audits, including appropriate adjustments of pass-through entities accounts.

4) Issue of timely management decisions to inform the subrecipients about whether the corrective action plans for audit and monitoring findings is acceptable.

5) Maintain a system to track and follow-up on reported deficiencies related to activities funded with this program and ensure that timely corrective action is taken.

Management's Response

The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-18

Program
U.S. Department of Education - State Fiscal Stabilization Fund Cluster CFDA Nos. ARRA-84.394 and ARRA-84.397

Category
Internal Control / Compliance

Compliance Requirement
Activities Allowed or Unallowed / Allowable Costs/Cost Principles / Period of Availability

Criteria
As stated in *2 CFR Part 225 Appendix B: Section 8,* Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements.

OMB Circular A-87 Revised; Attachment B Selected Items of Cost; 8. *Compensation for personal services.* h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation. (3) Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-18 (continued)

Condition

We selected a sample of 30 employees (out of a population of 1,029) that charged time to the State Fiscal Stabilization Fund cluster to test internal control and compliance over the activities allowed or unallowed, allowable costs/cost principles, and period of availability requirements. We noted five (5) instances in which the Program could not provide a time sheet and the time certification or activity report as follows:

Employee no.	Pay periods	Timesheet not provided	Time certification or activity reports not provided
T3006098	6/19/11 - 7/2/11	X	X
	7/3/11 - 7/16/11	X	X
	8/28/11 - 9/10/11		X
T3006099	6/19/11 - 7/2/11	X	X
	7/3/11 - 7/16/11	X	X
	8/28/11 - 9/10/11		X
T3006088	7/3/11 - 7/16/11	X	X
	8/28/11 - 9/10/11		X
T3006086	7/3/11 - 7/16/11	X	X
	8/28/11 - 9/10/11		X
T3006080	6/19/11 - 7/2/11	X	X
	8/28/11 - 9/10/11		x
	7/3/11 - 7/16/11	X	X

Questioned costs

Could not be determined

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-18 (continued)

Underlying Cause

Policies are not in place to ensure that all time reports and/or semi-annual wage certifications are prepared and signed by a supervisory official having first-hand knowledge of the work performed by the employee.

Effect

The Government could be requesting reimbursement for and reporting unallowable costs as federal expenditures. This may also lead to incorrect financial information presented in reports submitted to the federal government.

Recommendation

The program should implement procedures which would allow for proper documentation for payroll costs, as well as establish procedures for effective documents and support retention.

Management's Response

The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Health and Human Services

Temporary Assistance for Needy Families (TANF)
CFDA No. 93.558

The objectives of the State and Tribal TANF programs are to provide time-limited assistance to needy families with children so that the children can be cared for in their own homes or in the homes of relatives; end dependence of needy parents on government benefits by promoting job preparation, work, and marriage; prevent and reduce out-of-wedlock pregnancies, including establishing prevention and reduction goals; and encourage the formation and maintenance of two-parent families. This Program replaced the Aid to Families with Dependent Children (AFDC), Job Opportunities and Basic Skills Training (JOBS), and Emergency Assistance (EA) programs.

Total Temporary Assistance for Needy Families federal expenditures for the fiscal year ended September 30, 2011, amounted to $5,022,523.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-19

Program
U.S. Department of Health and Human Services – Temporary Assistance for Needy Families-CFDA No. 93.558

Category
Internal Control / Compliance

Compliance Requirement
Equipment and Real Property Management

Criteria
OMB Circular A-110 Subpart C- Post Award Requirements Sec. 34 f (1) Equipment records shall be maintained accurately and shall include the following information (2) Equipment owned by the Federal Government shall be identified to indicate federal ownership (3) A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment (4) A control system shall be in effect to insure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented; if the equipment was owned by the Federal Government, the recipient shall promptly notify the federal awarding agency (5) Adequate maintenance procedures shall be implemented to keep the equipment in good condition (6) Where the recipient is authorized or required to sell the equipment, proper sales procedures shall be established which provide for competition to the extent practicable and result in the highest possible return.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-19 (continued)

Condition
We noted that no inventory observation of equipment purchased with federal funds has been performed within a two years period as required by OMB Circular A-102.

Questioned Costs
Not applicable.

Underlying Cause
It appears that management did not follow procedures to ensure the maintenance of proper equipment records. Furthermore, appropriate procedures to maintain the Government's property management records are not operating effectively.

Effect
Inappropriate recordkeeping of equipment could lead to misappropriation of assets and noncompliance with federal regulations, including return of funding to the grantor agency.

Recommendation
Management should establish and implement procedures in order to properly prepare and maintain official property management records, including properly tagging all equipment over $5,000 purchased with federal funds.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-20

Program

U.S. Department of Health and Human Services – Temporary Assistance for Needy Families (TANF) - CFDA No. 93.558

Category
Internal Control / Compliance

Compliance Requirement
Procurement, Suspension and Debarment

Criteria
The requirements for procurement are contained in the A-102 Common Rule (§____.36); OMB Circular A-110 (2 CFR sections 215.40 through 215.48), program legislation; Section 1605 of ARRA, 2 CFR part 176 federal awarding agency regulations, and the terms and conditions of the award (including those required by ARRA). Non-federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include those procurement contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other specified criteria.

Condition
We selected a sample of two (2) transactions (out of a population of 18) to determine whether the Government performed a verification check for covered transactions, by checking the EPLS, collecting a certification from the entity, or adding a clause or condition to the covered transaction with the entity. We noted one (1) instance in which the clause was not included in the contract and the program could not provide supporting documentation to evidence the verification of such transaction.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-20 (continued)

Condition (continued)

Document no.	Vendor name	Vendor ID
733216	Speedy Secretarial Institute	15400

Questioned Costs
Not applicable.

Underlying Cause
Internal controls to ensure evidence of the required vendor verification were not in place during the fiscal year under audit.

Effect
The program could contract with a party that is suspended or debarred or whose principals are suspended or debarred resulting in payments being made to unauthorized vendors.

Recommendation
Management should establish and implement procedures ensure all required verifications are documented and maintained in vendor files.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-21

Program
U.S. Department of Health and Human Services – Temporary Assistance for Needy Families (TANF) - CFDA No. 93.558

Category
Internal Control / Compliance

Compliance Requirement
Reporting

Criteria
Pursuant 45 CFR 265.3 - (a) Quarterly reports. (1) Each State must collect on a monthly basis, and file on a quarterly basis, the data specified in the TANF Data Report and the TANF Financial Report (or, as applicable, the Territorial Financial Report). (2) Each State that claims MOE expenditures for a separate State program(s) must collect on a monthly basis, and file on a quarterly basis, the data specified in the SSP-MOE Data Report.

Condition
We selected a sample of two (2) quarterly ACF-199 TANF Data Report (out of a population of 4) to test compliance and internal control over reporting requirements. The Department of Health and Human Services could not provide the reports for the period ended on December 31, 2010 and June 30, 2011.

Questioned Costs
Could not be determined.

Underlying Cause
This condition implies that there is a deficiency in the internal controls, and that the process does not facilitate document retrieval.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-21 (continued)

Effect
The Government could be incurring, disbursing and reporting unallowed costs as federal expenditures. This may also lead to incorrect financial information presented in reports submitted to the federal government.

Recommendation
We recommend the Department of Health and Human Services to implements procedures to ensure and reconcile the amounts requested for reimbursement between the ACF-199 and their accounting records.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-22

Program
U.S. Department of Health and Human Services – Temporary Assistance for Needy Families (TANF) - CFDA No. 93.558

Category
Internal Control / Compliance

Compliance Requirement
Special Tests and Provisions - Income Eligibility and Verification System (IEVS)

Criteria
Each State shall participate in the Income Eligibility and Verification System (IEVS) required by section 1137 of the Social Security Act as amended. Under the State Plan, the State is required to coordinate data exchanges with other federally assisted benefit programs, request and use income and benefit information when making eligibility determinations, and adhere to standardized formats and procedures in exchanging information with other programs and agencies. HHS may penalize a State for up to two percent of the SFAG for failure to participate in IEVS (42 USC 609(a)(4) and 1320b-7; 45 CFR section 264.10 and 264.11).

Condition
The Department of Health and Human Services has not established and implemented the required IEVS system for data matching, and verification and use of such data during fiscal year 2011.

Questioned Costs
Not applicable.

Underlying Cause
Current internal controls were not operating effectively with regard to compliance with Special Tests and Provisions requirements over the Income Eligibility and Verification System (IEVS).

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-22 (continued)

Effect
The Government may have awarded federal funds to an individual or family which is not eligible to participate in the Program.

Recommendation
Management of the Temporary Assistance for Needy Families Program should implement procedures to coordinate data exchanges with other federally assisted benefit programs, request and use income and benefit information when making eligibility determinations, and adhere to standardized formats and procedures in exchanging information with other programs and agencies.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Health and Human Services

Child Support Enforcement
CFDA No. 93.563

The objectives of the Child Support Enforcement programs are to: (1) enforce support obligations owed by non-custodial parents, (2) locate absent parents, (3) establish paternity, and (4) obtain child and spousal support.

Total Child Support Enforcement federal expenditures for the year ended September 30, 2011, amounted to $4,693,391.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-23

Program
U.S. Department of Health and Human Services - Child Support Enforcement Program - CFDA No. 93.563

Category
Internal Control / Compliance

Compliance Requirement
Matching, Level of Effort, Earmarking

Criteria
In accordance with DRA Section 7308, effective October 1, 2006, the federal share of laboratory costs for determining paternity, including those related to the planning, design, development, installation and enhancement of the statewide computerized support enforcement system, is 66 percent. For costs incurred on or before September 30, 2006, the federal share of laboratory costs for determining paternity was 90 percent (42 USC 655(a)(1)(C) and (a)(2)(C); 45 CFR sections 304.20(c) and 304.30).

Condition
During our audit we noted that the program provided only 33.4% ($1,987,988) of the State share of costs instead of the 34% ($2,022,316) required by the regulations. Accordingly, there is a deficiency of $34,328 in the State share of costs.

Questioned Costs
$34,328

Underlying Cause
Internal control procedures to ensure proper compliance with the program Matching requirement were not operating effectively.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-23 (continued)

Effect
Noncompliance with the above mentioned requirements could lead to administrative sanctions by the grantor or return of funding to the U.S. Department of Health and Human Services. It could also be interpreted as a failure to achieve the program's objectives.

Recommendation
The Government should train the program's personnel, including the program's accountants and other employees in charge of the program's budget preparation on applicable federal regulations. This shall ensure that the budget is prepared following the federal guidelines and that the personnel in-charge of approving and recording expenditures may prevent or detect and correct instances when expenditures incurred do not comply with the State share requirements. We also recommend the Government develop and implement written policies and procedures outlining proper monitoring of the State share.

Management’s Response
The Government concurs with the auditor’s findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-24

Program
U.S. Department of Health and Human Services - Child Support Enforcement Program - CFDA No. 93.563

Category
Internal Control / Compliance

Compliance Requirement
Reporting

Criteria
In accordance with 29 CFR 97.20 requirements: (a) A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. (b) The financial management systems of other grantees and subgrantees must meet the following standards (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. (3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes. (4) Budget control. Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant

Finding Number: 11-24 (continued)

Criteria (continued)
or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible. (5) Allowable cost. Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs. (6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

Condition
We selected all four (4) quarterly OCSE-396A Child Support Enforcement Program Expenditure Reports submitted during fiscal year 2011 to test internal control and compliance over reporting. The Government could not provide reconciliation between the OCSE-396A Reports and the accounting records (ERP).

Expenditures-federal share per ERP	$4,693,390
Net federal share per 396A	3,558,835
Unreconciled difference	$1,134,555

Questioned costs
Not applicable.

Underlying Cause
Lack of reconciliation between amounts reported in Quarterly Financial Report (OCSE 396 A) with the amounts accounted for in the Government’s accounting system.

Effect
The lack of timely reconciliation of the Program’s records with amounts reported in Quarterly Financial Report (OCSE 396 A) may lead to incorrect financial information presented in reports submitted to the federal government and claims for reimbursement.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-24 (continued)

Recommendation
Management of the Child Support Enforcement Program should implement additional procedures and internal controls to ensure proper reconciliation between Program accounting records and reports filed is performed timely and discrepancies are investigated. Timely reconciliations are necessary to ensure accurate reporting to the U.S. Department of Health and Human Services Agency.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Finding Number: 11-25

Program
U.S. Department of Health and Human Services - Child Support Enforcement Program - CFDA No. 93.563

Category
Internal Control / Compliance

Compliance Requirement
Special Tests and Provisions - Securing and Enforcing Medical Support Obligations

Criteria
The State IV-D agency must establish a support obligation when paternity is not an issue. These services must be provided for any child in cases referred to the IV-D agency or to individuals applying for services under 45 CFR section 302.33 for whom paternity or a support obligation had not been established. These services must be provided within the time frames specified in 45 CFR sections 303.3 (b) (3) and (b) (5), 303.3 (c) and, 303.4 (d). For all cases referred to the IV-D agency or applying for services under 45 CFR section 302.33 in which an obligation to support and the amount of the obligation has been established, the agency must maintain a system for: (a) monitoring compliance with the support obligation; (b) identifying on the date the parent fails to make payments in an amount equal to support payable for one month, or an earlier date in accordance with State law, those cases in which there is a failure to comply with the support obligation; and (c) enforcing the obligation.

45 CFR sections 303.31 (b) (1)-(4) establish that the State IV-D agency must attempt to secure medical support information, and establish and enforce medical support obligations for all individuals eligible for services under 45 CFR section 302.33. Specifically, the State IV-D agency must determine whether the custodial parent and child have satisfactory health insurance other than Medicaid.

Finding Number: 11-25 (continued)

Criteria (continued)
If not, the agency must petition the court or administrative authority to include medical support in the form of health insurance coverage in all new or modified orders for support. The agency is also required to establish written criteria to identify cases not included above, where there is a high potential for obtaining medical support based on: (a) available evidence that health insurance may be available to the absent parent at reasonable cost, and (b) facts (as defined by the State) which are sufficient to warrant modification of an existing support order to include health insurance coverage for a dependent child(ren). For cases meeting the established criteria, the agency shall petition the court or administrative authority to modify support orders to include medical support in the form of health insurance coverage. 45 CFR section 303.31 (c) establishes that for non-TANF cases, the agency shall petition for medical support when the eligible individual is a Medicaid recipient or with consent of the individual if not a Medicaid recipient.

The agency shall inform the Medicaid agency when a new or modified order for child support includes medical support and shall provide information to the custodial parent concerning the health insurance policy secured under any order (45 CFR sections 303.31(b)(5) and (6)).

Condition
Management could not provide a list of cases determined to be eligible during the audit period for services under 45 CFR section 302.33 to ascertain whether the Program petitioned for and secured or pursued enforcement of medical support in the form of health insurance and/or cash medical support as part of the support orders and informed the Medicaid agency and custodial parent as required.

Questioned costs
Not applicable.

Underlying Cause
Management does not have proper internal controls in place in order to ascertain that program informs the respective Medicaid agency whether any obligated parent had health insurance, or if such was obtained.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-25 (continued)

Effect
Given the condition above, the CSE Program is not in compliance with the Securing and Enforcing Medical Support Obligation requirements. Noncompliance with federal requirements could lead to administrative sanctions, return of, or loss of, funding.

Recommendation
The Government should ensure that policies and procedures are enforced in order to comply with these special test requirements.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Health and Human Services

Medical Assistance Program (Medicaid)
CFDA No. 93.778

The objective of the Medical Assistance Program (Medicaid or Title XIX of the Social Security Act, as amended, (42 USC 1396 et seq.)) is to provide payments for medical assistance to low-income persons who are age 65 or over, blind, disabled, or members of families with dependent children or qualified pregnant women or children.

Medicaid Assistance Program federal expenditures for the fiscal year ended September 30, 2011, amounted to $21,012,301.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-26

Program
U.S. Department of Health and Human Services – Medical Assistance Program (Medicaid) - CFDA No. 93.778

Category
Internal Control / Compliance

Compliance Requirement
Activities Allowed or Unallowed, Allowable Costs/Cost Principles/ Period of Availability

Criteria
As stated in 2 CFR Part 225 Appendix B: Section 8, compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of the OMB A 87 Circular.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-26 (continued)

Criteria (continued)
OMB Circular A-87 "Attachment 13 (8)(h) (3 and 4)" establishes that where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system or other substitute system has been approved by the cognizant federal agency. Such documentary support will be required where employees work on:

a) More than one federal award,
b) A federal award and a non-federal award,
c) An indirect cost activity and a direct cost activity,
d) Two or more indirect activities which are allocated using different allocation bases, or
e) An unallowable activity and a direct or indirect cost activity.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-26 (continued)

Condition

We selected a sample of five (5) employees (out of a population of 29) that charged time to the Medical Assistance Program (Medicaid) to test internal control and compliance over the activities allowed or unallowed, allowable costs/cost principles, and period of availability requirements. Management could not provide the time sheets and personnel activity reports for the employees selected for testing.

Employee no.	Pay periods	Gross pay per pay register
59936	11/07/2011 - 11/20/10	$ 774
	03/13/11 - 03/26/11	$ 449
	04/24/11 - 05/07/11	$ 519
	06/19/11 - 07/02/11	$ 430
	07/03/11 - 07/16/11	$ 473
75447	11/07/2011 - 11/20/10	$ 1,923
	03/13/11 - 03/26/11	$ 1,911
	04/24/11 - 05/07/11	$ 1,923
	06/19/11 - 07/02/11	$ 1,923
	07/03/11 - 07/16/11	$ 1,770
49344	11/07/2011 - 11/20/10	$ 1,926
	03/13/11 - 03/26/11	$ 1,072
	04/24/11 - 05/07/11	$ 963
	06/19/11 - 07/02/11	$ 993
	07/03/11 - 07/16/11	$ 997
41590	11/07/2011 - 11/20/10	$ 1,929
	03/13/11 - 03/26/11	$ 1,471
	04/24/11 - 05/07/11	$ 964
	06/19/11 - 07/02/11	$ 1,079
	07/03/11 - 07/16/11	$ 1,031
94417	11/07/2011 - 11/20/10	$ 1,312
	03/13/11 - 03/26/11	$ 697
	04/24/11 - 05/07/11	$ 656
	06/19/11 - 07/02/11	$ 861
	07/03/11 - 07/16/11	$ 834

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-26 (continued)

Questioned Costs
$28,880

Underlying Cause
Policies are not in place to ensure that all semi-annual usage certification or personnel activity reports are prepared and signed by a person having first-hand knowledge of the work performed by the employer.

Effect
The Government could be requesting reimbursement for and reporting unallowable costs as federal expenditures. This may also lead to reimbursement for unsupported and unallowable costs and incorrect financial information presented in reports submitted to the federal government.

Recommendation
The program should implement procedures which would allow for proper documentation for payroll costs, as well as establish procedures for documentation retention.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-27

Program
U.S. Department of Health and Human Services – Medical Assistance Program (Medicaid) - CFDA No. 93.778

Category
Internal Control / Compliance

Compliance Requirement
Activities Allowed or Unallowed / Allowable Costs / Cost Principles / Period of Availability

Criteria
As described in *42 CFR sections 433.135 through 433.154*, States must have a system to identify medical services that are the legal obligation of third parties, such as private health or accident insurers. Such third-party resources should be exhausted prior to paying claims with program funds. Where a third-party liability is established after the claim is paid, reimbursement from the third party should be sought.

As described in *42 CFR sections 433.300 through 433.320, and 433.40,* State is required to credit the Medicaid program for (1) State warrants that are canceled and uncashed checks beyond 180 days of issuance (escheated warrants) and (2) overpayments made to providers of medical services within specified time frames. In most cases, the State must refund provider overpayments to the federal Government within 60 days of identification of the overpayment, regardless of whether the overpayment was collected from the provider.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-27 (continued)

Criteria (continued)
As described in Section 1903(w)(1) of the Social Security Act (as amended by Pub. L. No. 102-234) provides that, effective January 1, 1992, before calculating the amount of federal financial participation, certain revenues received by a State will be deducted from the state's medical assistant expenditures. The revenues to be deducted are (1) donations made by health providers and entities related to providers (except for bona fide donations and, subject to a limitation, donations made by providers for the direct costs of out-stationed eligibility workers); and (2) impermissible health care-related taxes that exceed a specified limit (42 USC 1396(b)(w); 42 CFR section 433.57).

Condition
The Medical Assistance Program was unable to provide a list of Third Party Obligations for FY 2011. Additionally, the program was unable to provide a listing on uncashed or cancelled checks for 2011. We also requested documentation of provider donations, and the program was not able to provide any documentation in this regard.

Questioned Costs
Could not be determined.

Underlying Cause
The Government does not have effective procedures in place to ensure that payments are applied net of rebates and recoveries.

Effect
The program could be providing benefits to participants who are not eligible or payments in excess of the appropriate amounts.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-27 (continued)

Recommendation
The Medical Assistance Program should update its eligibility system so that it would facilitate review of third party obligations. Additionally, the program should ensure that periodic reports are requested from the Treasury which lists all uncashed checks exceeding 180 days, allowing them to easily recognize funds which may need to be redeposited into the appropriate Federal Account. For non-applicable requirements, there should be proper documentation of exemptions.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-28

Program
U.S. Department of Health and Human Services – Medical Assistance Program (Medicaid) - CFDA No. 93.778

Category
Internal Control / Compliance

Compliance Requirement
Eligibility

Criteria
As described in 42 USC 1320b-7(d), 42 CFR sections 435.907 and 435.913, a written application signed under penalty of perjury and inclusion in each applicant's case records required to support the agency's decision on the application is required.

Condition
We selected a sample of 40 cases (out of a population of 2,017) to determine whether required eligibility determinations for individual's participants were made.

During our testing to determine whether required eligibility determination for individuals participants were made, the Medical Assistance Program was unable to provide four (4) of the 40 files requested, specifically case # 6D0360247762101, 9C0390018082202, 6D0360224722202, 6C0302051702202. Additionally we noted that for case #7A0370197252202 the individual's social security card as well as the individual's identification was not included within the file. We also noted that for case #7A0370202612202 the participant's application was not included in the file.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-28 (continued)

Questioned Costs
Could not be determined.

Underlying Cause
All required documentation necessary to establish eligibility of participants was not obtained during the interview process. The government does not have effective internal control procedures in place to ensure that all documentation required to support participants' eligibility be maintained and available.

Effect
The Government may have awarded federal funds to an individual who is not eligible to participate in the Program.

Recommendation
The Government should implement procedures to ensure that all documentation required to support participants' eligibility be included in participant files. A checklist of documents required to support eligibility maintained in each file could assist with this process.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-29

Program
U.S. Department of Health and Human Services – Medical Assistance Program (Medicaid) - CFDA No. 93.778

Category
Internal Control / Compliance

Compliance Requirement
Matching, Level of Effort, Earmarking

Criteria
The State is required to pay part of the costs of providing health care to the poor and part of the costs of administering the program. Different State participation rates apply to medical assistance payments. There are also different Federal Financial participation rates for the different types of costs incurred in administering the Medicaid program, such as administration (including administration of family planning services), training, computer and other costs (42 CFR sections 433.10 and 433.15). The auditor should refer to the State plan for the matching rates.

Condition
While performing our internal control and compliance procedures over the Matching requirement, we selected 25 transactions (out of a population of 2,077). We noted 10 instances where the program did not comply with the required 50% match, as follows:

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-29 (continued)

Condition (continued)

PO/REF	Federal share recognized	Invoice amount	Required state share (%)	Required state share ($)	Deficiency in Government matching share
20522	$ 6,238	$ 6,238	50%	$ 3,119	$ 3,119
20527	$ 24,070	$24,070	50%	$ 12,035	$ 12,035
41761	$ 77,364	$14,008	50%	$ 57,004	$ 20,361
42029	$635,998	$35,998	50%	$317,999	$317,999
41762	$ 41,147	$41,147	50%	$ 20,574	$ 20,575
7743	$ 1,200	$ 1,200	50%	$ 60	$ 600
30642	$ 300	$ 300	50%	$ 150	$ 150
27508	$ 71	$ 71	50%	$ 36	$ 36
6578	$ 669	$ 2,090	50%	$ 1,045	$ (375)
46596	$ 150	$ 150	50%	$ 75	$ 75

Questioned Costs
$ 374,572

Underlying Cause
The appropriate employees were not aware of the necessary matching requirements to be applied to program expenditures. Additionally, appropriate review of matches was not performed prior to processing of invoices.

Effect
This may result in a discontinuance of funds. Less funding will be available for other allowable costs, since the balance of available funds will be distorted.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-29 (continued)

Recommendation
Reconciliation of Program's funds should be performed regularly to ensure that funds matched are appropriately calculated, supported and reported. The program should also perform specific reviews of transactions requiring matching prior to approving for payment.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-30

Program
U.S. Department of Health and Human Services - Medical Assistance Program (Medicaid) - CFDA No. 93.778

Category
Internal Control / Compliance

Compliance Requirement
Reporting

Criteria
Pursuant to 45 CFR 92.20(b)(1-2), (1) accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. (2) Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Condition
We selected a sample of four (4) reports for review (out of a total of eight (8) reports). The program was unable to furnish the reconciliation to support the CMS 64 reports, as well as the SF 425 Cash Transaction reports provided.

CMS 64 for quarter ending 9/30/2011	
Expenditures-Federal Share per ERP	$4,413,369
Net Federal Share per quarter's CMS 64	3,033,894
Unreconciled difference	$1,379,475

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-30 (continued)

Condition (continued)
The program was unable to furnish the reconciliation to support the CMS 64 reports, as well as SF 425 cash transaction reports provided.

SF 425 for quarter ending 9/30/2011	
Cash drawdowns per detail	$2,813,206
Cash drawdowns per SF 425	3,351,846
Unreconciled difference	$ (538,640)

Questioned Costs
Not applicable.

Underlying Cause
The Government does not have effective procedures in place to ensure that the required reports are prepared and submitted within the report's specified submission period.

Effect
The lack of reconciliations presents potential for errors to go unnoticed for a significant amount of time. Lack of submission of required reports may result in a disallowance of funding.

Recommendation
The program should regularly review submitted reports to ensure that they are properly supported. Reports should be compared to reconciliations in order to determine whether updates are necessary and ensure those changes occur in a timely manner.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-31

Program
U.S. Department of Health and Human Services - Medical Assistance Program (Medicaid) - CFDA No. 93.778

Category
Internal Control / Compliance

Compliance Requirement
Special Tests and Provisions – Utilization Control and Program Integrity

Criteria
Pursuant to 42 CFR parts 455, 456, and 1002, the State plan must provide methods and procedures to safeguard against unnecessary utilization of care and services, including long-term care institutions. In addition, the State must have: (1) methods or criteria for identifying suspected fraud cases; (2) methods for investigating these cases; and (3) procedures, developed in cooperation with legal authorities, for referring suspected fraud cases to law enforcement officials.

Pursuant to 42 CFR part 1007, suspected fraud should be referred to the State Medicaid Fraud Control Units.

The State Medicaid agency must establish and use written criteria for evaluating the appropriateness and quality of Medicaid services. The agency must have procedures for the ongoing post-payment review, on a sample basis, of the need for and the quality and timeliness of Medicaid services. The State Medicaid agency may conduct this review directly or may contract with a Quality Improvement Organization (QIO).

Condition
The program was unable to provide us with the list of investigated fraud cases during fiscal year 2011. Given this, we were unable to perform the respective tests.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-31 (continued)

Questioned Costs
Not applicable.

Underlying Cause
The Department of Health does not have an effective system in place to identify and report suspected fraud.

Effect
There may be prolonged, ongoing cases of fraud going undetected and remaining unreported by the Program. The funds available are possibly being used inappropriately, with no way of properly identifying or tracking the amounts.

Recommendation
The Department should reconsider whether it would like to be directly responsible for Utilization Control and Program Integrity, or if the use of a QIO would better suit the current program needs. Once this is decided, the program should take on the necessary steps to ensure compliance with this requirement. The written procedures should reflect the actual actions to be taken. In the event a QIO is used, the program management should be involved enough, so that they are aware of the programs vulnerabilities and make the necessary changes to improve.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-32

Program
U.S. Department of Health and Human Services – Medical Assistance Program (Medicaid)- CFDA No. 93.778

Category
Internal Control / Compliance

Compliance Requirement
Special Tests and Provisions – Inpatient Hospital and Long-term Care Facility Audits

Criteria
As described in *42 CFR section 447.253*, the State Medicaid agency pays for inpatient hospital services and long-term care facility services through the use of rates that are reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated providers. The State Medicaid agency must provide for the filing of uniform cost reports for each participating provider. These cost reports are used to establish payment rates. The State Medicaid agency must provide for the periodic audits of financial and statistical records of participating providers. The specific audit requirements will be established by the State Plan.

Condition
We requested the cost reports for participating providers for 2011 and noted that none of the reviews for fiscal year 2011 have been conducted.

Questioned Costs
Not applicable.

Underlying Cause
The Government's Department of Health does not have in place effective controls to ensure that audits are completed as required.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-32 (continued)

Effect
The Department may be paying unreasonable rates for long term care facility services. This may result in overpayments to certain providers, thus depleting the available funds which may be used to benefit other participants.

Recommendation
The department should ensure that regular audits are performed and costs are appropriately monitored.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-33

Program
U.S. Department of Health and Human Services - Medical Assistance Program (Medicaid) - CFDA No. 93.778

Category
Internal Control / Compliance

Compliance Requirement
Special tests and provisions - ADP Risk and System Security Review

Criteria
As described in *45 CFR section 95.621*, State agencies must establish and maintain a program for conducting periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur. State agencies shall review the ADP system security installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security. Operating procedures and personnel practices. The State agency shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site reviews.

Condition
The Government did not provide supporting documentation to evidence the performance of required ADP Risk Analysis and System Security Reviews.

Questioned Costs
Not applicable.

Underlying Cause
Although current policies and procedures include the performance of periodic ADP reviews, the Government does not have appropriate controls in place to ensure these procedures are performed.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-33 (continued)

Effect
The absence of policies to ensure these analyses and reviews are performed may lead to physical and data security issues, and noncompliance with Program requirements.

Recommendation
The Government should establish appropriate policies to ensure that required biennial analysis and reviews are being performed.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-34

Program
U.S. Department of Health and Human Services – Medical Assistance Program (Medicaid) - CFDA No. 93.778

Category
Internal Control / Compliance

Compliance Requirement
Special Tests and Provisions – Medicaid Fraud Control Unit (MFCU)

Criteria
Pursuant *42 CFR par 1007* States are required as part of their Medicaid State plans to maintain a MFCU, unless the Secretary of HHS determines that certain safeguards are met regarding fraud and abuse.

Condition
The U.S. Virgin Islands Medicaid program does not have a Medicaid Fraud Control Unit in place. We were not provided with a list of violations of Medicaid Laws and regulations.

Questioned Costs
Not applicable.

Underlying Cause
The Medicaid program has not established a Medicaid Fraud Control Unit.

Effect
Instances of provider fraud may go undetected, remain unreported and will not be prosecuted.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 11-34 (continued)

Recommendation
A Medicaid Fraud Control Unit needs to be implemented immediately, as it is a requirement.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Government of the United States Virgin Islands

Summary Schedule of Prior Audit Findings

September 30, 2011

Finding 10-10

CFDA Number	All Major Programs
Federal Agency	All federal Agencies with identified Major Programs
Name of Federal Program	All Major Programs
Type of Compliance Requirement	N/A
Amount of Questioned Cost:	N/A
Contact Person Responsible for Corrective Action Plan	Finance Department
Status	Corrected

Finding 10-11

CFDA Number	
Federal Agency	All federal Agencies with identified Major Programs
Name of Federal Program	All Major Programs
Type of Compliance Requirement:	N/A
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Finance Department
Status	Recurring finding (11-01)

Finding 10-12

CFDA Number	10.551, 10.561, ARRA-10.561, 10.555, ARRA-10.555, ARRA-10.559, 10.557, 17.225, ARRA-17.225, 17.258, ARRA-17.258, ARRA-17.259, 20.205, ARRA 20.205, 66.468, ARRA 66.468, 93.558, ARRA 93.558, 93.563, 93.600, ARRA 93.708, 93.778, ARRA 93.778
Federal Agency	U.S. Dept. of Agriculture, U.S. Dept. of Labor, U.S. Dept. of Transportation, U.S. Dept. of Planning and Natural Resources, U.S. Dept. of Health and Human Services.
Name of Federal Program	SNAP Cluster, Child Nutrition Cluster, WIC Program, Unemployment Insurance, WIA Cluster, Highway Planning and Construction, Capitalization Grants for Drinking Water State Revolving Funds, TANF, Child Support Enforcement Program, Head Start Cluster, Medical Assistance Program (Medicaid)
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – DHS, Director, Special Nutrition Programs – DOE, Officer Manager, WIC - DOH, Accountant I, WIC – DOH, Director of Business and Administration – DOL, Assistant Director of Administration – DPW, Chief Financial Officer – DPNR, Chief Financial Officer – DHS, Director, PCSD – DOJ, Financial Control Officer, PCSD – DOJ, BHIMA Director – DHS.
Status	Recurring finding (11-09)

Government of the United States Virgin Islands

Summary Schedule of Prior Audit Findings (continued)

Finding 10-13

CFDA Number	10.555, ARRA 10.555, 10.559
Federal Agency	U.S. Dept. of Agriculture
Name of Federal Program	Child Nutrition Cluster
Type of Compliance Requirement:	Reporting
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Director, Special Nutrition Program – DOE
Status	Corrected

Finding 10-14

CFDA Number	10.557
Federal Agency	U.S. Dept. of Agriculture
Name of Federal Program	WIC Program
Type of Compliance Requirement	Activities Allowed and Unallowed, Allowable Costs/Cost Principles and Period of Availability.
Amount of Questioned Costs	$250,250
Contact Person Responsible for Corrective Action Plan	Office Manager - DOH, Accountant I - DOH
Status	Corrected

Finding 10-15

CFDA Number	10.557
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	WIC Program
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	System Analyst I - DOH, Coordinator of Administrative Services - DOH
Status	Corrected

Finding 10-16

CFDA Number	10.557
Federal Agency	U.S. Dept. of Agriculture
Name of Federal Program	WIC Program
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	$474,797
Contact Person Responsible for Corrective Action Plan	Accountant I - DOH, Office Manager - DOH
Status	Corrected

Finding 10-17

CFDA Number	12.401
Federal Agency	U.S. Dept. of Defense
Name of Federal Program:	National Guard Military Operations and Maintenance (O&M) Projects
Type of Compliance Requirement	Activities Allowed and Unallowed, Allowable Costs/Cost Principles and Period of Availability.
Amount of Questioned Costs	$19,838
Contact Person Responsible for Corrective Action Plan	Director of Administration and Business Management - OTAG
Status	Corrected

Finding 10-18

CFDA Number	12.401
Federal Agency	U.S. Dept. of Defense
Name of Federal Program	National Guard Military Operations and Maintenance (O&M) Projects
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Facility Management Officer - OTAG
Status	Corrected

Finding 10-19

CFDA Number	17.225, ARRA 17.225
Federal Agency	U.S. Dept. of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Director of Business and Administration – DOL
Status	Corrected

Finding 10-20

CFDA Number	17.225, ARRA 17.225
Federal Agency	U.S. Dept. of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Director of Unemployment Insurance – DOL
Status	Corrected

Finding 10-21

CFDA Number	17.225, ARRA 17.225
Federal Agency	U.S. Dept. of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Director of Business and Administration – DOL
Status	Corrected

Finding 10-22

CFDA Number	17.258, ARRA 17.258, 17.259
Federal Agency	U.S. Dept. of Labor
Name of Federal Program	WIA Cluster
Type of Compliance Requirement	Eligibility
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Assistant Commissioner of Employment Training - DOL
Status	Corrected

Finding 10-23

CFDA Number	17.258, ARRA 17.258, 17.259
Federal Agency	U.S. Dept. of Labor
Name of Federal Program	WIA Cluster
Type of Compliance Requirement:	Reporting
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Director of Business and Administration – DOL
Status	Recurring finding (11-13)

Finding 10-24

CFDA Number	66.468, ARRA 66.468
Federal Agency	U.S. Department of Planning and Natural Resources (DPNR)
Name of Federal Program	Capitalization Grants for Drinking Water State Revolving Funds
Type of Compliance Requirement	Subrecipient Monitoring
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer - DPNR
Status	Corrected

Finding 10-25

CFDA Number	84.298, 84.027, ARRA 84.027
Federal Agency	U.S. Dept. of Education
Name of Federal Program	State Grants for Innovative Programs, Special Education Grants to States
Type of Compliance Requirement	Procurement and Suspension and Debarment
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Assistant Commissioner, Fiscal & Administrative Services -DOE
Status	Corrected

Finding 10-26

CFDA Number	ARRA 84.397, ARRA 84.394
Federal Agency	U.S. Department of Education
Name of Federal Program	State Fiscal Stabilization Fund Cluster
Type of Compliance Requirement:	Subrecipient Monitoring
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Director, Business and Administration - OOG
Status	Recurring finding (11-17)

Finding 10-27

CFDA Number	93.558, ARRA 93.558
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	TANF Cluster
Type of Compliance Requirement	Special Tests and Provisions – Income Eligibility and Verification System (IEVS)
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Program Administrator - DHS
Status	Recurring finding (11-22)

Finding 10-28

CFDA Number	93.558, ARRA 93.558
Federal Agency	U.S. Dept. of Health and Human Services
Name of Federal Program	TANF Cluster
Type of Compliance Requirement:	Equipment and Real Property Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Program Administrator - DHS
Status	Recurring finding (11-19)

Finding 10-29

CFDA Number	93.563
Federal Agency	U.S. Dept. of Health and Human Services
Name of Federal Program	Child Support Enforcement Program
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Director of PCSD - DOJ, Financial Control Officer - DOJ
Status	Recurring finding (11-24)

Finding 10-30

CFDA Number	93.563
Federal Agency	U.S. Dept. of Health and Human Services
Name of Federal Program	Child Support Enforcement Program
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Director of PCSD, Program Manager, MIS Staff and MIS Director - DOJ
Status	Corrected

Finding 10-31

CFDA Number	93.600, ARRA 93.708
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Head Start Cluster
Type of Compliance Requirement	Matching, Level of Effort, Earmarking – Targeted Earmark
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Program Administrator - DHS
Status	Corrected

Finding 10-32

CFDA Number	93.778, ARRA 93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid)
Type of Compliance Requirement	Eligibility
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	BHIMA Eligibility Unit Supervisor- DHS, BHMA Director - DHS
Status	Recurring finding (11-28)

Finding 10-33

CFDA Number	93.778, ARRA 93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid)
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer - DHS, BHIMA Director - DHS
Status	Recurring finding (11-30)

Finding 10-34

CFDA Number	93.778, ARRA 93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid)
Type of Compliance Requirement	Special Tests and Provisions – Inpatient Hospital and Long-Term Care Facility Audits
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer - DHS, BHIMA Director - DHS
Status	Recurring finding (11-32)

Finding 10-35

CFDA Number	93.778, ARRA 93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid)
Type of Compliance Requirement	Special tests and Provisions – Automated Data Processing (ADP) Risk Analysis and System Security Review
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	MIS Director - DHS, BHIMA Director – DHS
Status	Recurring finding (11-33)

Finding 09-12

CFDA Number	10.551, 10.561
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	SNAP Cluster
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Human Services
Status	Recurring finding (11-09)

Finding 09-13

CFDA Number	10.555, 10.559
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Child Nutrition Cluster
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Acting Director of Special Nutrition Programs – Department of Education
Status	Corrected

Finding 09-14

CFDA Number	10.555,10.559
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Child Nutrition Cluster
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Acting Director of Special Nutrition Programs – Department of Education
Status	Corrected

Finding 09-15

CFDA Number	10.557
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	WIC Program
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Administrative Assistant and Director, WIC Program- Department of Health
Status	Corrected

Finding 09-16

CFDA Number	10.557
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	WIC Program
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Administrative Assistant and Director, WIC Program- Department of Health
Status	Recurring finding (11-09)

Finding 09-17

CFDA Number	10.557
Federal Agency	Department of Defense
Name of Federal Program	WIC Program
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Administrative Assistant and Director, WIC Program- Department of Health
Status	Corrected

Finding 09-18

CFDA Number	12.401
Federal Agency	Department of Defense
Name of Federal Program	National Guard Military Operations and Maintenance (O&M) Projects
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Director of Administration and Business Management-Office of the Adjutant General
Status	Corrected

Finding 09-19

CFDA Number	12.401
Federal Agency	Department of Defense
Name of Federal Program	National Guard Military Operations and Maintenance (O&M) Projects
Type of Compliance Requirement	Matching, Level of Effort, Earmarking
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Director of Administration and Business Management-Office of the Adjutant General
Status	Corrected

Finding 09-20

CFDA Number	12.401
Federal Agency	Department of Defense
Name of Federal Program	National Guard Military Operations and Maintenance (O&M) Projects
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	Could not be determined
Contact Person Responsible for Corrective Action Plan	Director of Administration and Business Management-Office of the Adjutant General
Status	Recurring finding (11-11)

Finding 09-21

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Eligibility
Amount of Questioned Costs	$30,479
Contact Person Responsible for Corrective Action Plan	Director of Unemployment Insurance and Director of Business Office – Department of Labor
Status	Corrected

Finding 09-22

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Eligibility
Amount of Questioned Costs	$71,255
Contact Person Responsible for Corrective Action Plan	Director of Unemployment Insurance and Director of Business Office – Department of Labor
Status	Corrected

Finding 09-23

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Special Tests and Provisions: Match with IRS 940 FUTA Tax Form
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Director of Unemployment Insurance and Director of Business Office – Department of Labor
Status	Corrected

Finding 09-24

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Special Tests and Provisions: Unemployment Insurance (UI) Benefits Payment
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Director of Unemployment Insurance and Director of Business Office – Department of Labor
Status	Corrected

Finding 09-25

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	$174,771
Contact Person Responsible for Corrective Action Plan	Director of Unemployment Insurance and Director of Business Office – Department of Labor
Status	Corrected

Finding 09-26

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Director of Unemployment Insurance and Director of Business Office – Department of Labor
Status	Corrected

Finding 09-27

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Director of Unemployment Insurance and Director of Business Office – Department of Labor
Status	Recurring finding (11-09)

Finding 09-28

CFDA Number	17.258, 17.259, 17.260
Federal Agency	U.S. Department of Labor
Name of Federal Program	WIA Cluster
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Director of Business Office – Department of Labor
Status	Recurring finding (11-13)

Finding 09-29

CFDA Number	17.258, 17.259, 17.260
Federal Agency	U.S. Department of Labor
Name of Federal Program	WIA Cluster
Type of Compliance Requirement	Eligibility
Amount of Questioned Costs	$9,091
Contact Person Responsible for Corrective Action Plan	Director of Business Office – Department of Labor
Status	Recurring finding (11-12)

Finding 09-30

CFDA Number	17.258, 17.259, 17.260
Federal Agency	U.S. Department of Labor
Name of Federal Program	WIA Cluster
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Director of Business Office – Department of Labor
Status	Recurring finding (11-10)

Finding 09-31

CFDA Number	20.205
Federal Agency	U.S. Department of Transportation
Name of Federal Program	Highway Planning and Construction
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Deputy Commissioner of Administration and Assistant Director of Administration-Department of Public Works
Status	Recurring finding (11-09)

Finding 09-32

CFDA Number	20.205
Federal Agency	U.S. Department of Transportation
Name of Federal Program	Highway Planning and Construction
Type of Compliance Requirement	Activities Allowed or Unallowed; Allowable Cost/ Cost Principles; Reporting
Amount of Questioned Costs	$56,700,000
Contact Person Responsible for Corrective Action Plan	Deputy Commissioner of Administration and Assistant Director of Administration-Department of Public Works
Status:	Corrected

Finding 09-33

CFDA Number	84.027
Federal Agency	U.S. Department of Education
Name of Federal Program	Grant to States
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Assistant Commissioner, Fiscal and Administrative Services – Department of Education
Status	Corrected

Finding 09-34

CFDA Number	84.027
Federal Agency	U.S. Department of Education
Name of Federal Program	Grant to States
Type of Compliance Requirement	Procurement and Suspension and Debarment
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Assistant Commissioner, Fiscal and Administrative Services – Department of Education
Status	Corrected

Finding 09-35

CFDA Number	84.298
Federal Agency	U.S. Department of Education
Name of Federal Program	State Grants for Innovative Programs
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Assistant Commissioner, Fiscal and Administrative Services- Department of Education
Status	Corrected

Finding 09-36

CFDA Number	84.298
Federal Agency	U.S. Department of Education
Name of Federal Program	State Grants for Innovative Programs
Type of Compliance Requirement	Procurement and Suspension and Debarment
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Assistant Commissioner, Fiscal and Administrative Services- Department of Education
Status	Corrected

Finding 09-37

CFDA Number	93.558
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	TANF
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Human Services
Status	Recurring finding (11-10)

Finding 09-38

CFDA Number	93.558
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	TANF
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	$21,411
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Human Services
Status	Recurring finding (11-21)

Finding 09-39

CFDA Number	93.558
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	TANF
Type of Compliance Requirement	Special Test Provision: Income Eligibility and Verification System
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Human Services
Status	Recurring finding (11-22)

Finding 09-40

CFDA Number	93.563
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Child Support Enforcement Program
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Director, Paternity and Child Support- Department of Justice
Status	Recurring finding (11-09)

Finding 09-41

CFDA Number	93.563
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Child Support Enforcement Program
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Director, Paternity and Child Support- Department of Justice
Status	Recurring finding (11-24)

Finding 09-42

CFDA Number	93.563
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Child Support Enforcement Program
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Director, Paternity and Child Support- Department of Justice
Status	Corrected

Finding 09-43

CFDA Number	93.600, 93.708
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Head Start Cluster
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Director Head Start- Department of Health and Human Services
Status	Recurring finding (11-09)

Finding 09-45

CFDA Number	93.600, 93.708
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Head Start Cluster
Type of Compliance Requirement	Matching, Level of Effort, Earmarking-Targeted Earmark
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Director Head Start- Department of Health and Human Services
Status	Corrected

Finding 09-46

CFDA Number	93.667
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Social Services Block Program
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Social Services Director- U.S. Department of Health and Human Services
Status	Corrected

Finding 09-47

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services, BHIMA- Department of Health
Status	Recurring finding (11-30)

Finding 09-48

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program
Type of Compliance Requirement	Special Tests and Provisions: Utilization Control and Government Integrity
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services, BHIMA- Department of Health
Status	Recurring finding (11-31)

Finding 09-49

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services, BHIMA- Department of Health
Status	Recurring finding (11-09)

Finding 09-50

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program
Type of Compliance Requirement	Eligibility
Amount of Questioned Costs	Could not be determined
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services, BHIMA- Department of Health
Status	Recurring finding (11-28)

Finding 09-51

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	$295,388
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services, BHIMA- Department of Health
Status	Recurring finding (11-30)

Finding 09-52

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program
Type of Compliance Requirement	Reporting, Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services, BHIMA- Department of Health
Status	Recurring findings (11-09 and 11-30)

Finding 09-53

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program
Type of Compliance Requirement	Special Tests and Provisions: Automated Data Processing Risk Analysis and System Security
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services, BHIMA- Department of Health
Status	Recurring finding (11-33)

Finding 09-54

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program
Type of Compliance Requirement	Special Tests and Provisions: Inpatient Hospital and Long-Term Care Facility Audits
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services, BHIMA- Department of Health
Status	Recurring finding (11-32)

Finding 09-55

CFDA Number	97.067
Federal Agency	U.S. Department of Homeland Security
Name of Federal Program	Homeland Security Grant Program
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Deputy Director of Grants Management – VITEMA
Status	Corrected

Finding 09-56

CFDA Number	97.067
Federal Agency	U.S. Department of Homeland Security
Name of Federal Program	Homeland Security Grant Program
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Deputy Director of Grants Management – VITEMA
Status	Corrected

Finding 09-57

CFDA Number	97.067
Federal Agency	U.S. Department of Homeland Security
Name of Federal Program	Homeland Security Grant Program
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Deputy Director of Grants Management – VITEMA
Status	Corrected

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GOVERNMENT

of the

UNITED STATES VIRGIN ISLANDS

FY 2011 Corrective Action Plan

for the

Fiscal Year 2011 Single Audit

August 30, 2013

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I. Financial Statements

Finding No. 11-01

The Data Collection Form (DCF) and the Single Audit reporting package were not submitted within nine months after the end of the audit period.

Government's Response

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

Action Plan:
Although the DOF has fully communicated to departments/agencies the establishment of monthly closing schedules to effectuate the timely issuance of the Single Audit, the enforcement of this policy will be partially achieved, given closure of the Fiscal Year 2011 audit, particularly with respect to the ERP System. Moreover, because the Fiscal Year 2012 audit is scheduled to be completed in the 1st quarter of FY 2014, DOF will continue to perform the process of closing periods on a monthly basis. However, upon opening the ERP system for transactions related to Fiscal Year 2014 on October 1, 2013, the system will revert to a "soft close" mode.

More specifically, the ERP financial management system is meant to accommodate having two (2) fiscal periods open at a time to ensure that monthly closings are performed. The implication of having more than two fiscal periods open obviates the institution of monthly closings for the GVI because the system will remain in a "soft close" mode (rather than "hard close") until all final adjustments are included. Given the unenviable position of having more than two fiscal periods open and its direct correlation to other anomalies in the ERP financial management system, the GVI will strive to issue its Fiscal Year 2012 and 2013 financial statements in six (6) month intervals. This shortening of the timeframes associated with the forthcoming issuances will enable GVI to approach the criteria under OMB Circular A-133, Subpart C, 320 of the Uniform Administrative Requirements for Grants Agreements. As such, the GVI embarked on an approach to addressing the timeliness of financial statement issuance within the 270 day criteria outlined in OMB Circular A-133, by endeavoring towards the completion of the Fiscal Year 2012 and 2013 outstanding audits within a timeframe that allowed full performance of the monthly closing schedules in Fiscal Years 2012 and 2013.

Implementation Date: The GVI continues its commitment to addressing the timeliness of financial statement issuance within the 270 day criteria outlined in OMB Circular A-133, by striving to complete the Fiscal Year 2012 and Fiscal Year 2013 outstanding audits, within a timeframe that allowed full performance of the monthly closing schedules in Fiscal Year 2012 and 2013. The establishment of monthly closing schedules by the Department of Finance is imperative to the timely issuance of the Single Audit and will continue to be aggressively enforced throughout Fiscal Year 2013 and 2014.

Person Responsible: The management team of DOF and OMB.

Finding No. 11-02

Management's calculation of its tax revenues processes were not properly performed, resulting in significant audit adjustments. The following items resulted in audit adjustments which could have been prevented had Management implemented sound internal controls over its tax revenue recognition processes: (a) Management used an inappropriate date on the report used to calculate the income tax receivable causing an understatements of revenues, and (b) the calculation for property tax receivables was not properly supported and thus significant audit adjustments were proposed in order to correctly present these accounts.

Government's Response

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

Action Plan:

On a monthly basis, the Governor's Financial Team, which includes the Department of Finance (DOF), Bureau of Internal Revenue (BIR) and the Lieutenant Governor's Office (LGO), monitors income tax and property tax revenues closely. As part of these discussions, DOF, IRB, and LGO will continue to work closely in reviewing the allowance for doubtful accounts, the estimate of income tax and property revenues to be collected from BIR and LGO, as well as the related tax credits and the estimate of tax revenues of the current fiscal year to be collected in the subsequent fiscal year to ensure the appropriate data is used in these estimation processes.

Implementation Date: During Fiscal Year 2013 and 2014, DOF will continue to work more closely with BIR and LGO in monitoring and reviewing the income tax and property tax revenues processes. Thus, DOF in conjunction with BIR and LGO will perform this process on a quarterly basis in order to detect and correct errors on a timely basis, while enhancing the Government's knowledge over its financial condition.

Person Responsible: The management team of DOF, BIR & LGO.

Finding No. 11-03

During Ernst and Young's (E&Y) review of construction in progress accounts, we noted a significant number of projects that had items capitalized that should have been expensed during the current period. E&Y also noted transfers of assets from construction in progress which were duplicated when capitalized.

<u>Government's Response</u>

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

Action Plan:

In an effort to further optimize the implementation of the ERP Fixed Assets Module (ERP FAM), at the beginning of Fiscal Year 2012, all departments and agencies are required to follow updated policies, procedures and business processes; which were jointly developed, reviewed, and disseminated by the Department of Finance, Department of Property and Procurement (P&P), Department of Public Works (DPW) and the Public Finance Authority (PFA).

Implementation Date: Further collaboration between PFA, DOF, P&P, DPW will be realized in Fiscal Year 2013 and 2014 to further enhance existing policies, procedures, and business processes surrounding the ERP FAM; particularly the flow of capital asset financial transactions emanating from the PFA to central government agencies.

Person Responsible: The management team of DOF, PFA, P&P, and DPW.

Finding No. 11-04

Lack of controls over the accounts payable ERP module and accounts payable reconciliations has made it difficult for the Government to establish its accounts payable subledger. Management establishes its accounts payable subledger through a manually intensive process. This resulted in audit significant adjustments in the Government's financial statements.

<u>Government's Response</u>

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

Action Plan:

In Fiscal Year 2007, GVI implemented a new decentralized financial management system requiring the training of over 3,000 government employees in the entry of core financial data. GVI continues its training efforts to ensure that underlying accounts payable data, such as invoice dates, correct allocation of expenses, and assigning of correct banks (based on fund) are properly reported and reviewed. In addition, controls (procedures) have been developed to assist in the reconciliation of general and subsidiary ledgers on a timely basis.

The Department of Finance has also established specific policies and procedures, as well as a standard set of definitions for expenditure object codes to assist department/agencies in the proper use and allocation of expenditures.

Implementation Date: The corrective plans began from FY 2008 and enforcement of the plans continues to improve. Since the beginning of FY 2010, DOF Accounts Payable Voucher Examiners monitor more closely the invoice payments to ensure they are expensed correctly, using the appropriate invoice date with the proper supporting documents attached.

Person Responsible: The management team of DOF.

Finding No. 11-05

The Government was not able to substantiate its calculation of the retroactive pay liability, which resulted in a qualification of our opinion of governmental activities in the Government's basic financial statements.

Government's Response

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

Action Plan:

While the Government concurs with the fact that supporting evidence for the liability is not sufficient, thereby causing the audit qualification; a recalculation of the entire population is too cumbersome and costly to the Government. However, the Government is committed to ensuring that significant liabilities are recalculated and corrected prior to completion of the Fiscal Year 2013 audit such that appropriate future payments, as mandated by the Legislature, are accurate.

The Government recognizes that this action does not entirely remediate the existing finding but, the corrective measure will result in a reasonably accurate expense at the end of the pay-out process.

Implementation Date: October 2012

Due Date: FY 2014

Person Responsible: Retro Commission – Director of Personnel, Chairperson and the management team of DOF.

Finding No. 11-06

During our audit, we noted that bank reconciliations were not being performed and reviewed within a reasonable period. Most bank reconciliations were completed, reviewed and approved after 365 days.

Government's Response

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

Action Plan:

As part of the ERP, an integral component in automating the bank reconciliation functions within the DOF's Treasury Division lay in the bank reconciliation application, which resides in the Treasury Management Module (TMM). The TMM was used to reconcile all Government bank accounts as of September 30, 2007 and, as a result of automating the bank reconciliation process in Fiscal Year 2008, the Government is able to reconcile all bank accounts within a sixty (60) day timeframe in Fiscal Year 2013. While the TMM has been instrumental in improving the overall reconciliation process and the controls surrounding cash, it has revealed the necessity to reduce the amount of excess bank accounts utilized throughout the Government. It is the Government's expectation that many of these excess bank accounts will be closed during Fiscal Years 2013 and 2014. Moreover, in maximizing the benefits of the TMM, the Government will move towards increased efficiency and effectiveness through consolidation of existing bank accounts, while leveraging the full suite of available on-line financial tools (e.g., inter- and intra-bank ACH transactions) during Fiscal Year 2014.

Implementation Date: The implementation date began FY 2008 and was fully operable in Fiscal Year 2013.

Person Responsible: The management team of DOF.

Finding No. 11-07

The Government did not establish a liability for medical malpractice claims.

Government's Response

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

Action Plan:

The Government engaged the services of an actuarial firm to establish a liability for medical malpractice claims as of September 30, 2011; however, the Government will collaborate with the actuarial firm to update the liability as of September 30, 2012 and 2013. We anticipate a properly recorded liability that can be reviewed independently by the auditors, in the financial statements of the Government as of September 30, 2012.

Implementation Date: The implementation date began in Fiscal Year 2012 and will be updated in Fiscal Year 2013.

Person Responsible: The management team of DOF and Department of Health.

Finding No. 11-08

Lack of review of classification and reporting of transactions with component units led to significant errors, some of which related to prior periods, in amounts due to and from component units in the financial statements of the Government.

Government's Response

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

Action Plan:

In November 2010, the Department of Finance (DOF) disseminated a comprehensive "Component Unit Reporting Package" to all component units of the Virgin Islands Government that must be completed and forwarded to DOF within one hundred and twenty (120) days of the entity's fiscal or calendar year-end. While the information provided in the package will mitigate the lack of control over transactions with component units, the "Component Unit Reporting Package" will offer the following additional benefits:

- improved speed, completeness and comparability of government-wide financial ~~information through standardization, which allows GVI to maintain pace with the~~ 270 day criteria imposed by the Federal government,
- summarization of the important financial attributes related to component units that are useful for internal decision making, board meetings, senate hearings, etc.,
- increased compliance with key Government Accounting Standards Board reporting requirements, and
- reduced audit findings and costs related to conducting annual audits.

Implementation Date: The comprehensive "Component Unit Reporting Package" was implemented in November 2010; however the document became effective for component units with a fiscal year ending date of September 30, 2010.

Person Responsible: The management team of DOF and component units of the Virgin Islands Government.

Federal Programs

CFDA Nos. 10.551, 10.561, ARRA 10.561, 10.557, 17.225, ARRA 17.225, 20.205, 93.563, 93.600, ARRA 93.708 and 93.778

SNAP (Special Nutrition Assistance Program) Cluster CFDA Nos. 10.551, 10.561 and ARRA 10.561

During Ernst and Young's (E&Y) testing on cash management procedures to verify the timing of cash drawdowns was made as close as is administratively feasible, E&Y noted there were only twenty-three (23) cash drawdowns related to payroll expenses, when there are 26 pay periods throughout the fiscal year. As per the CMIA Agreement, cash draws related to payroll should be made upon every payday with an average clearance pattern of 0 (zero) days. Thus, E&Y noted that the Government accumulated several pay periods per cash draw request, instead of requesting the cash for every pay period, to comply with the CMIA Agreement average clearance pattern. While this situation did not lead to drawing funds in advance of CMIA established timing, it is evidence of lack of sufficient or effective internal controls over drawdown requirements.

Government's Response

The Department of Human Services (DHS) concurs with this finding.

Action Plan:

Reconciliations to the ERP continue to be performed monthly. DHS continues to also follow the CMIA regulations and enforce the SOPP developed by DOF. DHS is moving forward on drawing down payroll on the Wednesday since we have access to ERP payroll expenditure for 26 pay periods. Vendor payment drawdowns are made based on ERP General Ledger check run within the 4 day requirement. DHS continues to make strides to ensure compliance with this agreement to draw funds timely. DHS works closely with DOF with regards to check register information and verification with the bank drawdown data. DHS also posts the drawdowns immediately to the ERP and reconciles with drawdowns each month as noted in the Monthly Financial Reports. Access to the ERP for payroll has greatly improved our process for drawdowns. Once the Federal funds are on line the beginning of the fiscal year, and we have access, we will draw accordingly.

Implementation Date: 1st quarter of FY 2013 and on-going

Person Responsible: Chief Financial Officer – **DHS**

WIC Program
CFDA No. 10.557

During Ernst & Young's (E&Y) testing to determine whether the Government complied with the terms and conditions established in the Cash Management Improvement Act (CMIA) Agreement, E&Y selected a sample of 22 cash drawdowns (out of a population of 205) that amounted to $974,267 (out of a total of $6,174,226). E&Y noted that three (3) out of the 22 drawdowns selected for testing did not comply with the CMIA as follows:

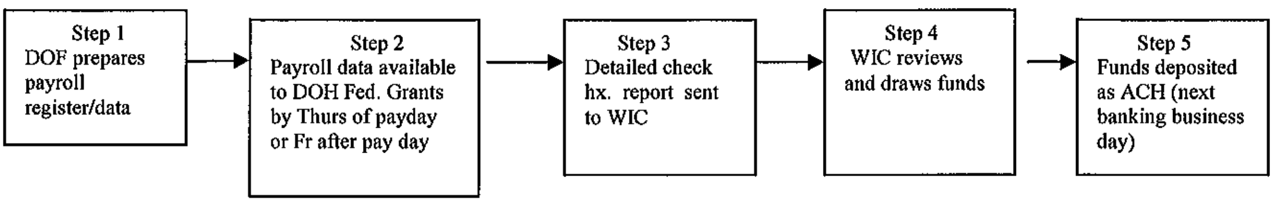
Federal Grant No.	Cash drawdown requested	Component	Payment release date	Actual deposit date	Days between payment release date and deposit date

2011IW100341	$ 83,277	Payroll	5/4/2011	5/24/2011	20
2011IW100341	$ 6,331	Vendor payments	7/26/2011	8/10/2011	12
2011IW100341	$ 95,274	Payroll	9/8/2011	9/26/2011	18

Government's Response

The Department of Health (DOH) concurs with this finding.

The process for cash draws for WIC payroll is demonstrated in the schematic diagram below:



Action Plan:

Payroll:
The VI WIC Program coordinates with DOH – Financial Services/Federal Grants Office in terms of obtaining the payroll registers by Wednesday of the pay week. Supporting documentation is prepared and funds will be drawn the same Wednesday to cover payroll on Thursday's payday.

Vendor Payments:
VI WIC Program monitors Batch/API's in the ERP System; once checks are cut WIC Program draws funds to cover payments.

Implementation Date: June 13, 2013 (Payroll)
Fiscal Year 2013 (Vendor Payments)

Person Responsible: Office Manager and Accountant I, WIC-**DOH**

UI (Unemployment Insurance)
CFDA Nos. 17.225 and ARRA 17.225

During Ernst and Young's (E&Y) testing to determine whether the Government complied with the terms and conditions established in the Cash Management Improvement Act (CMIA) Agreement, E&Y selected a sample of 16 cash drawdowns (out of a population of 156) that amounted to $381,942 (out of a total of $2,239,290). E&Y noted that nine (9) out of the 16 drawdowns selected for testing did not comply with the CMIA as follows:

Reference No.	Cash drawdown requested	Component	Payment release date	Actual deposit date	Days between payment release date and deposit date
4033709984	$283,729	Vendor payment	1/22/2011	1/13/2011	-9
4033615130	$6,554	Payroll	10/21/2010	11/5/2010	15
4033691604	$63,398	Payroll	12/16/2010	12/29/2010	13
2049230706	$3,736	Payroll	12/30/2010	1/14/2011	15
2049233579	$526	Vendor payment	1/26/2011	1/21/2011	-5
Not available	$418	Vendor payment	1/22/2011	1/13/2011	-9
4034006186	$1,802	Payroll	8/10/2011	8/11/2011	1
2049273306	$5,257	Payroll	4/20/2011	5/2/2011	12
4034022277	$4,169	Vendor payment	8/5/2011	8/24/2011	19

Government's Response

The Virgin Islands Department of Labor concurs with this finding.

Action Plan:

The attached Cash Management and Drawdown Policy (Attachment I) has been put into effect to ensure that Accountants perform required activities in a timely manner.

Implementation Date: December 12, 2012 and on-going

Person Responsible: Director of Business and Administration - **DOL**

Highway Planning and Construction CFDA Nos. 20.205 and ARRA 20.205

During Ernst and Young's (E&Y) testing to determine whether the Government complied with the terms and conditions established in the Cash Management Improvement Act (CMIA) Agreement, E&Y selected a sample of 40 cash drawdowns (out of a population of 465). E&Y noted that 39 out of the 40 drawdowns selected for testing did not comply with the CMIA as follows:

Cash drawdown requested	Payment release date	Date funds requested per PR-20	Days between payment release date and request date

$43,950	4/1/2011	3/29/2011	-3
$715	10/27/2010	9/17/2010	-40
$6,600	10/28/2010	1/31/2011	95
$450	12/9/2010	12/6/2010	-3
$1,000	12/9/2010	12/6/2010	-3
$587	10/6/2011	9/16/2011	-20
$592	10/6/2011	9/16/2011	-20
$198	2/8/2011	3/24/2011	44
$77	9/28/2011	8/26/2011	-33
$77	7/20/2011	6/23/2011	-27
$424	5/2/2011	3/11/2011	-52
$70	2/2/2011	1/28/2011	-5
$70	2/2/2011	1/28/2011	-5
$77	1/21/2011	1/28/2011	7
$67	1/21/2011	12/8/2010	-44
$70	1/21/2011	12/8/2010	-44
$69	9/26/2011	11/14/2011	49
$57	6/1/2011	8/3/2011	63
$55	6/1/2011	8/3/2011	63
$53	3/2/2011	4/26/2011	55
$54	12/9/2010	1/31/2011	53
$62	12/9/2010	1/31/2011	53
$69	8/4/2011	9/12/2011	39
$4,808	7/7/2011	9/16/2011	71
$3,672	9/16/2011	9/12/2011	-4
$253,601	9/9/2011	8/26/2011	-14
$160	8/11/2011	8/29/2011	18
$256	12/15/2010	8/29/2011	257
$510	10/6/2010	10/1/2010	-5
$4,041	9/7/2011	8/14/2011	-24
$394	3/2/2011	3/24/2011	22
$2,275	12/2/2010	6/2/2010	-183
$184	8/19/2011	9/12/2011	24
$173	8/19/2011	9/12/2011	24
$12,025	11/15/2010	11/5/2010	-10
$1,585	9/1/2011	8/17/2011	-15

$3,297	11/15/2010	11/5/2010	-10
$23,907	9/1/2011	8/17/2011	-15
$4,096	6/8/2011	6/3/2011	-5

Government's Response

The Department of Public Works (DPW) concurs with this finding.

Action Plan:

This finding is recurring and will continue to be a finding because of the fact that the U.S. Virgin Islands Federal Highway Administration (FHWA) Program is still a reimbursable program that is performed manually (not electronically), thus creating this finding. DPW does not have control over this process, however is in constant communication with the Office of FHWA in Puerto Rico regarding the implementation of the electronic reimbursement system called RASPS (Rapid Assessment Payment System). DPW is also in negotiation with the Department of Finance to seek an amendment to the Treasury-State Agreement for the FHWA Program in the interim, while the electronic system can be implemented to remain in compliance and reimburse DPW's accounts within the four (4) days as stated by the CMIA.

Implementation Date: FY 2012 (Communication re: RASPS & Treasury-State Agreement)

Due Date: To be determined re: RASPS implementation and new Treasury-State Agreement

Person Responsible: Assistant Director of Administration - **DPW**

Child Support Enforcement Program CFDA No. 93.563

During Ernst and Young's (E&Y) testing to determine whether the Government complied with the terms and conditions established in the Cash Management Improvement Act (CMIA) Agreement, E&Y selected a sample of nine (9) cash drawdowns (out of a population of 90) that amounted to $447,946 (out of a total of $4,201,918). E&Y noted that seven (7) out of the nine (9) drawdowns selected for testing did not comply with the CMIA as follows:

Reference No.	Cash drawdown requested	Component	Payment release date	Actual deposit date	Days between payment date and deposit date
4033616811	$83,190	Payroll	11/4/2010	11/8/2010	4
4033677649	$80,353	Payroll	12/16/2010	12/20/2010	4
4033687095	$20,062	Vendor payment	1/20/2011	12/27/2010	-24
4033794744	$80,098	Payroll	3/10/2011	3/11/2011	1
4033808499	$18,251	Vendor payment	3/26/2011	3/22/2011	-4
4033837783	$78,694	Payroll	4/7/2011	4/8/2011	1
4033957340	$3,090	Vendor payment	7/5/2011	7/7/2011	-2

Government's Response

The Department of Justice concurs with this finding.

Action Plan:

The Program will work closely with Department of Finance (DOF) to ensure that the government complies with the appropriate funding pattern set forth in the CMIA Agreement. The Program intends to eliminate this finding by monitoring the daily check run in the ERP and follow-up with DOF to provide a Paid Invoice Report indicating when the check was released by DOF and the date the drawdown is to be performed. The Program suggested to DOF that in order to eliminate this finding DOF should make the Paid Invoice Report available electronically to PCSD through the ERP. This would also protect the process from any delay that may occur due to unforeseen circumstances.

Due Date: August 2013 and on-going

Person Responsible: Financial Control Officer, PCSD - **DOJ**
Director, PCSD - **DOJ**
Disbursement Unit - **DOF**

Head Start Cluster
CFDA Nos. 93.600 and ARRA 93.708

During Ernst and Young's (E&Y) assessment to determine whether the Government complied with the terms and conditions of the CMIA Treasury-State Agreement, E&Y noted that there were only twenty-two (22) cash drawdowns during the period, when there are (26) twenty-six pay periods throughout the fiscal year. As per the CMIA Agreement, cash draws related to payroll should be made upon every payday with an average clearance pattern of 0 (zero) days. Thus, E&Y noted that the Government accumulated several pay periods per cash draw request, instead of requesting the cash for every pay period in order to comply with the CMIA Agreement average clearance pattern. While this situation did not lead to drawing funds in advance of CMIA established timing, it is evidence of lack of sufficient or effective internal controls over drawdown requirements.

Government's Response

The Department of Human Services (DHS) concurs with this finding.

Action Plan:

Reconciliations to the ERP continue to be performed monthly. DHS continues to also follow the CMIA regulations and enforce the SOPP developed by DOF. DHS is moving forward on drawing down payroll on the Wednesday, since we have access to ERP payroll expenditure for 26 pay periods. Vendor payment drawdowns are made based on ERP General Ledger check run within the 4 day requirement. DHS continues to make strides to ensure compliance with this agreement to draw funds timely. DHS works closely with DOF with regards to check register information and verification with the bank drawdown data. DHS also posts the drawdowns immediately to the ERP and reconciles with drawdowns each month as noted in the Monthly Financial Reports. Access to the ERP for payroll has greatly improved our process for drawdowns. Once the Federal funds are on line the beginning of the fiscal year, and we have access, we will draw accordingly.

Implementation Date: 1st quarter of FY 2013 and on-going

Person Responsible: Chief Financial Officer – **DHS**

Medical Assistance Program (Medicaid)
CFDA No. 93.778

During Ernst and Young's (E&Y) testing to determine whether the Government complied with the terms and conditions established in the Cash Management Improvement Act (CMIA) Agreement, E&Y selected a sample of 12 cash drawdowns (out of a population of 58) that amounted to $2,414,066 (out of a total of $16,559,270). E&Y noted that 11 out of the 12 drawdowns selected for testing did not comply with the CMIA as follows:

Reference No.	Cash drawdown requested	Component	Payment release date	Actual deposit date	Days between payment release date and deposit date
4034058002	$61,885	Payroll	7/21/2011	9/21/2011	62
4033925400	$19,987	Payroll	6/9/2011	6/14/2011	5
4033892074	$201,008	Payroll	5/26/2011	5/19/2011	-7
4033769820	$63,068	Vendor payment	2/10/2011	2/24/2011	14
4033748429	$59,758	Vendor payment	2/24/2011	2/9/2011	-15
4033937852	$4,285	Vendor payment	6/16/2011	6/22/2011	6
4033917287	$4,693	Vendor payment	6/2/2011	6/8/2011	6
4033917287	$172,560	Payroll	6/9/2011	6/8/2011	-1
4033886986	$813,122	Payroll	4/27/2011	5/16/2011	19
4033871891	$632,475	Payroll	5/2/2011	5/4/2011	-2
4033769820	$106,226	Payroll	2/18/2011	2/24/2011	6

Government's Response

The Department of Human Services (DHS) concurs with this finding.

Action Plan:

Reconciliations to the ERP continue to be performed monthly. DHS continues to also follow the CMIA regulations and enforce the SOPP developed by DOF. DHS is moving forward on drawing down payroll on the Wednesday since we have access to ERP payroll expenditure for 26 pay periods. Vendor payment drawdowns are made based on ERP General Ledger check run within the 4 day requirement. DHS continues to make strides to ensure compliance with this agreement to draw funds timely. DHS works closely with DOF with regards to check register information and verification with the bank drawdown data. DHS also posts the drawdowns immediately to the ERP and reconciles with drawdowns each month as noted in the Monthly Financial Reports. Access to the ERP for payroll has greatly improved our process for drawdowns. Once the Federal funds are on line the beginning of the fiscal year, and we have access, we will draw accordingly.

Implementation Date: 1st quarter of FY 2013 and on-going

Responsible Person: Chief Financial Officer - **DHS**

Finding No. 11-10

CFDA Nos. 12.401, 17.258, ARRA 17.258, ARRA 17.259, 81.041, ARRA 81.041, ARRA 84.394, ARRA 84.397, 93.558, 93.575 and ARRA 93.713

National Guard Military Operations and Maintenance (O&M) Projects CFDA No. 12.401

During Ernst and Young's (E&Y) testing to determine whether the Government complied with the terms and conditions established in 31 CFR 205 "Subpart B—Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement", E&Y noted that drawdowns are organized in binders and management could not provide a complete list of cash drawdowns. However, E&Y selected a sample of 35 cash drawdowns that amounted to $732,066. E&Y noted that all 35 drawdowns selected for testing did not comply with conditions established in 31 CFR 205 as follows:

Reference No.	Reimbursement request amount	Date of the last invoice	Reimbursement request date	Days between date of the last invoice and reimbursement request
SF1-025-2011	$30,386	8/27/2011	9/23/2011	27
SF1-013-2011	$37,401	3/12/2011	4/13/2011	32
SF1-016-2011	$42,379	4/23/2011	7/7/2011	75
SF1-019-2011	$38,424	6/4/2011	7/14/2011	40
SF1-029-2011	$264	9/30/2011	12/8/2011	69
SF2-002-2011	$750	12/14/2010	1/12/2011	29
SF2-007-2011	$198	4/27/2011	6/27/2011	61
SF2-010-2011	$1,496	10/25/2010	8/20/2011	299
SF2-013-2011	$38,841	9/28/2011	10/26/2011	28
SF1-002-2011	$9,724	10/23/2010	12/2/2010	40
SF1-018-2011	$9,724	5/21/2011	7/6/2011	46
SF1-024-2011	$9,028	8/13/2011	9/8/2011	26
SF1-028-2011	$4,514	9/30/2011	10/25/2011	25
SF-009-2011	$15,649	9/8/2011	1/19/2011	72
SF-008-2011	$9,030	7/8/2011	11/7/2011	122
SF-004-2011	$8,739	3/1/2011	6/6/2011	97
SF-002-2011	$3,079	1/1/2011	4/4/2011	93
SF1-009-2011	$2,486	6/4/2011	9/13/2011	101
SF1-006-2011	$2,486	4/23/2011	6/6/2011	44
SF1-015-2011	$2,312	8/27/2011	10/3/2011	37

SF1-016-2011	$10,534	6/21/2011	7/14/2011	23
SF1-015-2011	$28,042	6/1/2011	7/6/2011	35
SF1-010-2011	$15,173	4/19/2011	5/18/2011	29
SF3-025-2011	$12,551	8/27/2011	9/19/2011	23
~~SF1-006-2011~~	~~$73,308~~	~~3/25/2011~~	~~4/4/2011~~	~~10~~
SF1-005-2011	$10,511	1/1/2011	2/22/2011	52
SF1-004-2011	$74,313	1/18/2011	2/10/2011	23
SF1-003-2011	$33,888	12/18/2010	2/3/2011	47
SF1-002-2011	$63,257	12/29/2010	1/12/2011	14
SF1-001-2011	$66,145	11/30/2010	12/29/2010	29
SF1-026-2011	$9,028	9/10/2011	10/25/2011	45
SF1-014-2011	$9,732	4/26/2011	4/19/2011	-7
SF2-002-2011	$1,400	1/31/2011	4/2/2011	61
SF2-004-2011	$100	2/26/2011	5/18/2011	81
SF1-009-2011	$57,173	4/1/2011	5/18/2011	47

Government's Response

The Office of the Adjutant General does not concur with the condition, cause and recommendation for this finding.

As stated in the audit's condition, the auditor used the Treasury-State Agreement (CMIA) as a benchmark to test the amount of time that elapsed between expenditures, drawdown requests and receipt of reimbursements..

Based on the information provided by the audit, most of the requests are for payroll which, according to the local Government, is paid fourteen (14) days after the end of the payroll period. Reimbursements are usually made within 5-7 days after the pay day but SF270 must reflect the period for which the check was paid.

In addition to the fourteen-day wait period, the SF270s for payroll are prepared within 5-7 days after the payday, then submitted to the Program Managers for review, reconciliation, approval and signatures before the documents are forwarded to the USPFO for processing. It is not possible for the reimbursements to be received in a shorter timeframe. All procedures for reimbursements are explained in the NGR 5-1, Chapter 10.

The SF270s did not show the date that the standard forms were prepared. Although the dates on the invoices were used to prepare the SF270s, the reimbursements could not be received within 3-4 days considering the process by which the Grantor should follow as stipulated in the Cooperative Agreement.

Action Plan: N/A

Due Date: N/A

Responsible Person: Director of Administration and Business Management – **OTAG**

Workforce Investment Act (WIA) Cluster
CFDA Nos. 17.258, ARRA 17.258 and 17.259

During Ernst and Young's (E&Y) testing to determine whether the Government complied with the terms and conditions established in 31 CFR 205 "Subpart B—Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement", E&Y selected a sample of 25 cash drawdowns (out of a population of 252) that amounted to $279,951 (out of a total of $3,327,130). E&Y noted that 19 of the 25 drawdowns selected for testing did not comply with conditions established in 31 CFR 205 as follows:

Grant Award No.	Cash drawdown requested	Payment release date	Actual deposit date	Days between release and deposit
AA-171535M	$ 8,397	5/29/2011	6/30/2011	32
AA-186738G	$ 3,158	1/13/2011	2/2/2011	20
AA-186738G	$ 47,157	2/18/2011	2/25/2011	7
AA-186738G	$ 6,196	7/20/2011	8/2/2011	13
AA-186738G	$ 5,242	9/6/2011	9/12/2011	6
AA-186736F	$ 1,700	8/11/2011	8/26/2011	15
AA-186738E	$ 854	4/19/2011	5/18/2011	29
AA-186738E	$ 551	7/14/2011	7/26/2011	12
AA-171534B	$ 1,712	8/5/2011	9/12/2011	38
AA-20225DA	$ 17,626	4/19/2011	6/8/2011	50
AA-20225DA	$ 49,849	7/7/2011	7/19/2011	12
AA-20225CY	$ 32,110	3/24/2011	4/8/2011	15
AA-20225CY	$ 21,267	5/19/2011	6/8/2011	20
AA-20225AT	$ 2,662	3/30/2011	4/6/2011	7
AA-20225AT	$ 12,645	3/24/2011	4/8/2011	15
AA-20225AG	$ 8,626	6/16/2011	6/29/2011	13
AA-20225AG	$ 3,337	8/11/2011	8/26/2011	15
AA-20225AG	$ 3,190	8/25/2011	9/16/2011	22
AA-21427FA	$ 20,198	8/11/2011	8/17/2011	6

Government's Response

The Virgin Islands Department of Labor concurs with this finding.

Action Plan:

The attached Cash Management and Drawdown Policy (Attachment I) has been put into effect to ensure that Accountants perform required activities in a timely manner.

Implementation Date: December 12, 2012 and on-going

Responsible Person: Director of Business Administration - **DOL**

State Energy Program
CFDA No. 81.041 and ARRA 81.041

During Ernst and Young's (E&Y) testing to determine whether the Government complied with the terms and conditions established in 31 CFR 205 "Subpart B—Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement", E&Y selected a sample of six (6) cash drawdowns (out of a population of 25) that amounted to $5,186,496 (out of a total of $12,157,123). E&Y noted that two (2) of the six (6) drawdowns selected for testing did not comply with conditions established in 31 CFR 205 as follows:

Federal account ID	Cash drawdown requested	Payment release date	Actual deposit date	Days between payment and deposit
EE0000223	$175,220	5/25/2011	6/21/2011	27
EE0000223	$780,232	6/27/2011	6/24/2011	-3

Government's Response

VI Energy Office concurs with the finding and recognizes that changes need to be made to itscash management policy. The VIEO is developing policies and procedure that will correct the matter.

The VIEO recognizes that issues cited were due to drawdowns being done based on monthly ERP flexible reports that were generated at the end of the month and changed after payroll and other expenditures were posted two weeks later. These changes in the flexible reports caused discrepancies that gave the appearance to a difference between the payment release date and the date of the drawdown. In the second case, the Department of Energy (DOE), allows drawdowns to be three days prior to the payment release date.

Action Plan:

The VIEO has separated drawdowns into payroll and expenditures. Drawdowns for expenditures will be done weekly or bi-weekly based on the VI Department of Finance (DOF), "Paid Invoice Notifications" that is sent weekly and bi-weekly by DOF. Payroll drawdowns will be based on check registry reports generated from the ERP. These two actions will avoid both advanced and delayed drawdowns. The VIEO will revise the drawdown policy and procedures to comply with the Treasury regulations at 31 CFR 205 relating to Cash Management and incorporate the new policies and procedures into the VIEO Financial Operations Manual.

Due Date: October 1, 2013

Responsible Person: Grants Manager - **VIEO**

State Fiscal Stabilization Fund Cluster CFDA Nos. ARRA 84.394 and ARRA 84.397

During Ernst and Young's (E&Y) testing to determine whether the Government complied with the terms and conditions established in 31 CFR 205 "Subpart B—Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement", E&Y selected a sample of 12 cash drawdowns (out of a population of 117) that amounted to $20,193,433 (out of a total of $31,633,577). E&Y noted that three (3) of the 12 drawdowns selected for testing did not comply with conditions established in 31 CFR 205 as follows:

CFDA No.	Grant award	Cash drawdown requested	Payment release date	Actual deposit date	Days between release and deposit
84.397	S397A090056	$257,658	7/1/2011	6/28/2011	-3
84.397	S397A090056	$6,952	5/19/2011	6/6/2011	18
84.397	S397A090056	$32,800	9/21/2011	9/30/2011	9

In addition, management could not provide support for three (3) of the 12 drawdowns selected for testing as follows:

CFDA No.	Grant award No.	Cash drawdown requested	Request date
84.397	S397A090056	$5,389	9/9/11
84.397	S397A090056	$7,148	-
84.397	S397A090056	$316,525	12/17/10

Government's Response

The Department of Finance concurs with the finding. However, in reference to the requested information not being provided, DOF is unable to substantiate the credibility of this claim due to time constraints.

Action Plan:

DOF will enforce SOPP Nos. 710 & 711, which address the draw-down of Federal funds to ensure compliance with CFR 205, Subpart B. DOF will ensure that the timing and amount of draw-downs / transfers are done as close as is administratively feasible to minimize the time between the draw-down and the deposit of Federal funds, in accordance with the conditions established in 31 CFR 205.

Implementation Date: September 2013 and on-going

Responsible Person: Director of Treasury - **DOF**

Temporary Assistance for Needy Families (TANF)
CFDA No. 93.558

During Ernst and Young's (E&Y) testing to determine whether the Government complied with the terms and conditions established in 31 CFR 205 "Subpart B—Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement", E&Y selected a sample of nine (9) cash drawdowns (out of a population of 43) that amounted to $1,053,266 (out of a total of $4,730,761). E&Y noted that all nine (9) drawdowns selected for testing did not comply with conditions established in 31 CFR 205 as follows:

Federal account ID	Component	Cash drawdown requested	Payment release date	Actual deposit date	Days between payment and deposit
Acct. #A337P	Payroll	$257,225	08/25/2011	08/30/2011	5
Acct. #A337P	Payroll	$331,682	08/11/2011	07/27/2011	-15
	Payroll	$150,633	03/23/2011	04/11/2011	19

Acct. #A337P	Payroll	$ 86,082	03/24/2011	04/2112011	18
Acct. #A337P	Vendor payment	$ 1,700	03/28/2011	04/11/2011	14
Acct. #A337P	Payroll	$ 37,922	01/13/2011	02/04/2011	22
Acct. #A337P	Vendor payment	$ 50,884	12/28/2010	01/11/2011	14
Acct. #A337P	Payroll	$ 61,618	12/30/2010	01/03/2011	4
Acct. #A337P	Payroll	$ 42,120	10/21/2010	10/29/2010	8
Acct. #A337P	Payroll	$ 33,400	10/07/2010	11/05/2010	29

Government's Response

The Department of Human Services (DHS) concurs with this finding.

Action Plan:

Reconciliations to the ERP continue to be performed monthly. DHS continues to also follow the CMIA regulations and enforce the SOPP developed by DOF. DHS is moving forward on drawing down payroll on the Wednesday, since we have access to ERP payroll expenditure for 26 pay periods. Vendor payment drawdowns are made based on ERP General Ledger check run within the 4 day requirement. DHS continues to make strides to ensure compliance with this agreement to draw funds timely. DHS works closely with DOF with regards to check register information and verification with the bank drawdown data. DHS also posts the drawdowns immediately to the ERP and reconciles with drawdowns each month as noted in the Monthly Financial Reports. Access to the ERP for payroll has greatly improved our process for drawdowns. Once the Federal funds are on line the beginning of the fiscal year, and we have access, we will draw accordingly.

Implementation Date: 1st quarter of FY 2013 and on-going

Person Responsible: Chief Financial Officer – **DHS**

Child Care Development Fund (CCDF)
CFDA Nos. 93.575, ARRA 93.713

During Ernst and Young's (E&Y) testing to determine whether the Government complied with the terms and conditions established in 31 CFR 205 "Subpart B—Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement", E&Y selected a sample of seven (7) cash drawdowns (out of a population of 62) that amounted to $1,038,330 (out of a total of $2,782,303). E&Y noted that all seven (7) drawdowns selected for testing did not comply with conditions established in 31 CFR 205 as follows:

Reference No.	Component	Cash drawdown requested	Payment release date	Actual deposit date	Excess days
4033924196	Payroll	$13,890	6/2/2011	6/14/2011	12
4033897243	Payroll	$14,856	05/04/2011	5/23/2011	19
	Payroll	$14,759	05/19/2011	5/23/2011	4
4033727510	Payroll	$14,759	1//13/2011	1/26/2011	13
4033723196	Vendor payment	$105,073	1/28/2011	1/24/2011	-4
4033682841	Vendor payment	$72	12/23/2010	12/22/2010	-1
	Vendor payment	$144	12/17/2010	12/22/2010	5
	Vendor payment	$14,814	12/21/2010	12/22/2010	1
4033644980	Vendor payment	$1,878	11/19/2010	11/26/2010	7
	Vendor payment	$764,000	11/30/2010	11/26/2010	-4
	Payroll	$28,497	11/18/2010	11/26/2010	8
4034036665	Vendor payment	$65,588	Various	9/2/2011	-1

<u>Government's Response</u>

The Department of Human Services (DHS) concurs with this finding.

Action Plan:

Reconciliations to the ERP continue to be performed monthly. DHS continues to also follow the CMIA regulations and enforce the SOPP developed by DOF. DHS is moving forward on drawing down payroll on the Wednesday, since we have access to ERP payroll expenditure for 26 pay periods. Vendor payment drawdowns are made based on ERP General Ledger check run within the 4 day requirement. DHS continues to make strides to ensure compliance with this agreement to draw funds timely. DHS works closely with DOF with regards to check register information and verification with the bank drawdown data. DHS also posts the drawdowns immediately to the ERP and reconciles with drawdowns each month as noted in the Monthly Financial Reports. Access to the ERP for payroll has greatly improved our process for drawdowns. Once the

Federal funds are on line the beginning of the fiscal year, and we have access, we will draw accordingly.

Implementation Date: 1st quarter of FY 2013 and on-going

Person Responsible: Chief Financial Officer – **DHS**

National Guard Military Operations and Maintenance (O&M) Projects CFDA No. 12.401

Finding No. 11-11

Ernst and Young (E&Y) selected a sample of 35 Financial Status Reports (SF-270) (out of a population of 241) to test compliance and internal control over reporting requirements. E&Y noted a difference between the ETA Financial Status Reports and the Accounting Records (ERP) regarding the expenditures for FY 2011.

Total expenditures per reports SF-270	$ 4,123,777
Total expenditures per ERP	4,644,318
Unreconciled difference	$ 520,542

Government's Response

The Office of the Adjutant General does not concur with the condition, cause and recommendation of this finding.

The Master Cooperative Agreement (MCA) is a contract entered into by the Government of the Virgin Islands (Grantee) and the National Guard Bureau (Federal Government). Both parties agree to the terms and conditions established for the Cooperative Agreement which are applicable to the contribution of NGB funds for the operation and training of the Virgin Islands Army and Air National Guard.

Although the term covered by the MCA is a five-year term, funds are provided annually and allowable costs must be incurred in the same fiscal year as the funding. Likewise, the reimbursements are reported in the same fiscal year that they were expended. (NGR 5-1, Chapter 10)

Management reports are validated and reimbursements received based on the SF270s prepared for that fiscal year. Both amounts are reconciled according to records retained in the Office of the Adjutant General and are reported in that manner to the United States Property and Fiscal Officer (Grantor) as stipulated in the NGR 5-1, Chapter 10, Section 10 (a). All obligations made during the period of fund availability may not have been paid for months or years after fund availability has expired. However, an appendix cannot close out until all outstanding obligations have been paid. 'Timely close out of Agreements is the key to internal control'.

According to the audit's condition detailed in the finding, the ERP figure does not represent that of Fiscal Year 2011 and may be the result of the Department of Finance co-mingling the funds of prior years with that of the current year.

Action Plan: N/A

Implementation Date: N/A

Person Responsible: Director of Administration and Business Management - **OTAG**

Work Force Investment Act (WIA) Cluster CFDA Nos. 17.258, ARRA 17.258 and 17.259

Finding No. 11-12

Ernst and Young (E&Y) selected a sample of 40 participants (out of a population of 543) to test compliance and internal control over the eligibility requirement. Management could not provide two (2) of the participant's files selected for testing.

Islands/Office		Participant Entry Date	Entry Date per file
St. Thomas One Stop Center		6/6/2011	5/11/2011
St. Croix One Stop Center		6/7/2011	5/03/2011

Government's Response

The Virgin Islands Department of Labor concurs with this finding

Action Plan:

The two referenced files were located and it was determined that the missing case notes were missing from the electronic version due to software conversion issues as the department converted from the *AOSOS* System to *VIeWS* (the Virgin Islands Electronic Workforce System). The missing case notes are documented in the hard copy file. The reference program documentation requesting a list of participants transferred during the software conversion can be re-requested from the IT Department. At the time of the request it was unavailable.

Implementation Date: July 2013

Person Responsible: Assistant Commissioner of Employment & Training (E&T) – **DOL**

Finding No. 11-13

Ernst and Young (E&Y) selected all eight (8) ETA 9130, *Financial Status Reports*, submitted during Fiscal Year 2011, to test compliance and internal control over reporting requirements. E&Y noted differences between the accounting records (ERP) and the ETA 9130 Reports regarding Federal expenditures for FY 2011.

ETA 9130 Reports (all four quarters)	$ 3,178,201
Accounting records (ERP)	2,997,756
Unreconciled difference	$ 180,445

Government's Response

The Virgin Islands Department of Labor concurs with this finding.

Action Plan:

The Director of Administration is working with staff to implement procedures to ensure reports are filed in a timely manner, with reconciliations being performed on a monthly basis.

Implementation Date: December 2012 and on-going

Person Responsible: Director of Administration – **DOL**

Finding No. 11-14

During the audit, Ernst and Young (E&Y) requested information which would enable E&Y to test earmarking for the WIA Program. However, the information necessary to ascertain compliance with this requirement was not provided; therefore, E&Y was unable to reach a conclusion on this requirement.

Government's Response

The Virgin Islands Department of Labor concurs with this finding.

Action Plan:

This is a first time finding for the department and currently an internal policy is not in place. VIDOL will be contacting USDOL for guidance. A corrective action plan will then be developed and implemented.

Due Date: July 2013 and ongoing

Person Responsible: Assistant Commissioner of E&T - **DOL**

Highway Planning and Construction CFDA Nos. 20.205 and ARRA 20.205

Finding No. 11-15

Ernst and Young (E&Y) selected a sample of two (2) Section 1512 Reports (out of a population of 8) to test compliance and internal control over reporting requirements. The Department of Transportation uses the Financial Management Information System (FMIS) which records all expenditures as support for reports; however, the amounts are not reconciled against the accounting records of the Central Government (ERP); records used to prepare the Schedule of Expenditures of Federal Awards (SEFA).

Expenditures per reports 1512	$	5,930,716

Expenditures per accounting records (ERP)		3,471,909
Unreconciled difference	$	2,458,807

Government's Response

The Department of Public Works (DPW) does not concur with this finding. The department has all of the supporting documentation to substantiate the expenditures reported on the 1512 Report.

Action Plan: N/A

Due Date: N/A

Person Responsible: Program Manager, Federal Highway Office - **DPW**

State Energy Program
CFDA Nos. 81.041 and ARRA 81.041

Finding No. 11-16

Ernst and Young (E&Y) selected a sample of 5 employees (out of a population of 25) that charged time to the State Energy Program to test internal control and compliance over the activities allowed or unallowed, allowable costs/cost principles, and period of availability requirements. Management could not provide the personnel activity reports for the employees selected for testing.

Payperiod	Gross Salary Per Payroll Register
December 19, 2010 to January 1, 2011	$ 1,091.00
April 24, 2011 to May 7, 2011	$ 974.00
May 8, 2011 to May 21, 2011	$ 116.00
June 5, 2011 to June 18, 2011	$ 1,163.00
July 31, 2011 to August 13, 2011	$ 1,163.00
December 19, 2010 to January 1, 2011	$ 1,731.00
April 24, 2011 to May 7, 2011	$ 1,385.00
May 8, 2011 to May 21, 2011	$ 1,352.00
June 5, 2011 to June 18, 2011	$ 1,547.00
July 31, 2011 to August 13, 2011	$ 796.00
December 19, 2010 to January 1, 2011	$ 1,367.00
April 24, 2011 to May 7, 2011	$ 1,385.00
May 8, 2011 to May 21, 2011	$ 1,352.00
June 5, 2011 to June 18, 2011	$ 1,350.00
July 31, 2011 to August 13, 2011	$ 1,250.00
December 19, 2010 to January 1, 2011	$ 883.00
April 24, 2011 to May 7, 2011	$ 844.00
May 8, 2011 to May 21, 2011	$ 794.00
June 5, 2011 to June 18, 2011	$ 839.00
July 31, 2011 to August 13, 2011	$ 629.00
December 19, 2010 to January 1, 2011	$ 965.00
April 24, 2011 to May 7, 2011	$ 1,058.00
May 8, 2011 to May 21, 2011	$ 1,058.00

Government's Response

The Virgin Islands Energy Office concurs with this finding.

Action Plan:

It has been decided that the department will implement a manual control to monitor the hours worked by employee for each separate program. In addition, they will follow up with Department of Finance so that they input the correct distribution of hours in their reports.

Due Date: December 31, 2013

Person Responsible: Grants Manager - **VIEO**
Financial Programs Coordinator - **VIEO**

State Fiscal Stabilization Fund Cluster CFDA Nos. ARRA 84.394 and ARRA 84.397

Finding No. 11-17

During Ernst and Young's (E&Y) test of compliance and internal controls over subrecipient monitoring requirements, E&Y noted that during the fiscal year under audit funds totaling $2,027,739 were disbursed to two (2) subrecipients. E&Y noted that program management failed to monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Moreover, management could not ensure whether the subrecipients met the audit requirements of Circular A-133. As a result, management could not evaluate if a management decision on audit findings was required.

Government's Response

The Office of the Governor concurs with this finding.

Action Plan:

The Office of the Governor will continue to reinforce the processes established by liaisons for regular site visits to sub-grantees to review financial and budgetary reports to promote operational efficiency to achieve compliance with all applicable regulatory requirements, identify potential or problem areas and overall weaknesses and provide technical assistance when warranted. This will include specifically ensuring that the subrecipients present the funds expended in the Schedule of Expenditures of Federal Awards in the Single Audit.

The Office of the Governor will also review the policies and procedures developed for subrecipients governing Federal award requirements and compliance monitoring, as well as conduct follow-up visits with all subgrantees to address specific needs and correct identified compliance issues.

Implementation Date: 1st quarter of FY 2014

Person Responsible: Director, Business and Administration - **OOG**

Finding No. 11-18

Ernst and Young (E&Y) selected a sample of 30 employees (out of a population of 1,029) that charged time to the State Fiscal Stabilization Fund cluster to test internal control and compliance over the activities allowed or unallowed, allowable costs/cost principles, and period of availability requirements. E&Y noted five (5) instances in which the Program could not provide a timesheet and the time certification or activity report as follows:

Employee No.	Pay Periods	Timesheet not provided	Time certification or activity reports not provided
T3006098	6/19/11 - 7/2/11	X	X
T3006098	7/3/11 - 7/16/11	X	X
T3006098	8/28/11 - 9/10/11		X
T3006099	6/19/11 - 7/2/11	X	X
T3006099	7/3/11 - 7/16/11	X	X
T3006099	8/28/11 - 9/10/11		X
T3006088	7/3/11 - 7/16/11	X	X
T3006088	8/28/11 - 9/10/11		X
T3006086	7/3/11 - 7/16/11	X	X
T3006086	8/28/11 - 9/10/11		X
T3006080	6/19/11 - 7/2/11	X	X
T3006080	8/28/11 - 9/10/11		X
T3006080	7/3/11 - 7/16/11	X	X

Government's Response

The Department of Finance (DOF) concurs with this finding. As explained during the course of the audit, the Department of Finance was undergoing a major renovation at its St. Thomas offices during which all files were relocated in temporary storage. This presented difficulties in finding the original timesheets requested.

Action Plan:

This finding highlights the need to eliminate time cards and other human interventions from the payroll process. Ironically, funding from the State Fiscal Stabilization Fund went towards the Standardized Time and Attendance Systems (STATS), which has eliminated time cards and instead employs a biometric device to capture time and attendance for direct import to the ERP for payroll processing. While the implementation had been staggered over the past year and a half, completion was achieved in April 2013. The Department of Finance (DOF) has, therefore, already addressed this finding, as time certifications are now available in the STATS environment. This is achieved by electronically captured verifications conducted prior to the processing of payroll.

Implementation Date: April 2013 and on-going

Person Responsible: Director of Payroll - **DOF**

Temporary Assistance for Needy Families (TANF) CFDA No. 93.558

Finding No. 11-19

Ernst and Young (E&Y) noted that no inventory observation of equipment purchased with Federal funds has been performed within a two year period as required by OMB Circular A-102.

Government's Response

The Department of Human Services (DHS) concurs with this finding.

Action Plan:

The assets in question have been tagged and accounted for. DHS shall continue the process of documenting and accounting for assets purchased for $5,000 and over. DHS shall follow the guidelines set forth in OMB Circular A-102.

Due Date: October 1, 2013

Person Responsible: Program Administrator – **DHS**

Finding No. 11-20

Ernst and Young (E&Y) selected a sample of two (2) transactions (out of a population of 18) to determine whether the Program performed a verification check for covered transactions, by checking the EPLS, collecting a certification from the entity, or adding a clause or condition to the covered transaction with the entity. E&Y noted one (1) instance in which the clause was not included in the contract and the program could not provide supporting documentation to evidence the verification of such transaction.

Document no.		Vendor ID
733216		15400

<u>Government's Response</u>

The Department of Human Services (DHS) concurs with this finding.

Action Plan:

The Debarment Clause shall be affixed to all contracts in the future fiscal years.

Implementation Date: October 1, 2012 and on-going

Person Responsible: Program Administrator - **DHS**

Finding No. 11-21

Ernst and Young selected a sample of two (2) quarterly ACF-199 TANF Data Reports (out of a population of 4) to test compliance and internal control over reporting requirements. The Department of Human Services could not provide the reports for the period ended on December 31, 2010 and June 2011.

<u>Government's Response</u>

The Department of Human Services (DHS) concurs with this finding.

Action Plan:

DHS shall implement procedures to capture data as required in the SSP-MOE Data Report on a monthly/quarterly basis. Pursuant to 45 CFR 265.3 - (a) Quarterly reports: (1) Each State must collect on a monthly basis, and file on a quarterly basis, the data specified in the TANF Data Report and the TANF Financial Report (or, as applicable, the Territorial Financial Report); and (2) Each State that claims MOE expenditures for a separate State program(s) must collect on a monthly basis, and file on a quarterly basis, the data specified in the SSP-MOE Data Report.

Due Date: October 2013

Person Responsible: Program Administrator – **DHS**

Finding No. 11-22

The Department of Human Services has not established and implemented the required IEVS System for data matching, and verification and use of such data during Fiscal Year 2011.

Government's Response

The Department of Human Services (DHS) concurs with this finding.

Action Plan:

The Program was unable to comply with IEVS because the electronic instructional coding could not be identified for implementing the IEVS. DHS has since found the Federal Codes and shall meet the requirements as they pertain to TANF to coordinate data exchanges with other Federal programs in this benefit service. However, since the IEVS was required by the statute, DHS had to match using IEVS. In FY 2011, the job of coding the IEVS to interface with CARIBS and the DOL began. The job is complete, and DHS will begin matching in FY 2013.

Implementation Date: October 1, 2012 and on-going

Person Responsible: Program Administrator – **DHS**

Child Support Enforcement
CFDA No. 93.563

Finding No. 11-23

During the audit, Ernst and Young (E&Y) noted that the Program provided only 33.4% ($1,987,988) of the State share of costs instead of the 34% ($2,022,316) required by the regulations. Accordingly, there is a deficiency of $34,328 in the State share costs.

Government's Response

The Department of Justice's (DOJ) Paternity and Child Support Division (PCSD) concurs with this finding

Action Plan:

The Program will implement a matching computation worksheet to monitor the Federal match and the local match. The Program has started processing each invoice as an allocation which shows the 66% Federal match and the 34% local match.

Implementation Date: August 2013

Person Responsible: Director of PCSD- **DOJ**
Financial Control Officer - **DOJ**

Finding No. 11-24

Ernst and Young (E&Y) selected all four (4) quarterly OCSE-396A Child Support Enforcement Program Expenditure Reports submitted during Fiscal Year 2011 to test internal control and compliance over reporting. The Government could not provide reconciliation between the OCSE-396A Reports and the accounting records (ERP).

Expenditures-federal share per ERP	$ 4,693,390
Net federal share per 396A	3,558,835
Unreconciled difference	$ 1,134,555

Government's Response

The Department of Justice's (DOJ) Paternity and Child Support Division (PCSD) concurs with this finding

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Action Plan:

The corrective action plan for the matching finding is to make sure all reconciliations are performed monthly and quarterly and identify any discrepancies between the ERP files and the Program files. The Program will perform monthly and quarterly reconciliations of all expenditures made against the ERP, and generate quarterly financial reports that will reflect all expenditures for the quarter. If any discrepancy is found, the Program will attach all supporting documentation to include printout of the Flexible Period Report for the quarter, the Program reconciliation files, and any discrepancies clarification. PCSD will also work with the Department of Finance in correcting any discrepancies before the end of the next quarter.

Implementation Date: August 2013

Responsible Person: Director of PCSD- **DOJ**
Financial Control Officer - **DOJ**

Finding No. 11-25

Management could not provide a list of cases determined to be eligible during the audit period for services under 45 CFR Section 302.33, to ascertain whether the Program petitioned for and secured or pursued enforcement of medical support in the form of health insurance and/or cash medical support, as part of the support orders and informed the Medicaid agency and custodial parent as required.

Government's Response

The Program concurs with this finding. However, further discussion is needed on the interpretation of the statute. The audit did not specify the section that we were not following. The Program also previously attempted to secure an interface with the Department of Health (DOH). As a means to be compliant, the Program created a file for DOH-MAP with the list of children in the Program for whom medical support has been ordered, and all of our orders seek medical coverage when possible. The intent was to match this list against information from DOH.

Action Plan:

The Program is working to create an interface with the Department of Human Services (DHS) Medical Assistance Program (MAP). As of August 2013, the Program started generating a medical information file for DHS-MAP. The process involves the following actions:

- The agency has decided a monthly submission to DHS is sufficient to address the expectations associated with periodic reporting. The monthly submission will contain the listing of children in the CSE application for whom medical support has been ordered.
- The process creates a file named MEDINFO.yymmdd where 'yymmdd' represents the file creation date.
- An entry is made into the MEDINFO log by the batch processing program upon successful creation of the file.
- An Information Technology (IT Unit) member will move the MEDINFO file to the DHS UNIX server on the next business day following file creation.

The MEDINFO log can also be generated on demand. A copy of the report is available for review.

Due Date: August 2013

Responsible Person: MIS Manager - **DOJ**
Program Administrator, PCSD - **DOJ**

Medical Assistance Program (Medicaid) CFDA No. 93.778

Finding No. 11-26

Ernst and Young (E&Y) selected a sample of five (5) employees (out of a population of 29) that charged time to the Medical Assistance Program (Medicaid) to test internal control and compliance over the activities allowed or unallowed, allowable costs/cost principles, and period of availability requirements. Management could not provide the timesheets and personnel activity reports for the employees selected for testing.

Pay Periods	Gross pay Per Pay Register
11/07/2011 - 11/20/10	$ 774.00
03/13/11 - 03/26/11	$ 449.00
04/24/11 - 05/07/11	$ 519.00
06/19/11 - 07/02/11	$ 430.00
07/03/11 - 07/16/11	$ 473.00
11/07/2011 - 11/20/10	$ 1,923.00
03/13/11 - 03/26/11	$ 1,911.00
04/24/11 - 05/07/11	$ 1,923.00
06/19/11 - 07/02/11	$ 1,923.00
07/03/11 - 07/16/11	$ 1,770.00
11/07/2011 - 11/20/10	$ 1,926.00
03/13/11 - 03/26/11	$ 1,072.00
04/24/11 - 05/07/11	$ 963.00
06/19/11 - 07/02/11	$ 993.00
07/03/11 - 07/16/11	$ 997.00
11/07/2011 - 11/20/10	$ 1,929.00
03/13/11 - 03/26/11	$ 1,471.00
04/24/11 - 05/07/11	$ 964.00
06/19/11 - 07/02/11	$ 1,079.00
07/03/11 - 07/16/11	$ 1,031.00
11/07/2011 - 11/20/10	$ 1,312.00
03/13/11 - 03/26/11	$ 697.00
04/24/11 - 05/07/11	$ 656.00
06/19/11 - 07/02/11	$ 861.00
07/03/11 - 07/16/11	$ 834.00

Government's Response

The V.I Department of Human Services concurs with this finding regarding the unavailability of the timesheets for the five (5) employees.

Although management concurs that not all the timesheets were retrieved and submitted as requested by the auditor, as required by local and federal government regulations, all Medical Assistance Program employees maintain timesheets for each two week period of work. Time and attendance of all Medicaid Program employees are maintained for all pay periods. However, the specific timesheets requested were not readily available. To improve the efficiency of payroll the MAP staff moved to the new electronic time and attendance program at the Department of Health called STATS during FY 2012. The time and attendance records will now all be electronically received and filed for more efficient retrieval and review. As the MAP is now under the oversight of the Department of Human Services (Effective 10/1/12, all time and attendance are submitted electronically). The electronic time and attendance system is known as ADI. At the end of each payroll, the respective MAP Managers complete a review of each individual time and attendance for accuracy. Upon this review, the Manager then electronically approves the time and has the ability to edit and note any changes needed.

Additionally, the Division Administrator with oversight of MAP distributes semi-annual certification forms to all MAP employees who sign ensuring that they are complying with the required distribution of their time and attendance. These forms are completed and sent to the Office of the Deputy Commissioner of Human Resources, Payroll, and Labor Relations.

Action Plan: N/A

Due Date: N/A

Responsible Person: Medicaid Program Director - **DHS**

Finding No. 11-27

The Medical Assistance Program was unable to provide a list of Third Party Obligations for FY 2011. Additionally, the Program was unable to provide a listing of uncashed or cancelled checks for 2011. Ernst and Young (E&Y) also requested documentation for provider donations, and the Program was not able to provide any documentation in this regard.

Government's Response

The Department of Human Services (DHS) concurs with this finding.

Action Plan:

The Medical Assistance Program will update its eligibility system so that it would facilitate review of third party obligations. MAP has submitted to the Center for Medicare and Medicaid Services an application for a Planning Advanced Preliminary Document (PAPD) via the Affordable Care Act (ACA) funding in preparation for the procurement for a "Next Generation" Eligibility System. This eligibility system will be able to deem all applicants for Medicaid eligible or ineligible per the federal requirements of CMS and other federal funders. Additionally, the program will ensure that periodic reports are requested from the Treasury which lists all uncashed checks exceeding 180 days, allowing us to easily recognize funds which may need to be redeposited into the appropriate Federal Account. The current Enterprise Resource Planning (ERP) Financial Management System has the ability to produce these reports. The Department of Human

Services has already contacted the Department of Finance, which has oversight and primary responsibility for generating such reports.

Due Date: September 1, 2013

Responsible Person: Chief Financial Officer - **DHS**

Finding No. 11-28

Ernst and Young's (E&Y) selected a sample of 40 cases (out of a population of 2,017) to determine whether required eligibility determinations for individual participants were made.

During E&Y's testing to determine whether required eligibility determinations for individual participants were made, the Medical Assistance Program was unable to provide four (4) of the forty (40) files requested, specifically case #s 6D0360247762101, 9C0390018082202, 6D0360224722202, and 6C0302051702202. Additionally E&Y noted that in case #7A0370197252202 the individual's Social Security card, as well as the individual's identification, was not included in the file. E&Y also noted that for case #7A0370202612202 the participant's application was not included in the file.

Government's Response

The Medicaid Program concurs with this finding.

Action Plan:

Since FY 2010, the Medicaid Program has pursued the stabilization and maintenance of its Eligibility and Enrollment System, V.I. Medicaid System (VIMS). We are currently receiving the services of an independent contractor who performed an infrastructure assessment of VIMS and provided a plan for its stabilization and maintenance. We have purchased new servers to "sure up" our legacy VIMS System. Additionally, our environmental challenges in the District Office where the three (3) case files could not be located during the audit period have been greatly reduced. The staff has been trained on systematic documentation and hard file preservation to ensure they are available for review upon request.

The Medicaid Program has written policies and procedures in place to ensure compliance regarding the maintenance of records to support eligibility determinations. The Program's Manual for the Determination of Eligibility for Medicaid Title XIX details these policies and procedures, and it has been issued to all personnel in the sections responsible for the determination of eligibility in both districts.

Additionally, the Medicaid Program has been transferred to the V.I. Department of Human Services. The V.I. Department of Human Services has an approved Planning Advanced Planning Document (PAPD) to prepare for the procurement of a new Joint Eligibility System. The funding for this new endeavor is being provided by the Affordable Care Act, which will provide 90% of the funding needed for the new Joint Eligibility System. Our eligibility determination will be greatly enhanced by this new system which is expected to be on line by the end of Fiscal Year 2014. Periodic meetings with Medicaid Program personnel are held to refresh personnel on policies related to this matter. Written reminders were also issued to staff.

Further, in 2013/2014 under the Department of Human Services which now administers the Medicaid Program, long term plans to address paper and case maintenance include imaging solutions that will archive older eligibility data. Additionally, in order to reduce the volume of case records that must be stored, in accordance with regulation, Medicaid Program management will implement a process to eliminate paper and documentation that are more than three (3) years old, and are not part of a fraud investigation or audit review.

Implementation Date: October 1, 2012

Responsible Person: Medicaid Program Director and DFA Administrator - **DHS**

Finding No. 11-29

While performing internal control and compliance procedures over the matching requirement, Ernst and Young (E&Y) selected 25 transactions (out of a population of 2,077). E&Y noted 10 instances where the Program did not comply with the required 50% match, as follows:

PO/REF	Federal share recognized	Invoice amount	Required state share (%)	Required state share ($)	Deficiency in state share
20522	$6,238	$6,238	50%	$3,119	$ 3,119
20527	$24,070	$24,070	50%	$12,035	$12,035
41761	$77,364	$14,008	50%	$57,004	$20,361
42029	$635,998	$35,998	50%	$317,999	$317,999
41762	$ 41,147	$41,147	50%	$20,574	$ 20,574
7743	$1,200	$1,200	50%	$600	$ 600
30642	$ 300	$300	50%	$150	$ 150
27508	$ 71	$71	50%	$36	$ 36

6578	$669	$2,090	50%	$1,045	$ (375)
46596	$150	$150	50%	$75	$ 75

Government's Response

The Medicaid Program concurs with this finding.

Action Plan:

Though Medicaid Program staff was aware of the matching rates, further training was necessary. Written notices to staff were issued and training by subject matter experts and the Centers for Medicare and Medicaid was provided in FY 2012 on more than one occasion.

Implementation Date: Fiscal Year 2012 and on-going

Responsible Person: Medicaid Program Director - **DHS**

Finding No. 11-30

Ernst and Young (E&Y) selected a sample of four (4) reports for review (out of a total population of eight (8) reports).

The Program was unable to furnish the reconciliation to support the CMS 64 Reports, as well as the SF 425 Cash Transaction Reports provided.

CMS 64 for quarter ending 9/30/2011		
Expenditures-Federal Share per ERP	$	4,413,369
Net Federal Share per quarter's CMS 64		3,033,894
Unreconciled difference	$	1,379,475
SF 425 for quarter ending 9/30/2011		
Cash drawdowns per detail	$	2,813,206
Cash drawdowns per SF 425		3,351,846
Unreconciled difference	$	(538,640)

Government's Response

The Department of Human Services (DHS) concurs with this finding.

Action Plan:

Effective October 1, 2013, the Department of Human Services will maintain records which adequately identify the source and application of funds provided for financially-assisted activities under Medicaid. These records will contain information pertaining to grant or subgrant awards and authorizations, obligated balances, assets, liabilities, outlays or expenditures, and income.

Due Date: October 1, 2013 and on-going

Responsible Person: Medicaid Program Director – **DHS**

Finding No. 11-31

The Program was unable to provide Ernst and Young (E&Y) with the list of investigated fraud cases during FY 2011. Given this, E&Y was unable to perform the respective tests.

Government's Response

The Medicaid Program concurs with this finding but would like to share the following information.

Although the Medicaid Program has established methods and procedures in its program manuals to safeguard against unnecessary utilization of care and services, including long-term care institutions and compliance, and is shown in the State Plan, it did not have a defined Quality Control Unit or Contracted QIO to make the post payment sample review of cases. The Medicaid Program has (1) methods or criteria for identifying suspected fraud cases; (2) methods for investigating these cases; and (3) procedures, developed in cooperation with legal authorities, for referring suspected fraud cases to law enforcement officials, as well as procedures for the ongoing post-payment review, on a sample basis, of the need for and the quality and timeliness of Medicaid services. However, these procedures need updating and revamping.

The Medicaid Program regularly reviews utilization of care and services. This is the primary function of the Special Services Unit and its personnel because VI Medicaid Program is permanently exempted from the provision that members have freedom of choice of provider, so requests for medical care and services, which are not available in the VI government hospital and clinics must be requested and pre-approved by the Medicaid Program. Requests consist of a written medical need signed by the referring physician. Also all initial and continued stay placements of VI Medicaid members in a long-term care facility must also be requested in writing, consisting of the written medical justification, which is reviewed by the Medicaid Program. Long-term care facility length of stay is determined by the Medicaid Program. Associated long-term care claims are reviewed consistent with the approval for placement. With the anticipated implementation of the Medicaid Management Information System (MMIS), certified by the Centers for Medicare and Medicaid (CMS), in late calendar year 2013, we anticipate that in 2014 the systematic electronic review of claim data will provide reports/data to identify suspected fraud.

Action Plan:

MAP QC staff will join the Quality Control Unit already established within the Department of Human Services. Training for the DHS QC Chief has already been procured and the Assistant Administrator of the Division of Family Assistance will be the liaison between the Eligibility Staff and the QC Unit to facilitate an orderly selection of sample cases for the QC Review. Additionally, the policies and procedures for the QC Unit to refer suspected Fraud to the MFCU were established.

Implementation Date: October 1, 2012 and on-going

Responsible Person: Medicaid Program Director and DFA Administrator - **DHS**

Finding No. 11-32

Ernst and Young (E&Y) requested the cost reports for participating providers for 2011 and noted that none of the reviews for FY 2011 have been conducted.

Government's Response

Medicaid Program concurs with this finding, but wishes to clarify the procedure for the completion of the cost reports for hospitals and long-term care facilities.

The Medicaid Program State Plan updated its established policy related to this requirement in 2010, with approval from the Federal grantor agency, the Centers for Medicare and Medicaid (CMS). With the updated State Plan Amendment the Medicaid Program now has established the protocol to determine the rates for the VI hospital services that are reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated providers. Therein the Medicaid Program advised the hospitals and nursing home in the VI for the need to regularly submit to the Medicaid Program their uniform cost reports. Though the 2011 cost report analysis is not yet concluded, the State Medicaid Program concluded its periodic audit of the nursing home VI 2010 cost report during the FY 2011. The cost reports are submitted on a calendar basis for the Long-Term Care Units. Consequently, the 2011 calendar year supporting documentation is provided by the Long-Term Care Facility in 2012. The Medicaid Program, along with subject matter experts and CMS, provided training of Medicaid personnel from the approval of the protocol and this is on-going because of the change of Single State Agency administering the Medicaid Program.

Action Plan:

DHS will ensure the Cost Reports for Hospitals and Long Term Care Facilities are completed for FY 2011 and FY 2012 for MAP.

Due Date: October 15, 2013

Responsible Person: Medicaid Program Director and DFA Administrator - **DHS**

Finding No. 11-33

The Government did not provide supporting documentation to evidence the performance of required ADP Risk Analysis and System Security Reviews.

Government's Response

The Medicaid Program concurs with this finding.

Action Plan:

The Department of Health maintained restricted access to its IT facilities, has security cameras on said premises, limits access to electronic systems, and DOH HIT Director provided a response to the auditor's request for documentation evidencing periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems; it was not accepted. However, the required Bi-Annual Periodic ADP Risk Analysis and System Security Review was not completed as per regulation and a detailed plan for these analyses and system security reviews was not available.

The Department of Human Services has administered the Medicaid Program since October 1, 2012, and will henceforth provide the documentation of the periodic risk analysis conducted per regulations. The Department of Human Services has in place a policy and procedure for ADP Risk Analysis and System Security Reviews as it is required for other Federal programs under its oversight. The Medicaid IT Systems, to include VIMS (VI Medicaid System) and the newly acquired Medicaid Management Information System (MMIS) will be included in thedepartment's overall ADP Risk Analysis and System Security Reviews.

Implementation Date: October 2013 and on-going

Responsible Person: Medicaid Program Director and DFA Administrator - **DHS**

Finding No. 11-34

The U.S. Virgin Islands Medicaid Program does not have a Medicaid Fraud Control Unit in place. Ernst and Young (E&Y) was not provided with a list of violations of Medicaid Laws and regulations.

Government's Response

The Medicaid Program concurs with this finding.

Action Plan:

The Medicaid Program did not have a functioning Medicaid Fraud Control Unit (MFCU) during FY 2011. However, the Medicaid Program has established procedures in place by which fraud can be detected and reported. As mentioned in a previous section of this response, the claim review process as well as the Special Services' review of requests for care allows the program to identify suspected fraud. The required Medicaid Fraud Control Unit has not been established. In several years past, efforts were made to reach out to the Office of the Attorney General, but the plan was never fully implemented.

In FY 2013, because of the implementation of the Medicaid Management Information System (MMIS), the electronic monitoring and editing of claims are now occurring. This will ensure the data necessary to identify suspected provider fraud, and with the merging of the Medicaid Quality Control with the Department of Human Services QC functions, fraud processes will be enhanced and strengthened. Additionally, the DFA Director with oversight of fraud for our other eligibility programs will work along with the MAP Director and DFA Administrator to institute the necessary policy and procedures for tracking suspected fraud cases, and the necessary formal referral process to the U.S. Attorneys and V.I. Attorney General. The MFCU responsibilities of investigation and related prosecution will be under the oversight of the V.I. Attorney

General. The DFA Administrator, with the cooperation of the DHS Commissioner will reach out to the Attorney General and the U.S. Attorney to ensure collaboration and implementation of MFCU activities.

~~**Due Date:** September 1, 2013 and on-going~~

Responsible Person: Medicaid Program Director and DFA Administrator – **DHS**

Attachment I

VIDOL

United States Virgin Island's Department of Labor
Division of Business and Administration
Cash Management and
Federal Drawdown Policy and Procedures

INTRODUCTION

This policy statement is issued in order to:

a) Establish effective cash management procedures for Federal programs to maximize Territorial resources.
b) Fulfill the requirements established by the Federal Cash Management Improvement Act of 1990.
c) Define uniform procedures to be applied by all program and divisions to ensure accurate accounting and reporting of the financial activity of federal programs.

APPLICABILITY AND EFFECTIVE DATE

This policy is applicable to all Federal Grants and Awards received by Department of Labor, unless superseded by Law or program award.

This policy shall be in effect upon signed approval of the Commissioner of Labor and Director of Business and Administration and remain in effect until amended or rescinded.

CASH NEEDS AND RECEIPT

The Department of Labor shall request funds the same day it pays out funds in accordance with appropriate Federal Agency cut-off time as per TSA (Treasury State Agreement) with the Virgin Islands.

The cash draw shall only be based on actual cash outlays by the respective grant or program.

CASH DRAW POLICIES

To ensure that proper controls are in place, responsibility for departmental transactions must be divided among at least two individuals in the department

1. The preparer of the transactions
2. The Reviewer (Certifying Officer)

Personnel preparing documents and compiling support information should not certify. Officers certifying may perform task of actual credit draw on the system only in cases of emergencies. Only authorized personnel shall have security access to the U.S. Treasury system and shall be approved by Director of Business Administration or the Commissioner of Labor or acting successor.

The following duties for cash draw should be performed by different individuals:

a. **Cash Draw Preparer** – responsible for preparing required forms and reports along with support documentation for cash draw.
b. **Certifying Officer** (Cash Draw Reviewer) – responsible for reviewing all cash draws for sufficiency, essential documentation, mathematical accuracy, allowable cost and charges to appropriate federal grant. Upon completion of the review process forms must be certified by signature and date.
c. **Cash Draw Requestor** – Upon return of certified cash draw forms he/she is responsible for initiating cash draw request through the Department of Treasury electronic payment system in accordance with their policy and procedures.

DOCUMENTATION AND PAPERWORK

In order to provide evidentiary material to support program cash needs, detailed forms, ledger outputs and official payroll documents must provide support of program outlays. The documentation and paperwork must be traceable to official governmental ledgers, accounts and sub-accounts to provide comparability of charges, compliance with allowable cost procedures and mathematical accuracy.

The following documentation and files must be maintained and kept within the Business Office for all cash draws:

a. Printed Request for Payment form of the U.S. Treasury draw. This document contains
    i. Account number
    ii. Request Date
    iii. Settlement Date
    iv. Request Amount
    v. DUNS Number
    vi. Sub Account numbers
    vii. Reference Number

b. Virgin Islands FMS or ERP payroll register – This document must contain detail information including
    i. pay period
    ii. employee name
    iii. hours paid
    iv. Amount paid
    v. Deductions
    vi. Account charged

c. Print of the Virgin Island FMS or ERP cost ledger transaction inquiry detailing:
    i. Organization
    ii. Account
    iii. Transaction Code
    iv. Date
    v. Description
    vi. Amount

d. Statement of Remittance/Payments Proof – Official U.S. Virgin Island document containing
    i. Bank account number (Treasury Cash Account Number)
    ii. Wire Transfer Approval Number
    iii. PIN number
    iv. Program Name
    v. Account coding
    vi. Amount of Remittance

e. Cash Drawdown Memorandum – Document is used to detail the funds drawn for the program operations and for indirect cost. This form should contain the transaction approval number, date, agency contact, voucher number, PIN, amount requested, program listing of funds requested, and both the reviewer and certifying officer signature and date.

f. Cash Journal – A cash journal shall be maintained and updated when a draw has been initiated and approved. This cash journal shall contain the date of the request, approval or transaction numeric or alpha coding, fiscal/program year, grant name and unique identification code.

CA$H REQUEST PROCESS

The following details the work flow process and procedures to initiate and complete cash draws form the U.S. Treasury to the Virgin Islands Government:

1. Assessment of Cash needs to cover expenditures must occur on a bi-weekly basis. (This includes payroll as well as Non Personnel Services (NPS) cost) The cash needs must be fully supported by internal VIDOL documents and also Department of Finance records.

2. Cash Draw Preparer will use payroll records to identify the cost for each program payroll needs. Access must also be made to the Financial Management System (FMS) or the Enterprise Resource Planning System (ERP) to identify program NPS payments. A final review and cross check of in house ledgers and documents should be made to verify that charges are appropriate and accurate.

3. Cash Draw Preparer after identifying and rechecking program expenditures must prepare the cash draw forms and attach appropriate support documents to be verified.

4. Cash draw forms are reviewed making sure to verify cost with the support documents that are attached. Cost must be checked that they are program appropriate, calculations are correct and that the cost is allowable.

5. Certifying Officer after review of the cash draw forms will sign and date authorizing the appropriate draw of funds.

6. The Cash Draw Requestor will then use the authorized cash draw forms to initiate a drawdown of the funds needed from the U.S, Treasury via the Health and Human Services (HHS) Payment Management System (PMS) http://www.dpm.psc.gov/access_pms/system_status.aspx?aspxerrorpath=/Login.aspx using the appropriate PIN numbers, password and account numbers. The approval page giving the transaction authorization number **must** be printed to attach to be placed in the cash draw file. All changes to passwords and login information must be recorded and kept strictly confidential.

7. Once the cash draw has been completed and appropriate forms printed the Cash Drawdown Transmittal is then prepared. This transmittal should include the request date, settlement date, approval number, internal VIDOL voucher number, grant PIN number, amount requested and the sub account breakdown showing the separation of program cost and the indirect cost split.

8. A copy of this transmittal is forwarded for entry into the ERP System GVI Department Cash Receipts module Payment Proof section. A printed report is needed upon completion of the drawdown data entered in ERP payment proof.

9. The Cash Draw Requestor must record this cash draw transaction in a cash drawdown record to keep a current record of all funds drawn against the grant. This record must be checked at least once per quarter against the Account Balance Data report obtained from the HHS Payment Management System Adhoc Grantee Inquiry.

10. All paperwork pertaining to the cash draw should be maintained in a separate file that is kept in a secure area.

REPORTING REQUIREMENTS

On a quarterly basis a comprehensive report shall be prepared for senior level management to review the cash position of all Federal programs for the department. This report shall detail current month draws and the year to date cash balances.

ADOPTION AND APPROVAL

In accordance with the powers vested in the Commissioner of the Department of Labor this policy and procedures shall be approved and adopted upon signature of the commissioner and attestation of the Director of Business and Administration. This policy shall remain in effect unless superseded by law or Governmental policy of the V.I. Government.

I **Albert Bryan Jr.,** herby approve this policy statement for the V.I. Department of Labor, and authorize the actions necessary to implement it

Signed: for Albert Bryan Jr., Commissioner VIDOL

Date: 12/12/18

Attested:
Yvonne Webster-Pryce, Director
Division of Business & Administration

Date: 12/12/18