



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

*Government Auditing Standards* Report on  
Internal Control Over Financial Reporting  
and on Compliance and Other Matters  
Year Ended September 30, 2019

# Government of the United States Virgin Islands

## Contents

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<b>Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b>	<b>1</b>
<b>Appendix A - Material Weaknesses in Internal Control Over Financial Reporting</b>	
Financial Position	4
Year-End Close Process	7
Revenue and Receivables	11
Grants Management	16
Capital Assets and Related Expenditures	19
Recording of Liabilities	25
Management of the Medicaid Program	30
Unemployment Insurance Trust Fund	32
Workers Compensation Program	33
Other Postemployment Benefits Obligation	35
Payroll, Related Accruals, and Other Expenditures	36
Bank Accounts	40
<b>Appendix B - Significant Deficiency in Internal Control Over Financial Reporting</b>	
Information Technology Environment	43
<b>Appendix C - Noncompliance with Laws and Regulations</b>	
Collateral of Depositary	45
Landfill Consent Decrees	46
Establishment of a Medical Malpractice Trust Fund	47
Procurement Regulations	48
Casino Control Commission	49
<b>Appendix D - Status of Prior Year Material Weaknesses, Significant Deficiencies, and Noncompliance with Laws and Regulations</b>	<b>50</b>



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the 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, 2019, and the related notes to the financial statements, which collectively comprise the Government's basic financial statements, and have issued our report thereon dated June 30, 2021. We expressed a qualified opinion on the financial statements of the governmental activities, general fund, and federal grants fund opinion units based on the circumstances noted in our aforementioned report. In addition, we expressed a disclaimer of opinion on the financial statements of the business type activities, unemployment insurance-enterprise fund, aggregate remaining fund information, and aggregate discretely presented component units opinion units based on the circumstances described in our aforementioned report.

Our aforementioned report includes references to other auditors who audited the financial statements of the Virgin Islands Housing Authority (VIHA), Virgin Islands Economic Development Authority (VIEDA), Virgin Islands Waste Management Authority (VIWMA), Magens Bay Authority (MBA), Virgin Islands Government Hospital and Health Facilities Corporation (Roy L. Schneider Hospital and Governor Juan F. Luis Hospital and Medical Center), Virgin Islands Housing Finance Authority (VIHFA), Government Employees' Retirement System of the of the U.S. Virgin Islands (GERS), Virgin Islands Public Broadcasting System (VIPBS), and Virgin Islands Lottery (V.I. Lottery), as described in our report on the Government's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. We audited the financial statements of the Virgin Islands Water and Power Authority (WAPA), the University of the Virgin Islands (UVI), the Virgin Islands Public Finance Authority (PFA), The West Indian Company Limited (WICO), viNGN, INC. d/b/a Virgin Islands Next Generation Network (viNGN), and Tobacco Settlement Financing Corporation (TSFC). This report does not include the results of our testing of internal control over financial reporting or compliance and other matters for WAPA, UVI, PFA, WICO, viNGN, and TSFC which is reported on separately by us.

### **Internal Control over Financial Reporting**

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

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

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

Finding #	Nature of Finding
2019-001	Financial Position
2019-002	Year-End Close Process
2019-003	Revenue and Receivables
2019-004	Grants Management
2019-005	Capital Assets and Related Expenditures
2019-006	Recording of Liabilities
2019-007	Management of the Medicaid Program
2019-008	Unemployment Insurance Trust Fund
2019-009	Workers Compensation Program
2019-010	Other Postemployment Benefits Obligation
2019-011	Payroll, Related Accruals, and Other Expenditures
2019-012	Bank Accounts

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

Finding #	Nature of Finding
2019-013	Information Technology Environment

### 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.



The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* as identified below and described in greater detail in Appendix C.

Finding #	Nature of Finding
2019-014	Collateral of Depository
2019-015	Landfill Consent Decrees
2019-016	Establishment of a Medical Malpractice Trust Fund
2019-017	Procurement Regulations
2019-018	Casino Control Commission

### The Government's Responses to Findings

The Government's responses to the findings identified in our audit are described in Appendices A through C. The Government's responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

### Purpose of this Report

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

June 30, 2021

BDO USA, LLP



## Material Weaknesses in Internal Control Over Financial Reporting

### Finding 2019-001: Financial Position

The Government is in a difficult financial position based primarily on operating losses, outstanding debt, bond downgrades, the 2017 hurricanes, pension obligation, and other postemployment obligation issues. In addition, subsequent to September 30, 2019, the Government's operations were impacted by the global coronavirus pandemic.

In addition, management has been working to stabilize and solidify its financial position through the implementation of an aggressive multi-pronged plan which includes facets such as legislative acts addressing revenue initiatives and cost-cutting measures and proposed rate increases for employees' contributions towards pension plans. The Government is also a recipient of significant federal assistance in connection with the 2017 hurricanes. It is further noted that as of September 30, 2019, all payments on bonds and notes obligations have been remitted as required.

### Deficits in Unrestricted Net Position

#### *Finding and Recommendation:*

For the past few years, the unrestricted net position class has incurred significant losses in its operations. This financial position has caused the financial statements to include a disclosure in the audit opinion. This situation must improve if the Government is to fund the high levels of debt, pension and other postemployment benefits obligations, and access future bond markets.

Future plans and budgets should be developed to produce operating income, avoid continuing deficits, and begin to rebuild equity. Continuation of these negative financial results could have a significant impact on the financial position and cash flows of the Government.

#### *Views of Responsible Officials:*

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

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

*Implementation Date:* On-going.

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



## Material Weaknesses in Internal Control Over Financial Reporting

### Plan Funding Considerations

#### *Finding and Recommendation:*

The Government of the Virgin Islands Employees' Retirement System (GERS or the Retirement System) is a defined benefit pension plan established by the Government to provide retirement, death, and disability benefits for its employees. The Government also provides other postemployment benefits (OPEB) for healthcare, prescriptions, dental, and life insurance coverage.

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

- As per the most recent GERS actuarial valuation report as of October 1, 2018, the Retirement System is 20.76% funded for the year ended September 30, 2019. The same report also disclosed a net pension liability of \$3.2 billion which represents a long-term obligation the Government has to fund.
- As per the most recent OPEB actuarial valuation report as of October 1, 2018, the OPEB plan reflects a total OPEB obligation of \$774.5 million which represents the long-term medical, dental, and other obligation that the Government has to fund.

Management may consider embarking on an advisory path to study other alternatives to ensure that these long-term obligations are being addressed. Additionally, the Government should consider establishing an OPEB Trust Fund which would accumulate assets in order to meet the required obligations.

#### *Views of Responsible Officials:*

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

*Action Plan:* In prior fiscal years, the Government allocated the relevant resources to conduct comprehensive studies and recommend revisions to benefits as well as establish funding policies to ensure the minimum ARC obligations are met each year. Much of the efforts put forth are now being deliberated by the Legislature for approval and submission to the Governor.

*Implementation Date:* On-going.

*Person(s) Responsible:* The management team of the Office of the Governor, Office of Management and Budget, Department of Finance, and Government Employees' Retirement System.



## Material Weaknesses in Internal Control Over Financial Reporting

### Government Insurance Fund

#### *Finding and Recommendation:*

We noted a financial strain (from claims) due to a mismatch from the Government's employers' premium contributions into the *Government Insurance Fund*. For the year ended September 30, 2019, the ratio of expenditures to income was 375%. It appears that losses since the financial crisis of 2008 have easily exceeded the premiums collected *sans* the impact of operational costs to run the Workers Compensation portion of the Fund. In order to maintain continued solvency, we recommend that management consider an evaluation of the claims adjudication and related processes (as an attempt to lower the costs) in lieu of making any increases to the likely mandated employer contribution formulas. Management may also consider embarking on an advisory path to consider some alternatives that could minimize the severity of any losses.

#### *Views of Responsible Officials:*

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

*Action Plan:* The Executive and Legislative branches of the Government will collaborate to implement various recommendations of its actuary in an effort to provide for the long-term financial viability of the Fund.

*Implementation Date:* On-going.

*Person(s) Responsible:* The Governor, President, V.I. Legislature and Commissioner, and Department of Finance.





## Material Weaknesses in Internal Control Over Financial Reporting

### Finding 2019-002: Year-End Close Process

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

#### Timeliness and Methodology of Close Process

##### *Finding and Recommendation:*

- We noted a significant delay in the year-end closing process and preparation of year-end financial statements. We noted that in many cases, reconciliations were finalized during the audit process, which represents a substantial delay when compared to the Government's fiscal year-end. Therefore, detailed schedules supporting general ledger accounts did not always agree with the respective general ledger balances. Significant post-closing adjustments were provided during the audit process. Reconciliation mechanisms should be enhanced in an effort to avoid the recurrence of such errors.
- We noted that post-closing adjustments are not posted in the accounting system but are maintained in a manual excel working trial balance. Considering the volume of post-closing adjustments and the manual process of reversing year-end accruals and/or other adjustments, there is continuous opportunity where items can be missed and may not be accurately and timely captured, and therefore, increasing the potential for prior period adjustments to correct balances.
- During our review of the Government's draft financial statements, we noted inconsistencies and/or omissions with the incorporation of disclosures in the footnotes to the financial statements along with inconsistencies in the incorporation of component units' financial statements as it related to classification and reporting of account balances. In addition, we also noted certain transactions with various component units which have not been reflected accurately on the Government's books and records.

In order to prevent significant errors in the financial records and financial statements as well as prevent possible irregularities, including fraud, to exist and continue without notice, we recommend that all accounts, accruals, and reconciliations be reviewed on a periodic basis. The composition of any unreconciled differences should be determined and followed up on, and any journal entries, deemed necessary as a result, should be recorded during the fiscal year.

Further strict adherence to the year-end closing schedule should be required because this will allow for the year-end work and audit preparation to be a much less time-consuming and arduous process, without sacrificing the quality of the accounting records or minimizing existing internal controls.

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

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



## Material Weaknesses in Internal Control Over Financial Reporting

*Action Plan:* In an effort to develop reliable and timely interim and year-end financial statements, continuous communication and trainings will be made available to all finance users on one consistent and comparable reconciliation process that will allow for any needed adjustments prior to the 13<sup>th</sup> period. In this way, all accounts, accruals, and reconciliations will be available. Any unreconciled differences will be identified and resolved, with any applicable journal entries, recorded in the financial system of the Government.

The Accounting Director, with oversight from the Assistant Commissioner, will continue to enforce the closing procedures whereby all post-closing and audit adjustments maintained in the manual excel working trial balance are reviewed, ratified, and recorded in the financial management system throughout the audit engagement, such that the general ledger reflects audited balances and correct opening balances for the upcoming fiscal year.

As for more detail reconciliations between accounts that are not visible on a higher reconciliation overview, such as accurate federal classifications, or incorrect postings to grants, this will require additional human resources, to include the option of contractual agreement(s) to ensure that a more detail reconciliation is being completed. The Government will begin to assess the needs and take the necessary steps to provide necessary one-on-one meetings to identify the needs.

*Implementation Date:* Immediately.

*Person(s) Responsible:* The management team of the Department of Finance; specifically, the Assistant Commissioner and the Directors of Accounting, Treasury, and Payroll.

### Journal Entries

#### *Finding and Recommendation:*

We noted that several individuals have access rights to create, approve, and post journal entries. We understand that this represents an internal management decision with respect to access which is deemed necessary for day-to-day operations. However, in order to maintain a desirable separation of duties, we recommend that the Government continue to re-evaluate the appropriateness of this access. We also noted that adequate supporting documentation was not always readily available in the Enterprise Resource Planning (ERP) system for certain manual journal entries which had been selected for further review. Although these instances were subsequently rectified, management should ensure consistent and strict adherence to its records retention policy.

#### *Views of Responsible Officials:*

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

*Action Plan:* In an effort to maintain a desirable separation of duties, management has updated the policy by implementing controls whereas, the individual that creates a journal entry will not approve or post that journal. This was only available to limited staff at the Department of Finance and the policy has been made effective immediately. We are continuing to find these rare occurrences and reach out to those employees to follow Munis and system permissions.



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

We also have to work with Munis to see if the names generated in the entry and posting area indeed denote no separation of duties.

*Implementation Date:* Immediately.

*Person(s) Responsible:* Department of Finance management, specifically the Director of Accounting and Financial Reporting.

### **Due from Other Governments**

#### ***Finding and Recommendation:***

The Government entered into two professional services contracts through its blended component unit, the Virgin Islands Public Finance Authority (PFA), in order to coordinate recovery efforts for the Territory with the Federal Emergency Management Agency (FEMA) and various other federal agencies following two Category 5 hurricanes which occurred in September 2017.

Certain services were performed on a Territory-wide basis as the professional services firm(s) sought to assess damages, set up various project worksheets, and enable the Territory to obtain and access additional recovery funding. During our procedures, we noted the following:

- The Government did not have a control process in place over proper allocation of expenses incurred on behalf of the Government and the various component units.
- The Government did not have a control process in place for timely reporting of expenses incurred by the various component units.
- The Government did not perform timely reconciliation and communication with each component unit's authorizing management for approval of the respective transactions.

We recommend that management implement a control process for proper allocation of expenses to ensure that the due from other governments and federal expenditures are properly accounted for by the Government and its component units. Consideration must also be given to compliance with laws and regulations that are a component of any grant or contract accepted.

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

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

*Action Plan:* To enhance existing controls, the Government has established the Office of Disaster Recovery to report and manage disaster recovery funds, ensuring coordination between the Government and its component units.



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

The Government has also entered into Memorandum of Understanding (MOUs) agreements with the Virgin Islands Housing Finance Authority and the Virgin Islands Water and Power Authority establishing internal controls over the utilization of consultants under the FEMA consulting contracts. The MOUs establish procedures for the receipt and approval of invoices by the component units.

*Implementation Date:* Immediately.

*Person(s) Responsible:* The management team of the Office of Disaster Recovery of the Public Finance Authority.



## Material Weaknesses in Internal Control Over Financial Reporting

### Finding 2019-003: Revenue and Receivables

The Government's Bureau of Internal Revenue (the Bureau) is responsible for administering the internal revenue tax laws of the Virgin Islands. As such, the Bureau manages the processes over the following types of taxes: income, gross receipts, excise, highway user's, hotel room, entertainment, and fuel taxes.

Additionally, through the Government's Division of Real Property Tax, all commercial and residential property subject to taxation in the Virgin Islands is assessed, property tax bills are prepared and mailed, and the collection of property taxes is carried out.

#### Reconciliation of Subsidiary Registers

##### *Finding and Recommendation:*

The Government maintains various subsidiary registers as derived from its tax recordation systems, primarily VITAX and CAVU. However, the Government does not reconcile its subsidiary registers to its tax receivable general ledger account balances. A strong control system over receivables includes an accurate accounting system that maintains agreement between the subsidiary ledger and the general ledger. To prevent the need for major adjustments to the impacted tax receivable and revenue accounts at the end of each year, we suggest that the general ledger accounts be reconciled to the detailed records on a quarterly basis.

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

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

*Action Plan:* For purposes of interim financial reporting, the Bureau of Internal Revenue, Office of the Lieutenant Governor, and the Department of Finance have begun quarterly reconciliation meetings to reduce end of year adjustments, reconcile NSF checks in timely manner, and implement internal safeguards to allow for more efficient reconciliation.

*Implementation Date:* Fiscal Year 2020

*Person(s) Responsible:* Assistant Chief of Processing, Tax Assessor, and the designated staff in collaboration with Director of Treasury and as needed, the Director of Accounting.

#### Optimum Usage of the Real Property Tax System

##### *Finding and Recommendation:*

It appears that the CAVU system, as currently designed, is not adequately meeting the financial and reporting needs of the Government. There exists a limitation to produce aged outstanding receivable, revenue and collection reports, as well as a lack of ability to generate a cut-off balance as of any given point in time.



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

Additionally, the adjustments made in the billings as a result of the implementation of the new real property tax bill were not properly reflected in the revenue reports generated from the CAVU system. As a result, knowledge of the composition and quality of the Government's revenue billings is significantly impaired and this has a direct effect on the accuracy of financial reporting and financial decision-making.

Management may consider contacting the vendor of the CAVU system to request the development of and/or the capability of producing accurate aged receivable and revenue reports as well as a functionality or reporting tool to produce cut-off balances at any given point in time. This would assist the Government in establishing a system that produces timely and accurate financial information.

#### ***Views of Responsible Officials and Planned Corrective Actions:***

The Office of the Lieutenant Governor concurs with the auditor's findings and recommendations.

*Action Plan:* Department of Finance personnel will collaborate with the Lieutenant Governor's office to determine possible modifications to the system to achieve the necessary data for financial reporting.

*Implementation Date:* Fiscal Year 2021

*Person(s) Responsible:* The management team of the Department of Finance and Office of the Lieutenant Governor, specifically, the Director of Accounting, Tax Assessor, and the Chief of Staff.

### **Tax Return Processing Method**

#### ***Finding and Recommendation:***

The Government is utilizing a manual process in that returns received by the Bureau are batched by type of return and by tax year and manually entered into the tax recordation system, VITAX.

The manual data entry is being reviewed on a random/sample basis and the Bureau is relying on the system's automated edit check to capture any errors. While the system's automated edit check identifies many errors, it does not guarantee the complete accuracy of the entered information. This poses a continued risk of data omissions, typographical errors, entry of information to incorrect fields, as well, as fraudulent data entry.

The flow of transactions into a computer system is a critical aspect of the design and maintenance of a strong system of controls. We recommend the Bureau consider an evaluation of its current review procedures around the tax return processing method in an effort to minimize associated risks.

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

The Bureau of Internal Revenue concurs with the auditor's findings and recommendations.



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

*Action Plan:* The Bureau recognizes there are opportunities for training and system enhancements to increase our accuracy in the data entry area and the systems monitoring area. We will re-evaluate and re-establish all formal processing procedures, re-train the staff, and review the policies and procedures of refund processing to increase accuracy and minimize errors.

*Implementation Date:* Immediately.

*Person(s) Responsible:* The management team of the Bureau of Internal Revenue; specifically, Assistant Chief of Processing.

### **Real Property Tax**

#### ***Finding and Recommendation:***

- We noted one (1) new tax credit issued with insufficient supporting documentation. Management should recognize that the potential exists for additional discrepancies and should continue to review and evaluate its databases ensuring sufficient documentation is readily available.
- We noted several tax billings issued to non-taxable properties as owned by the Government and its component units. Management should perform a review and identification of the Government's and component unit's properties in the tax roll listing to ensure proper tax credits are applied. Management should also recognize that the potential exists for additional discrepancies.
- With respect to delinquent accounts, we noted that the property owners enter into settlement agreements with the Government which includes a fixed amount of penalties and interest. It is noted, however, that the CAVU system, continues to calculate such interest and penalties even after the actual settlement date. This has the effect of potentially inflating the calculated interest in the stand-alone CAVU system.

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

The Office of the Lieutenant Governor concurs with the auditor's findings and recommendations.

*Action Plan:* Department of Finance personnel will collaborate with the Office of the Lieutenant Governor to determine and consider the recommendations set forth.

*Implementation Date:* Immediately.

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



## Material Weaknesses in Internal Control Over Financial Reporting

### Allowance for Doubtful Accounts

#### *Finding and Recommendation:*

Adjustments to the real property tax receivable allowance for doubtful accounts are calculated by the use of a formula. Management's computation of the allowance places a high degree of reliance on prior years collection rate and can be greatly influenced by specific large write-offs that may occur from time to time. As a result, the allowances were understated for fiscal year 2019 and an adjustment was required during the audit process.

We believe that consideration should be given in ensuring the accuracy of the underlying data used to include some accounts receivable performance measures and subsequent collections in the Government's model for establishing the allowances required. Poor practices in this area have a direct negative impact on the Government because this affects cash flow. An updated analysis will provide management with accurate doubtful-account allowances that matches bad-debt expense with real property tax revenues.

#### *Views of Responsible Officials:*

The Office of the Lieutenant Governor concurs with the auditor's findings and recommendations.

*Action Plan:* Department of Finance personnel will collaborate with the Office of the Lieutenant Governor to determine and consider the recommendations set forth.

*Implementation Date:* Immediately.

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

### Other Revenues

#### *Finding and Recommendation:*

The Government was unable to provide readily available supporting documentation for 5% of the sampled items for charges for services and 10% of the sampled items for interest and other revenues. As a result, additional time and effort was required during the audit process to locate and/or identify alternative methodologies.

It is important to produce certain detailed reports and records at specific time periods, and to maintain these for possible analysis by users such as management, independent auditors, or governmental bodies. Management should consider strict adherence to or a revision of its records retention policy.

#### *Views of Responsible Officials:*

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





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

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

*Implementation Date:* Immediately.

*Person(s) Responsible:* Department of Finance management, specifically the Treasury Director and Assistant Director.



## Material Weaknesses in Internal Control Over Financial Reporting

### Finding 2019-004: Grants Management

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

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

##### *Finding and Recommendation:*

The flow of accounting transactions into the ERP system is a critical aspect of the design and maintenance of a strong system of controls over the Schedule of Expenditures of Federal Awards (SEFA).

As a consequence of following certain practices, expenditures are being charged to incorrect projects, codes, and Catalog of Federal Domestic Assistance (CFDA) numbers and, it becomes critical that SEFA expenditures between the Government's ERP system and individual agency or departmental records, where the respective Federal programs are managed and administered, are reconciled on a more consistent basis. The reconciliations should also facilitate the reporting requirements of each contract and grant. We noted the following:

- Expenses had been charged to grants without sufficient grant award funding availability.
- Significant transactions paid to or transferred to various departments of the Government were erroneously reported as subrecipient transactions.
- Approximately \$4.7 million in expenditures had erroneously been reflected as expenditures in CFDA Number 17.225, *Unemployment Insurance*.
- Approximately \$6.8 million of expenditures had erroneously been reflected in eleven (11) different federal programs and needed to be reclassified to CFDA Number 93.667, *Social Services Block Grant*.
- Approximately \$8.9 million of expenditures incurred in fiscal year 2019 related to CFDA Number 97.036, *Disaster Grants - Public Assistance (Presidentially Declared Disasters)*, had erroneously been reflected in fiscal years 2020 and 2021.

These issues also impact the roll-forward schedule for the general ledger account entitled 'Due from Federal government.'

Communication and reconciliation mechanisms should continue to be enhanced between the centralized Government agency which is responsible for collecting the SEFA information and each individual agency which manages Federal grant programs in an effort to avoid the recurrence of such errors and misclassifications.



## Material Weaknesses in Internal Control Over Financial Reporting

### *Views of Responsible Officials:*

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

*Action Plan:* The SEFA is prepared by the Department of Finance via a customized report that extracts information from the ERP system. However, the reconciliation of grant expenditures is ostensibly decentralized at the departmental/agency level.

As such, departments/agencies are primarily responsible for performing the reconciliation function between grant expenditures and federal financial reports; which, in the long run, will improve the reliability of the SEFA and reporting to grantor agencies. Therefore, in an effort to enhance the monthly reconciliation function, the Office of Management and Budget will fully implement the Grants Management Module, per the ERP system.

Given that certain financial data related to the SEFA is provided to the Department of Finance by certain third-parties using separate financial systems, the Department of Finance will continue to coordinate with said parties - through the respective department/agency - in order to mitigate the prospect of duplicating entries by documenting the roles, responsibilities, and timelines associated with posting financial data onto the central Government's ERP system.

*Implementation Date:* Immediately.

*Person(s) Responsible:* For the Grants Management Module, the Director, Office of Management and Budget and with respect to the SEFA, the Commissioner, Department of Finance.

### **Federal Grants and Contributions**

#### *Finding and Recommendation:*

Based on our review of the schedule of grants and contracts, we noted the Government is not monitoring its outstanding Federal receivables on a periodic basis. We noted an improvement in record-keeping where the Government implemented a process of establishing a discrete and separate receivable balance on a per grant/project basis. However, the following key component was lacking:

- A readily verifiable identification with respect to the aging and collection of prior year receivables along with its impact, if any, on the adequacy of the allowance for uncollectable accounts. Specifically, there is no documentation matching each cash receipt to the expenses and noting which period it was incurred in.

This leads to difficulty in establishing individual balances of both receivables and deferrals from grants and contracts, may mask items that have been inactive for many years, and can cause confusion regarding the true level of activity. Additional time and effort was required during the audit process to rectify and reconcile the balances.

We recommend that receivables should be tracked by the individual Government agency(ies) by performing the following:



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

- Maintenance of a drawdown schedule noting the expenses making up each drawdown for each Federal program and the period in which the expenses were incurred.
- A copy of each drawdown noting proper approvals should be attached in the ERP system along with the corresponding bank statement showing the receipt of funds from the Federal government.
- A listing of expenses supporting the amount drawn down should be included in the ERP system. This detail should include the invoice date and/or payroll period and check date.

***Views of Responsible Officials:***

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

*Action Plan:* In an effort to more accurately account for Federal receivables and related transactions, a private firm was contracted to work directly with the agencies to substantiate the Federal receivables.

*Implementation Date:* Fiscal Year 2021

*Person(s) Responsible:* The Director, Office of Management and Budget and Director of Accounting.



## Material Weaknesses in Internal Control Over Financial Reporting

### Finding 2019-005: Capital Assets and Related Expenditures

Capital assets constitute an investment of substantial amounts, thereby, requiring an excellent system of controls for the maintenance and safeguarding of these assets. While we noted the Government has taken certain preliminary steps, we recommend continued diligence with respect to the monitoring and review of capital assets and in ensuring the reconciliation of supporting registers to the primary register.

#### Record Keeping

##### *Finding and Recommendation:*

The process of maintaining capital asset records (i.e. recording additions, disposals, and transfers) is a manually intensive process conducted when performing the annual financial statement close. As such, supervisory review and other checks and balances may not be timely and/or effective in all instances. We recommend that the Government evaluate the year end cut-off procedures and policies in order to monitor purchases for capitalizable assets and in order to accurately account for all open and unpaid invoices and payments subsequent to year end.

During our sampled procedures over capital asset additions, we noted the following:

- Twenty-eight (28) additions in fiscal year 2019 had not been reflected in the initial additions listing. Moreover, subsequent reviews of accounts payable confirmations yielded changes to the cost of twenty-one (21) capital asset additions.
- Ten (10) invoices related to assets capitalized in fiscal year 2019 were incurred in fiscal year 2018.

Although these items were adjusted and rectified during the audit process, we recommend an enhancement to the process by instituting a system of tagging capitalizable assets in the ERP system from the time of requisition to the time when the assets are received and paid for. Requisitions should be agreed to approved capital expenditure budgets. This also entails that requesting agencies and departments are given appropriate guidance as to the capitalization thresholds to ensure transactions are properly tagged in the ERP system. In turn, this would allow additions to be easily generated by the capital assets team via the ERP system, instead of manually scrubbing the disbursements listing at year-end.

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

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

*Action Plan:* Department of Property and Procurement will work collaboratively with Department of Finance to provide trainings and work on the structuring of the entire process to include key personnel and policies. The Government will review and update the necessary manuals to address all of the recommendations set forth.

*Implementation Date:* Immediately.



## Material Weaknesses in Internal Control Over Financial Reporting

*Person(s) Responsible:* The Commissioner, Department of Property & Procurement and Department of Finance.

### Reconciliation and Review of Subsidiary Registers

#### ***Finding and Recommendation:***

The Government maintains a subsidiary asset register for the purpose of calculating depreciation for all assets. Based on our review of the subsidiary asset registers, we noted the following:

- Subsidiary registers for land contained a significant number of properties that are grouped into only few asset numbers instead of being recorded as individual properties.
- Certain machinery and equipment included in the beginning balances that had been purchased in bulk in the past was grouped together into one asset code and others did not contain tagging information to physically identify the items.
- Certain depreciable assets recorded during the fiscal year in the asset registers had inaccurate depreciation start dates.

To prevent the need for major adjustments at the end of each year, we recommend that the general ledger accounts be reconciled to the detailed records on a quarterly basis. This examination should be comprised of a review of acquisition dates, depreciation calculations, and asset descriptions. Additionally, unique asset numbers and sufficient tagging information should always be assigned to separately identifiable assets. Moreover, routine physical counts should be performed and reconciled with the asset registers.

Additionally, asset transfers to/from the Government should be monitored on a timely basis and a thorough review of the asset custodians should be regularly performed to ensure that all central Government assets are properly accounted for and formal transfer of the title(s) has occurred, as applicable.

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

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

*Action Plan:* In an effort to verify that all assets in the subsidiary register are reviewed and updated with sufficient descriptions, corrected acquisition dates, and recalculated accumulated depreciation, the Government's Capital Assets team will be responsible for reconciling the general ledger accounts to the detailed records on a quarterly basis.

*Implementation Date:* Fiscal Year 2021



### Material Weaknesses in Internal Control Over Financial Reporting

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

#### Construction in Progress (CIP) Monitoring

##### *Finding and Recommendation:*

The Government has a significant number of on-going construction projects. The necessary analysis to identify the status of projects was only completed and/or necessary adjustments were made during the audit process. Confirmation procedures should be performed in a timely manner in order to have accurate CIP information.

- During our sampled procedures over the construction in progress activity, we noted the following:
  - Four (4) projects confirmed with project managers had inconsistent project close out dates or total project cost amounts in the CIP records.
  - One (1) project had been closed out and transferred to the completed asset category but was confirmed to be not yet completed. Similarly, another one (1) project had been confirmed to be completed but had not been closed out and transferred to the completed asset category.
  - One (1) project had recorded costs which exceeded the total balance confirmed by the project managers. This was due to duplicate invoices being recorded which then had to be reversed.
- The Government adopted the method of using the 'release of claims' date as the date the project was placed in service. However, we noted an inconsistent application of this methodology.
  - In some instances, the 'release of claims' date did not correspond with the actual date the project was completed and placed in service as confirmed with the project managers.
  - In other instances, we noted that the 'release of claims' date was not known, and the date of the last invoice received on the project was utilized as an indicator of when the project was completed and as the depreciation start dates.
- For several building and improvement projects which were completed by the Department of Education and in use as of September 30, 2019, total construction costs amounting to \$126.0 million had not been reflected in the books and records. These unrecorded amounts resulted in additional cost recognition relative to two-hundred and forty-seven (247) assets in the capital asset records.



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

With the increase in activity in the number of CIP projects due to the hurricane restoration activity, it is imperative to maintain a good system of recording project costs accurately and timely, and monitoring project status on a consistent basis with the respective project owners. It is critical that the Government reconciles these costs with the reports and records of the respective project managers, related invoices, and related contracts and amendments, ensuring agreement to contract costs and capital expenditure budgets, and applying a consistent method of determining project completion and transfer to the related depreciable asset class.

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

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

*Action Plan:* The Department of Property & Procurement will spearhead the monitoring and review of the Government's capital assets and ensure reconciliation of supporting registers to its primary register. As the lead agency for managing the property of the Government, the Department of Property & Procurement will coordinate and communicate amongst all Government departments and/or agencies that are responsible for handling and managing capital assets.

*Implementation Date:* Immediately.

*Person(s) Responsible:* The Commissioner, Department of Property & Procurement.

### **Capital Assets Impairment Process**

#### ***Finding and Recommendation:***

Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include amongst others, evidence of physical damage. We noted the following regarding the Government's capital assets impairment process:

- While an annual impairment assessment was performed by the Department of Property and Procurement (DPP), the process to ensure completeness of the impairment assessments across the asset classes was not readily addressed. Moreover, conclusions reached by DPP should be processed and accounted for by the Department of Finance and adjustments recorded in the asset registers, as necessary.
- We noted that certain vehicles were auctioned and disposed during the year. However, most of these assets were not readily traceable to the asset registers due to incomplete tagging information. This may result in improper accounting of the transaction(s) with respect to the gain/loss on the sale and the derecognition of the assets from the books.





### Material Weaknesses in Internal Control Over Financial Reporting

- We noted that some damage assessments for the departments and agencies were informally done, or were not performed at all, until the accounting team requested them. Further, each division or department seemed to have its own separate process or methodology.

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

#### *Views of Responsible Officials:*

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

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

*Implementation Date:* Immediately.

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

### Capital Assets - Business-Type Activities

#### *Finding and Recommendation:*

The Government is currently utilizing an excel worksheet to monitor capital assets within its business-type activities. The Government began the process of uploading additions into the ERP asset registers in fiscal year 2017. However, the asset register for the beginning balances has yet to be uploaded. We recommend the completion of the automation process for these assets and implementation of subsequent review and reconciliation procedures in order to ensure that accurate and timely information is available.

#### *Views of Responsible Officials:*

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

*Action Plan:* The Government will review the recommendations and collaborate with Benham and Hodge (B&H) to incorporate for the fiscal year 2021 audit year.

*Implementation Date:* Fiscal Year 2021



## Appendix A

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

*Person(s) Responsible:* Department of Finance, Executive Assistant Commissioner, Director of Accounting and Financial Reporting, and Capital Asset Coordinator.



## Material Weaknesses in Internal Control Over Financial Reporting

### Finding 2019-006: Recording of Liabilities

A fundamental element of a sound system of internal controls is an effective liability calculation process. Such a process helps ensure that all liability transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Poor practice in this area allows for situations to occur in which accounts payable and other liabilities accrue without regard to the ability to repay the debt until they reach near crisis proportions. This kind of situation is most detrimental because it directly affects cash flow.

In recent times, the Government's financial statements have grown in complexity. The Government should consider performing a liabilities close process on a quarterly schedule in order to detect and correct on a timely basis, while at the same time, enhancing the Government's knowledge over its financial condition.

#### Retroactive Pay Liability

##### *Finding and Recommendation:*

The Government's lack of control over its retroactive pay liability has affected the auditor's ability to opine on certain affected opinion units.

- We noted that currently there is a \$195.0 million retroactive pay liability reflected on the books and records; however, the supporting schedules can only confirm \$184.0 million which, in turn, is based on an analysis of collective bargaining agreements (CBAs) from the initial retroactive pay wage Commission findings.
- Approximately 70% of the Government's employees are paid varying rates, based on different CBAs. We noted that there are several CBAs that have not been evaluated, implemented, ratified, and accrued for. We recommend that management set up a master file that summarizes the pay rate from each CBA and related factors that influence the rate. Management should then periodically review the master file and compare pay rates to the authorized rates contained in personnel files to determine that the current and effective rates in usage are appropriate.

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

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

*Action Plan:* The Division of Personnel (DOP) will work with the Office of Collective Bargaining (OCB) and the Office of Management and Budget (OMB) to develop a master file that will serve as a clearinghouse for collective bargaining agreements and negotiated pay rates for unionized public sector workers. The Government's Chief Negotiator will take the lead in developing the master file containing negotiated pay rates. OCB management will coordinate with the Division of Personnel's staff, to include the Director and Information Technology/Records Management staff, along with senior budget analysts from OMB to first develop a firm number with regard to the Government's retroactive obligation. This process has already started.



### Material Weaknesses in Internal Control Over Financial Reporting

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

*Implementation Date:* Fiscal Year 2021

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

### Medical Malpractice Liability

#### *Finding and Recommendation:*

It is noted that *Reciprocal Insurance Fund* includes disbursements pertaining to payments of medical malpractice claims. However, we further noted that the Government has not completed the necessary analysis in order to determine the quantifiable recordation of a corresponding and estimated liability for medical malpractice claims, in accordance with generally accepted accounting principles.

Due to a lack of controls around the Government's claims data process, it has been unable to gather and generate the proper information which is needed for an actuary to compile an estimated liability at year-end. As such, the Government's records do not permit, nor is it practical to extend audit procedures sufficiently to determine the extent by which the Business-Type Activities and the Aggregate Remaining Fund Information may have been impacted, as of and for the year ended September 30, 2019, thereby effecting the auditor's ability to opine on said opinion units. We recommend that the Government consider allocating adequate resources to properly evaluate the necessary information which can then be provided to an actuarial service provider as it facilitates the Government in calculating the year-end liability.

#### *Views of Responsible Officials:*

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

*Action Plan:* The Department of Health will allocate the requisite resources to properly evaluate the necessary information, which can then be provided to an actuarial service provider for purposes of facilitating the Government in calculating the year-end medical malpractice liability.

*Implementation Date:* Fiscal Year 2021

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



## Material Weaknesses in Internal Control Over Financial Reporting

### Accounts Payable

#### ***Finding and Recommendation:***

At present, the Government's general ledger control account for accounts payable does not agree with the subsidiary ledger balances during the entire fiscal year. This is due to the fact that management establishes its accounts payable subsidiary ledger through a manually intensive process, which is based solely on subsequent events when performing the yearly financial statement close process. This practice, in turn, is based on a system functionality wherein, the accounting system does not allow for recording or accrual of invoices when the obligation is incurred, but rather when the corresponding allotment has been approved by the Office of Management and Budget (OMB).

This routine also impacts the accuracy in recordation of capital assets in that any accruals for goods and services received is not properly and timely recorded in the capital asset register, resulting in capital assets being reflected in the incorrect periods. In addition, during our review and inquiry of subsequent disbursements, we noted that the accounts payable did not include accrual of invoices for services performed as of year-end. Finally, accounts payable confirmation procedures revealed over \$132.0 million of invoices related to capital asset additions and disaster recovery efforts which had not been accrued properly.

Overall, this generates significant adjustments during the yearly financial statement close process and a manual scrub exercise with respect to capital expenditures. Moreover, supervisory review of the accounts payable reconciliation process and estimation of accrued liabilities may not be timely and/or effective in all instances. Management may consider utilizing its ERP Accounts Payable module more regularly in order to reduce the existing manual efforts through which accounts payable are currently established.

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

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

**Action Plan:** At present, the ERP system does not allow departments/agencies to enter vendor invoices unless a sufficient allotment is approved by OMB. As a result of this system functionality, certain vendor invoices are set-aside, rather than entered (or accrued for immediately), until OMB provides for a periodic allotment - which may occur several months after year-end. Therefore, given that the OMB allotment process is the underlying controlling mechanism for entering vendor invoices, the Department of Finance must perform a manually intensive review of year-end transactions that are posted in a subsequent year.

The Department of Finance will proactively collaborate with the software vendor supporting its ERP Accounts Payable module to ascertain whether a reduction in the existing manual efforts can be achieved. On-going training and employee development will be made available for all users of the accounts payable module and continuous development of the standard operating policies will be enhanced.

**Implementation Date:** Immediately.



## Material Weaknesses in Internal Control Over Financial Reporting

*Person(s) Responsible:* The management team of the Department of Finance; specifically, the Assistant Commissioner and Director of Accounting.

### Income Tax Refunds Payable

#### ***Finding and Recommendation:***

We noted that the Government establishes its year-end liability for income tax refunds through a manually intensive process, which is based on consolidating two sets of reports that includes the following information (1) tax returns from various refund batches which exist, but have not been processed or paid as of year-end and (2) tax returns that were processed and paid subsequent to year-end. Based on our review of the schedules, we noted that there were several tax returns that were included in both reports. During the audit process, the Government revisited its database and a significant adjustment was required in order to establish the income tax refunds payable at year-end.

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

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

*Action Plan:* The Bureau of Internal Revenue will revise its methodology in establishing the year-end liability and will continue to monitor the reports to avoid any duplication of reporting.

*Implementation Date:* Fiscal Year 2021

*Person(s) Responsible:* Bureau of Internal Revenue Team.

### Landfill Closure and Post Closure Costs Liability

#### ***Finding and Recommendation:***

The Government obtains various reports with respect to its closure and post closure cost estimates for the three landfills in the U.S. Virgin Islands. The post-closure cost estimates for fiscal year 2019 for all three landfills were updated by applying an inflation rate. While updating the landfill closure and post-closure cost estimates using an inflation factor is an acceptable procedure, going forward, we recommend the Government comprehensively review all reports and calculations to ensure that assumptions included are accurate.

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

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

*Action Plan:* The Government will work with its consultants to implement monitoring controls and ensure that all calculations are reviewed timely.

*Implementation Date:* Fiscal Year 2021



## Material Weaknesses in Internal Control Over Financial Reporting

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

### Quality of Census Data

#### ***Finding and Recommendation:***

Maintaining current and accurate records and statistics is an important control for participant data, not to mention other compliance with employment laws and regulations. We noted that the Government's census data, submitted to various actuarial service providers, currently requires significant adjustments and assumptions before it can be utilized to complete the necessary calculations.

This introduces a greater level of uncertainty than might ordinarily apply to such calculations. Internal controls should ensure the accuracy of all active employee and retiree census data before submission for future valuations, calculations, or analysis. We recommend adequate resources be allocated to properly evaluate all census information provided to the various actuarial service providers as they facilitate the Government in calculating the related liabilities. The employee data in the census information should be accurate or it could have a material effect on the Government's financial statements and the auditor's ability to opine on said financial statements.

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

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

*Action Plan:* For the past three (3) years, since the implementation of the new Benefits system (V3), the Government Employees' Retirement System (GERS) has been allocating resources to identify and correct inaccurate member data in the census database that is provided to our actuaries. Additionally, GERS will allocate displaced employees due to the suspension of the Loan Program to assist with the due diligence on the accuracy of the member information in the census database.

The Division of Personnel will coordinate with the GERS Administrator to discuss how both agencies can collaborate to effectively improve the quality of the census data. It is anticipated that GERS and the Division of Personnel will do an annual comparative analysis of the employee and retiree related data held by both entities. During this process, data will be reconciled in both databases. After the initial reconciliation is completed, an annual review will be done to ensure that relevant information is synchronized within both systems. Information Technology and Records Management personnel from both agencies will be intimately involved in these meetings.

*Implementation Date:* Fiscal Year 2021

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



## Material Weaknesses in Internal Control Over Financial Reporting

### Finding 2019-007: Management of the Medicaid Program

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

#### Cost Report Audits and System Security Review

##### *Finding and Recommendation:*

- Two Government owned and operated hospitals, the Governor Juan F. Luis Hospital & Medical Center and the Roy Lester Schneider Hospital, provide Medicaid services to eligible Territory residents. Both hospitals function on a non-DRG platform, meaning that they charge through daily per diem rates based upon the number of patients serviced. The costs incurred by the hospitals, long-term care facilities and/or Federally Qualified Health Centers (FQHC) participating in the Medicaid program are to be summarized in a cost report which, in turn, is to be submitted to the Department. The cost reports are then required to be audited per the Government's Medicaid State Plan. Based on audits of the cost reports, a receivable or a payable should be recorded for the difference between costs submitted for reimbursement and the costs actually reimbursed.

We noted that the Department has not audited cost reports recently. We recommend that management evaluate and develop policies and procedures to obtain and audit the cost reports. This will allow the Government to reduce the time between Medicaid expenditures being incurred and the ultimate reimbursement from the Federal government.

- The Department did not perform a risk analysis and system security review for the Virgin Islands Benefit Eligibility System (VIBES) when it was implemented in July 2017. As a result, there is no assurance that the system is working as intended. This exposes the program to possible unauthorized activity and payment to ineligible participants.

The Government's records do not permit a determination as to the sufficiency of the design and operation of key controls surrounding the environment in which the Government's Medicaid claims reside. As such, we are unable to determine how the Governmental Activities and the General Fund information may have been impacted, as of and for the year ended September 30, 2019, thereby effecting the auditor's ability to opine on said opinion units.

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

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

*Action Plan:* Department of Finance has already begun conversations with the Department of Human Services on how the recommendations set forth can be achieved.





## Material Weaknesses in Internal Control Over Financial Reporting

*Implementation Date:* On-going.

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

### Utilization Control and Medicaid Fraud Control Unit

#### *Finding and Recommendation:*

A State or Territory Medicaid plan must provide methods and procedures to safeguard against unnecessary utilization of care and services, including long-term care institutions. Further, States or Territories are required as part of their Medicaid State Plans to maintain a Medicaid Fraud Control Unit (MFCU), unless the United States Secretary of Health and Human Services determines that certain safeguards are met regarding fraud and abuse, and waives the requirement.

We noted the V.I. Medicaid Fraud Control Unit (MFCU) was established through a Memorandum of Understanding during fiscal year 2019. However, the MFCU was not fully staffed resulting in a lack of necessary controls and procedures to safeguard against unnecessary utilization of care and services and to identify, investigate, and refer suspected fraud cases.

#### *Views of Responsible Officials:*

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

*Action Plan:* During the fiscal year, the V.I. Medicaid Fraud Control Unit (MFCU) was established through a Memorandum of Understanding. The unit is located within the Department of Justice. The MFCU has Territory-wide authority to investigate and criminally prosecute (or refer for prosecution) cases of Medicaid fraud and patient abuse or neglect in residential care facilities. The MFCU may also bring civil actions to recover false Medicaid claims. The MFCU has a memorandum of understanding with the Virgin Islands Medicaid Program which describes the agencies' working relationship.

Further, as the Medicaid Fraud Control Unit has been created, the program is in the process of developing its own internal controls in an effort to prevent unnecessary utilization of care and services. The Medical Assistance Program continues to conduct clinical reviews of all inpatient stays over ten days, including a clinical review of the Patient Care Plans.

*Implementation Date:* On-going.

*Person(s) Responsible:* Program Administrator, Department of Human Services.



## Material Weaknesses in Internal Control Over Financial Reporting

### Finding 2019-008: Unemployment Insurance Trust Fund

#### Account Reconciliation Process

##### *Finding and Recommendation:*

We noted that the majority of the account reconciliations were not available during the audit process. Others contained incomplete information and/or were not in accordance with required accounting practices. As such, the Government's records do not permit, nor is it practical to extend audit procedures sufficient to determine the extent by which the Business Type Activities and Unemployment Insurance Trust Fund may have been impacted, as of and for the year ended September 30, 2019, thereby affecting the auditor's ability to opine on said opinion unit.

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

In order to prevent significant errors in the financial records and financial statements as well as prevent possible irregularities, including fraud, to exist and continue without notice, we recommend that all accounts, accruals, and reconciliations be prepared and reviewed on a periodic basis. We recommend that the Government consider allocating adequate resources to properly evaluate the necessary information which can then be used to reflect the Fund's activity at each fiscal year-end.

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

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

*Action Plan:* The Virgin Islands Department of Labor (VIDOL) recognizes the need to properly report the activities of the Unemployment Insurance Trust Fund. VIDOL has requested and received approval from the Virgin Islands Office of Management and Budget for the hiring of accountants, whose responsibilities will be to record the activities of the Fund in accordance with generally accepted accounting practices. In addition, as part of the year-end financial reporting process related to the Government's financial statement preparation, VIDOL will work with the Department of Finance to ensure that it receives the Unemployment Insurance Trust Fund information timely.

*Implementation Date:* Fiscal Year 2021

*Person(s) Responsible:* Commissioner, Virgin Islands Department of Labor.



## Material Weaknesses in Internal Control Over Financial Reporting

### Finding 2019-009: Workers Compensation Program

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

#### Plan Valuation Methodology

##### *Finding and Recommendation:*

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

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

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

- Initiate the development of a formal document describing the processes used in computing and reporting these liabilities in the financial statements. The Government and its actuary should consider incorporating open claims and severity models in their projections.
- Provide a clear reasoning as to how the Government establishes any subjective assumptions.
- Include explicit explanations for any changes made to methodologies or programs made in the current period that were not present in the prior period valuation.
- Monitor the accounts payables balance(s) for the major hospitals to ensure that any relevant matters are reflected in future analyses.
- For completeness, we suggest constructing a formal Risk Control Matrix and a visual flow chart relating to the valuation processes.

Additionally, we noted that the actuary had concerns regarding the underlying data used in the Government's workers compensation analysis (as detailed in the actuarial study). We recommend that the Government institute sufficient controls over the production of the input data prior to submission to an actuarial service provider.



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

***Views of Responsible Officials:***

*Action Plan:* Department of Finance will collaborate with the agency to consider the recommendations set forth.

*Implementation Date:* Fiscal Year 2021

*Person(s) Responsible:* Executive Assistant Commissioner, Director of Accounting and Reporting, and Agency Head.



## Material Weaknesses in Internal Control Over Financial Reporting

### Finding 2019-010: Other Postemployment Benefits Obligation

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

#### Administration and Recordkeeping

##### *Finding and Recommendation:*

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

- The V.I. Code states that the Government, the University of the Virgin Islands, the Virgin Islands Waste Management Authority, the Virgin Islands Port Authority, and any not-for-profit corporation which has been funded 75% or more each year from federal or local government funds, are legally responsible for providing health benefits to active and retired service personnel. It is noted that the component units and organizations referenced above have paid the aforementioned benefit costs for active employees only; the Government has accepted and assumed the responsibility for the payment of benefit costs for retirees. We recommend that the Government formalize the current practice or ensure that benefit payments for the component units and organizations referenced above include retirees.
- Many of the special accounting issues for postemployment retirement plans have become increasingly complex and require extensive expertise to ensure that the accounting and reporting are accurate and in accordance with applicable standards. We recommend that the Government and/or Division of Personnel consider hiring or contracting an employee with specific accounting and plan administration knowledge, possibly even on a part-time basis, to provide the needed higher-level accounting role consistently throughout the year. We believe this change in the Division of Personnel will help clarify the transactions actually occurring, provide stronger internal controls, reduce confusion regarding the numerous transfers and transactions occurring between funds and component units along with providing articulation when working with actuaries and insurers.

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

*Action Plan:* Department of Finance has already begun working with the Division of Personnel on this matter. Going forward, we will continue to establish a process that will address the findings noted.

*Implementation Date:* Fiscal Year 2021

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



## Material Weaknesses in Internal Control Over Financial Reporting

### Finding 2019-011: Payroll, Related Accruals, and Other Expenditures

A strong and efficient system of controls over purchasing and expenditures is critically important. A strong internal control system can generally be implemented to cover potential threats of error and misappropriation with a reasonable effort. These include proper supervision, review, and separation of like-minded duties or functions.

#### Payroll Expenditures

##### *Finding and Recommendation:*

As a result of the ADI Time payroll system not having been backed up before the September 2017 hurricanes, the Department of Human Services has transitioned to a manual timesheet process in lieu of system generated timesheets, for the year under review. Adequate arrangements should be made for protection of files and use of backup space.

We also noted that the compensated absences schedule includes some redundant data. For instance, there are employees that should not be on the schedule that have accrued balances, negative balances, or zero balances. While deemed insignificant to the overall operations, we recommend that the Government examine the contents and eliminate such information.

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

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

*Action Plan:* Department of Finance will collaborate with the Department of Human Resources to determine and consider the recommendations set forth. We have begun to utilize the STATS system in fiscal year 2021.

*Implementation Date:* Fiscal Year 2021

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

#### Overtime Authorization

##### *Finding and Recommendation:*

We noted instances where there were variances between the number of hours on approved timesheets and the amount eventually paid after payroll processing. These variances ranged between three (3) and nine (9) hours based on the samples selected. Additionally, we noted multiple instances of excess payments for overtime. We recommend that the Government adhere to its established written policies and procedures related to the proper review, recording, and reporting of overtime expenditures.



## Material Weaknesses in Internal Control Over Financial Reporting

### *Views of Responsible Officials:*

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

*Action Plan:* The Government will work with the departments regarding the review of timesheets to the supporting data, and documentation of changes made to time entered for the processing of payroll.

*Implementation Date:* Immediately.

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

### Formalize Emergency Payroll Procedures

#### *Finding and Recommendation:*

Payroll processing commences with timesheets which are approved by Department heads in the STATS system (timesheet system), which then forms the basis for payroll processing at the Payroll Division.

We recommend that a formal written emergency procedures manual be developed for use by the Government in case of a major disruption to operations, such as the 2017 Hurricanes. The hurricanes resulted in a major loss of power and displacement of personnel. Employees could not attend work for days as the roads were rendered inaccessible. As a result, the recording of timesheets in the STATS system was temporarily shelved.

This manual should address the processes to be performed, the key contacts or personnel, and the reconciliations that would be required in such instances.

#### *Views of Responsible Officials:*

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

*Action Plan:* With infrastructure improvements due to climate change and technology advances in remote capabilities due to the pandemic, the Government has made great strides in its controls to ensure continuation of normal operating procedures under the most stressful of circumstances. Protocols for emergency payroll processing are continuously updated.

*Implementation Date:* Immediately.

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



## Material Weaknesses in Internal Control Over Financial Reporting

### Transactions with Personnel

#### *Finding and Recommendation:*

The Government has policies with respect to executive and/or other employee expense reimbursements indicating that each business expense incurred either by credit cards or advance payments must be substantiated with adequate documentation, such as statement of expense, purchase order, approved Government Travel Request (GTR), travel voucher, and receipts, which, in combination, are sufficient to establish each element of the expenditure.

We noted instances where sufficient supporting documentation was not available to substantiate reimbursements. Moreover, in some instances we noted that there was no evidence of independent review or approval of expenses incurred by executives.

This area can receive intense scrutiny and as a best practice, we recommend the Government consider instituting a stricter monitoring process to ensure compliance with stated policies and an independent review process for executive expenses. In addition, we recommend that the Government ensure documentation is readily available to support the purpose of and approval of employee recognition gifts purchased.

#### *Views of Responsible Officials:*

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

*Action Plan:* The Department of Finance will coordinate with the Office of the Governor to strengthen, recommunicate, and monitor the reimbursement policy of the Government. Furthermore, we are exploring systems for automatic reconciliations and will consider hiring someone to work at the Department of Finance, specifically to handle credit card payments.

*Implementation Date:* Fiscal Year 2021

*Person(s) Responsible:* The management team of the Office of the Governor and Department of Finance.

### Supporting Documentation and Reporting for Expenditures

#### *Finding and Recommendation:*

- The Government's policies dictate that all expenditure items must have adequate support and resulting approvals, as maintained within its ERP system. During our sampled procedures, we identified thirty-one (31) items for which proper support for the expenditures was not readily available within the ERP system, yet the expenditures had been approved. While the supporting information was subsequently provided, in order to strengthen internal controls over disbursements, it is recommended that the Government adhere to its stated policies.





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

- During our sampled procedures, we identified twenty-one (21) items in which the expenditure tested was not recorded in the proper period. It is recommended that the Government adhere to its established written policies and procedures related to the proper recording and reporting of expenditures. The timely review and reconciliation of expenditures will allow for recording expenditures in the correct period.

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

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

*Action Plan:* We will continue to enforce the Standard of Operating Procedures and Policies (SOPP) that all invoices are attached in the ERP system and closely examine the invoice approval process. As part of the invoice approval, invoices will be closely reviewed to ensure expenditures are recorded in the proper period and are supported in the Accounts Payable module.

*Implementation Date:* On-going.

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



## Material Weaknesses in Internal Control Over Financial Reporting

### Finding 2019-012: Bank Accounts

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

#### Strengthen Controls Over Bank Reconciliations

##### *Finding and Recommendation:*

During fiscal year 2019, we noted some instances where the bank reconciliation variances were not properly explained or investigated. We continue to recommend that bank reconciliations be prepared and reviewed for accuracy and completeness on a timely basis. In addition, there was insufficient documentation to support the reconciliations had been reviewed. There is no capability within the accounting system to formally approve or indicate review of the bank reconciliations. We recommend that management implement a process to track when bank reconciliations are reviewed and approved. Additionally, we observed the following:

- We noted a significant amount of outstanding checks, some issued as far back as 1998, which are still being carried on the reconciliations and were eventually reclassified to accounts payable at year-end. Outstanding checks and other uncleared reconciling items that are over one year old should be investigated and removed from the bank reconciliations and the original transactions should be reversed. Research should be done periodically to eliminate large numbers of old items being carried from month to month and from year to year. As an auxiliary step, consideration should also be given to the Territory's unclaimed property laws.
- In one instance, we noted a check in the outstanding check listing that had been recorded twice in the ERP system. We recommend that checks should be properly reviewed prior to the processing of check run to ensure accuracy.
- In another instance, we noted a bank account that was closed in August of 2019, yet it was included in the year-end bank listing and bank reconciliations with a positive balance of over \$600,000, causing an overstatement in cash balance at year-end.
- We noted \$21.4 million in checks that were printed in fiscal year 2019 but had not been mailed prior to year-end. These checks were properly reclassified to due to other government. It is best practice to mail checks once they have been printed to avoid confusion as to what invoices are truly outstanding. Further, checks should only be printed once there are enough funds in the account(s) to cover the requisite payment amounts.

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

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



### Material Weaknesses in Internal Control Over Financial Reporting

*Action Plan:* The Treasury Director, with oversight from the Assistant Commissioner will reexamine the process to include reviewing outstanding checks and other reconciling items that have not cleared a specific bank account for more than one year. Upon identifying negotiable instruments that exceed the one-year threshold, the Treasury Director will develop an annual procedure to further research and validate the status of the reconciling items in an effort to ascertain whether they can be properly removed from on-going bank reconciliations, with the original transaction(s) reversed.

*Implementation Date:* Fiscal Year 2021

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

### Cash Pooling and Allocation(s)

#### *Finding and Recommendation:*

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

We recommend that management enhance the documentation provided to support the pooling and subsequent allocation of the cash accounts. More specifically, there should be a clear link between the confirmed cash account balances and the cash balance per fund presented within the year-end financial statements.

#### *Views of Responsible Officials:*

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

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

*Implementation Date:* Fiscal Year 2021

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



## Material Weaknesses in Internal Control Over Financial Reporting

### Check Sequences

#### *Finding and Recommendation:*

During procedures performed over the subsequent check registers, we noted several large gaps in the check sequences. We noted that the Government's ERP system does not automatically generate check numbers. Instead, check numbers are entered and tracked manually by Government personnel. We recommend a process should be implemented where the personnel responsible for check runs, review prior and current manual check entries to detect gaps, prior to processing.

#### *Views of Responsible Officials:*

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

*Action Plan:* To ensure controls are in place over the sequence of checks, controls will be established on the check series used and check series not used.

*Implementation Date:* Fiscal Year 2021

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



### Significant Deficiency in Internal Control Over Financial Reporting

#### Finding 2019-013: Information Technology Environment

We reviewed various applications and systems which are utilized for the Government's day-to-day processing needs.

#### *Finding and Recommendation:*

We noted the following during our procedures over user access:

- The Oracle Programmer has root or administrative access to the Red Hat operating system, VIDOLA\$ application, and Oracle database management system. In addition, some individuals were granted inappropriate administrative access to the Oracle database (including non-IT personnel).
- Members of the Windows domain administration at the Bureau of Internal Revenue appear to be excessive. There are twenty-six (26) total user accounts that have this domain access.
- There are no formal re-certifications of user access security rights performed for the following Windows domains and applications:

#### *Windows Domain:*

- Department of Finance
- Bureau of Internal Revenue
- Department of Labor
- Department of Human Services
- Lieutenant Governor's Office

#### *Applications:*

- Timeforce
- MUNIS
- VIDOLA\$
- VITAX
- ScanOptics
- MMIS
- RawData
- CAVU
- CAMA
- Property Information System
- CARIBS
- VIBES

We noted the following with respect to segregation of duty conflicts:

- Administrative access rights to the Windows domain at the Bureau of Internal Revenue is provided to non-IT personnel and one (1) Bureau of Internal Revenue personnel had multiple administrative accounts to AS400 operating system and VITAX.



### Significant Deficiency in Internal Control Over Financial Reporting

We noted the following with respect to operating system security:

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

*Operating Systems:*

- Department of Finance
- Bureau of Internal Revenue
- Lieutenant Governor's Office
- Department of Labor (including Red Hat)
- Department of Human Services

*Applications:*

- Timeforce
- VIBES
- MMIS
- VIDOLA\$

Inappropriate system modifications to applications can cause incorrect calculations and compromise functionality. The Government may consider evaluating its documentation process to mitigate the risk of any potential change being implemented without the appropriate approval(s). Further, inappropriate or excessive access may result in unauthorized data changes or transactions. The Government may consider evaluating its user access and administration (user addition, modification, and removal) controls in order to ensure that appropriate access is granted.

***Views of Responsible Officials:***

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

*Action Plan:* Several enhancements have been made in alignment with correspondences to end users. Continuation of improvements is well underway.

*Implementation Date:* On-going.

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



## Noncompliance with Laws and Regulations

### Finding 2019-014: Collateral of Depository

#### ***Finding and Recommendation:***

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

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

During our review of the Government's collateral of depository reports, we noted that not all cash accounts of the Government and its component units are included in the report to be collateralized. Under collateralization of all cash accounts with depositories could cause a violation of the Code and potential loss of Government assets if a financial institution were to fail.

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

#### ***Views of Responsible Officials and Planned Corrective Actions:***

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

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

***Implementation Date:*** Fiscal Year 2021

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



## Noncompliance with Laws and Regulations

### Finding 2019-015: Landfill Consent Decrees

#### *Finding and Recommendation:*

Closure and post-closure directives related to landfills are regulated by various Federal laws, including requirements by the United States Environmental Protection Agency (EPA).

As such, the Government is required to construct and operate certain environmental control systems and otherwise comply with certain requirements during operation of each of its landfill sites, properly close the site (including placement of a final landfill cover) when the landfill (or portion thereof) stops accepting waste, and perform certain post-closure maintenance and monitoring functions at the site for 30 years following closure.

During our procedures, we noted that there are a number of noncompliance matters with respect to EPA decrees concerning the Anguilla and Bovoni landfills. These matters are comprised of various health and safety risks, lack of submission of various required reports, and a non-completion of the groundwater monitoring system for the Anguilla landfill perimeter. We also noted that penalties associated with these noncompliance matters will continue to accrue at certain specified rates.

We recommend that the Government consider budgeting funds to pay penalties already accrued. In addition, the Government should take the measures necessary to address immediate noncompliance with the consent decree time tables to avoid future penalties.

#### *Views of Responsible Officials:*

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

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

*Implementation Date:* Fiscal Year 2021

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





## Noncompliance with Laws and Regulations

### Finding 2019-016: Establishment of a Medical Malpractice Trust Fund

#### *Finding and Recommendation:*

In lieu of the procurement of a group insurance policy as set forth in subsection (a) of Virgin Islands Code Section 27, the Commissioner of Health is authorized to self-insure health care providers against claims arising out of the rendering of, or failure to render, medical care or services, or against claims for injury or death to patients arising out of the activities of health care providers, upon compliance with the following condition (amongst others):

- Establishment of a Medical Malpractice Risk Management Trust Fund to provide coverage against professional medical malpractice liability, which Fund shall be managed by a licensed broker or brokerage firm. The investment plan of such firm shall be subject to the approval of the Medical Malpractice Action Review Committee; a maximum of 1% of the proceeds of such Fund may be used by the Territorial Office of Risk Management as defined within the Code, for administrative purposes. Interest accruing on such Fund shall be retained or redeposited into such Fund.

We noted that the Government has not set up a separate trust fund. We recommend that the Government continue to monitor the applicable requirements related to professional medical malpractice, to ensure the Government remains in compliance.

#### *Views of Responsible Officials:*

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

*Action Plan:* The Department of Health will continue to closely monitor the applicable laws related to professional medical malpractice by setting up a separate trust fund to be managed by a licensed broker or brokerage firm and to set up an investment plan approved by the Medical Malpractice Action Review Committee.

*Implementation Date:* Fiscal Year 2021

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



## Noncompliance with Laws and Regulations

### Finding 2019-017: Procurement Regulations

#### *Finding and Recommendation:*

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

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

We noted the following during our procedures:

- We noted four (4) instances where the contract files did not contain the requisite documentation to provide evidence that the procurement met the stated requirements.
- We noted eight (8) purchase orders from two (2) different vendors that appeared to be split purchases orders or used the same vendor quotes or invoices.
- We noted that two (2) out of thirty-one (31) existing vendors selected did not have profiles created in the ERP System. Although these vendors have valid, signed supply contracts, their vendor IDs could not be retrieved from the ERP system.
- We noted one (1) new vendor creation in the ERP system with a lack of sufficient supporting documentation.

We recommend that the Government retain all necessary supporting documentation for purchase orders, contracts, and vendor profiles to ensure that internal policies and regulations are being adhered to.

#### *Views of Responsible Officials:*

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

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

*Implementation Date:* Fiscal Year 2021

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



## Noncompliance with Laws and Regulations

### Finding 2019-018: Casino Control Commission

#### *Finding and Recommendation:*

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

We noted that the Casino Commission is not submitting the requisite reports to the Department of Finance. It is recommended that the Department of Finance maintain proper oversight over the Casino Control Commission and obtain and review the required reports. The reviews should encompass supporting documentation for all financial transactions and a review of compliance with Virgin Islands policies and procedures.

#### *Views of Responsible Officials:*

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

*Action Plan:* The Government will request reporting from the Casino Control Commission on a quarterly basis as covered by the V.I. Code. We will review, request, and establish a working document on how this process will be conducted proceeding forward.

*Implementation Date:* Fiscal Year 2021

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



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

<b>Finding Number</b>	<b>Nature of Finding</b>	<b>Type of Finding in Fiscal Year 2018</b>	<b>Current Year Status</b>
2018-001	Financial Position	Material Weakness	Material Weakness
2018-002	Year-End Close Process	Material Weakness and Modification of Audit Opinion for Lack of a Required Disclosure within the Financial Statements	Material Weakness and Modification of Audit Opinion for Lack of a Required Disclosure within the Financial Statements
2018-003	Revenue and Receivables	Material Weakness	Material Weakness
2018-004	Grants Management	Material Weakness and Modification of the Audit Opinion for Specified Transactions	Material Weakness and Modification of the Audit Opinion for Specified Transactions
2018-005	Capital Assets and Related Expenditures	Material Weakness	Material Weakness
2018-006	Recording of Liabilities	Material Weakness and Modification of the Audit Opinion for Specified Liabilities	Material Weakness and Modification of the Audit Opinion for Specified Liabilities
2018-007	Management of the Medicaid Program	Material Weakness and Modification of the Audit Opinion	Material Weakness and Modification of the Audit Opinion
2018-008	Unemployment Insurance Trust Fund	Material Weakness and Modification of the Audit Opinion	Material Weakness and Modification of the Audit Opinion
2018-009	Workers Compensation Program	Material Weakness	Material Weakness
2018-010	Other Postemployment Benefits Obligation	Material Weakness	Material Weakness
2018-011	Payroll, Related Accruals and Other Expenditures	Material Weakness	Material Weakness
2018-012	Bank Accounts	Significant Deficiency	Material Weakness



Appendix D

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

<b>Finding Number</b>	<b>Nature of Finding</b>	<b>Type of Finding in Fiscal Year 2018</b>	<b>Current Year Status</b>
2018-013	Information Technology Environment	Significant Deficiency	Significant Deficiency
2018-014	Landfill Consent Decrees	Material Noncompliance	Material Noncompliance
2018-015	Establishment of a Medical Malpractice Trust Fund	Material Noncompliance	Material Noncompliance
2018-016	Procurement Regulations	Material Noncompliance	Material Noncompliance
2018-017	Casino Control Commission	Material Noncompliance	Material Noncompliance